



BROMSGROVE DISTRICT COUNCIL

EXECUTIVE CABINET

WEDNESDAY, 17TH MAY 2006 AT 6.00PM

COMMITTEE ROOM, THE COUNCIL HOUSE, BROMSGROVE

AGENDA

Council Agendas and Minutes are available on our web site at
www.bromsgrove.gov.uk/meetings

MEMBERS: Those Members of the Council appointed to the Executive Cabinet

1. To receive apologies for absence
2. Declarations of Interest
3. To confirm the Minutes of the Executive Cabinet held on 19th April and 2nd May 2006 (attached)
4. Public Questions
5. To receive the Minutes of the Scrutiny Steering Board dated 8th March and 12th April 2006 (attached)
6. To receive the Minutes of the Performance Management Board dated 21st April 2006 (attached)
7. To receive the Minutes of the Audit Board dated 25th April 2006 (attached)
8. Money Laundering Regulations and Policy (attached)
9. Proposed Policy and Fee Structure for the Mandatory Licensing of Prescribed Houses in Multiple Occupation (attached)
10. To consider any other business, details of which have been notified to the Head of Legal and Democratic Services prior to the commencement of the meeting and which the Chairman, by reason of special circumstances, considers to be of so urgent a nature that it cannot wait until the next meeting

11. To consider, and if considered appropriate, to pass the following resolution to exclude the public from the meeting during the consideration of item(s) of business containing exempt information:-

“RESOLVED: that under Section 100A (4) of the Local Government Act 1972, the Public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Act, the relevant paragraph of that part being as set out below:-

<u>Item No.</u>	<u>Paragraph(s)</u>
12	7

12. Section 106 Monies – Bromsgrove Cricket, Hockey and Tennis Club (attached – not available to the Public)

A. R. BURTON
Head of Legal and Democratic
Services and Monitoring Officer

The Council House,
Burcot Lane,
BROMSGROVE
Worcs.
B60 1AA

9th May 2006

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE EXECUTIVE CABINET

Wednesday, 19th April 2006 at 6.00 p.m.

PRESENT: Councillors R. Hollingworth (Executive Leader), Mrs. J. M. L. A. Griffiths (Deputy Executive Leader), Miss D. H. Campbell J.P., Mrs. M. A. Sherrey J.P., Mrs. C. J. Spencer, Mrs. M. M. T. Taylor and P. J. Whittaker.

188/05 **MS C. ARMOUR AND MR J. EDWARDS**

The Leader welcomed Ms C. Armour, Interim Head of Human Resources and Organisational Development to her first meeting of the Cabinet. He also welcomed Mr J. Edwards, who had recently taken over as Lead Official to the Authority.

189/05 **MINUTES**

The Minutes of the Meeting of the Executive Cabinet held on 22nd March 2006 were submitted.

RESOLVED: that the Minutes of the Meeting be approved and confirmed as a correct record.

190/05 **PERFORMANCE MANAGEMENT BOARD**

The Minutes of the Meeting of the Performance Management Board held on 20th March 2006 were submitted.

RESOLVED: that the Minutes be noted.

191/05 **AUDIT BOARD**

The Minutes of the Meeting of the Audit Board held on 28th March 2006 were submitted.

RESOLVED: that, subject to the amendment of the date in Minute 5/05 to read 30th November 2005, the Minutes be noted.

192/05 **MEMBERS' ALLOWANCES BUDGET**

Consideration was given to a report on the financial implications of implementing the Members' Allowances Scheme during 2006/07. Thanks were also expressed to the volunteer members of the Independent Remuneration Panel who had carried out the detailed review of the Members' Allowances Scheme. Having noted the maximum potential cost of the Scheme it was

RECOMMENDED: that the Council be requested to approve the release of £38,573 from revenue balances in order to increase the budgetary provision for Members' Allowances for 2006/07 and thereby cover the anticipated costs.

193/05 **CAPITAL STRATEGY 2006-2009**

Consideration was given to the Council's proposed Capital Strategy for 2006-2009. The Strategy detailed how the Council intends to use its resources to achieve the key strategic policies and priorities agreed in the Recovery Plan, Annual Performance Plan, Community Plan and Corporate Plan. Following discussion, it was

RECOMMENDED: that the Capital Strategy for 2006-2009 be approved.

194/05 **TREASURY MANAGEMENT STRATEGY 2006/07**

The Cabinet considered the proposed Treasury Management Strategy for 2006/07 which included the Annual Investment Strategy. It was

RECOMMENDED:

- (a) that the Treasury Management and Investment Strategy as detailed in the Report be approved;
- (b) that in accordance with Section 3(1) of the Local Government Act 2003, the Council set the authorised limit for borrowing at £6,000,000;
- (c) that the Council approve the maximum level of investment to be held within each organisation as detailed in the report at £3,000,000.

195/05 **HUMAN RESOURCES STRATEGY**

Having given consideration to a report on a Human Resources Strategy containing the vision and objectives for the Human Resources and Organisational Development department over the next two years, it was

RESOLVED: that the Human Resources Strategy and the resulting Action Plan for 2006-2008 be approved.

196/05 **EXPENDITURE OF ODPM HOMELESSNESS GRANT FUNDING FOR 2005/06 AND ANTICIPATED EXPENDITURE FOR 2006/07**

Consideration was given to a report on the progress of schemes which provide support to the homeless or help to prevent homelessness funded during 2005/06 using ODPM homelessness grant funding and on the level of ODPM homelessness grant funding allocated for 2006/07 and 2007/08. Following discussion it was

RESOLVED:

- (a) that the update on the progress of the homelessness preventative and support schemes funded through the ODPM homelessness grant 2005/06 be noted;
- (b) that the level of ODPM homelessness grant funding for 2006/07 and 2007/08 be noted;
- (c) that the submissions for the funding of schemes recommended by the Bromsgrove Homelessness Steering Group from the 2006/07 homelessness grant be approved; and
- (d) that the Head of Strategic Housing, in agreement with the Portfolio Holder for Planning and Environment, be authorised to approve recommendations made by the Homelessness Steering Group for the reallocation of any underspend or make further adjustments necessary to ensure full utilisation of the grant allocation for 2006/07 in support of existing or new schemes.

197/05 **CAR PARKING ORDER AMENDMENT**

Having considered a report on objections received to the revised Car Parking Order previously approved, and having taken into account the limited level of objections, it was

RESOLVED: that the Car Parking Order be implemented as planned from 1st May 2006.

198/05 **REVENUES AND BENEFITS – LONE WORKING POLICY, PROSECUTION POLICY AND AUTHORISED OFFICERS CODE OF CONDUCT**

Consideration was given to a number of Benefit Fraud related policies attached as appendices to the report. It was

RESOLVED that the Lone Working Policy, the Prosecution Policy and the Authorised Officer Code of Conduct be approved.

199/05

LOCAL GOVERNMENT ACT 1972

RESOLVED: that, under Section 100A(4) of the Local Government Act 1972, the public be excluded from the Meeting during the consideration of the items of business the subject of the following minutes on the grounds that they involve the likely disclosure of "Exempt Information" as defined in Part 1 of Schedule 12A to the Act, the relevant paragraph of that part, in each case, being as set out below:-

<u>Minute No.</u>	<u>Paragraph</u>
200/05	14
201/05	1

200/05

VERIFICATION FRAMEWORK ANTI-FRAUD POLICY, BENEFIT INVESTIGATIONS - INTELLIGENCE GATHERING, AND FRAUD STRATEGY AND TERMS OF REFERENCE 2006/07

Consideration was given to a number of Benefit Fraud related policies attached as appendices to the report. It was

RESOLVED: that the Verification Framework Anti-Fraud Policy, the Benefit Investigations - Intelligence Gathering, and the Fraud Strategy and Terms of Reference 2006/07 be approved.

(NOTE: the Fraud Investigations Business Plan was not considered at this meeting as it was due to be considered at the next meeting of the Performance Management Board.)

201/05

STAFFING MATTER

(The Chairman agreed to the consideration of this item as a matter of urgency as a decision was required thereon before the next ordinary meeting of the Executive Cabinet.)

The Executive Leader referred to the need to bring to a conclusion an outstanding staffing issue. It was

RESOLVED:

- (a) that the Head of Legal and Democratic Services, in consultation with the Executive Leader, the Corporate Director (Resources) and the Interim Head of Human Resources and Organisational Development, be authorised to finalise the issue; and
- (b) that due to the need to deal with this issue as soon as possible, the decision on this matter be not subject to the Council's call-in procedure.

The Meeting closed at 7.15 p.m.

Chairman

BROMSGROVE DISTRICT COUNCIL

SPECIAL MEETING OF THE EXECUTIVE CABINET

Tuesday, 2nd May 2006 at 5.00 p.m.

PRESENT: Councillors R. Hollingworth (Executive Leader), Mrs. J. M. L. A. Griffiths (Deputy Executive Leader), Miss D. H. Campbell J.P., Mrs. M. A. Sherrey J.P., Mrs. C. J. Spencer, Mrs. M. M. T. Taylor and P. J. Whittaker.

Observers: Councillors B. L. Fuller C.B. E., Q.F.S.M., W. R. Newnes and N. Psirides J. P.

202/05 **LOCAL GOVERNMENT ACT 1972**

RESOLVED: that, under Section 100A(4) of the Local Government Act 1972, the public be excluded from the Meeting during the consideration of the item of business the subject of the following minute on the grounds that it involves the likely disclosure of "Exempt Information" as defined in Part 1 of Schedule 12A to the Act, the relevant paragraph of that part, in each case, being as set out below:-

<u>Minute No.</u>	<u>Paragraphs</u>
203/05	7, 8 and 9

203/05 **SPATIAL PROJECT BUSINESS CASE – LOCAL AUTHORITY MODERNISATION PROGRAMME**

The Cabinet considered a report on the business case for the Spatial Project which would be a modernising programme involving the procurement of new integrated software to enable the transformation of service delivery and the Council to achieve full compliance with national E-Government priority outcomes. Following discussion, it was

RECOMMENDED:

- (a) that the Council accepts we need to move forward to meet the Government's objectives for E-Government;
- (b) that the Council also accepts a maximum budget of £6,400,000 capital investment and understands that the savings presented in the report are to be regarded as the minimum savings, and that the Council agrees to release this funding from Capital Reserves in the event that the Project goes ahead;
- (c) that in the event that the Project goes ahead, the revenue implications be factored into the Medium Term Financial Plan as detailed in section 5 of the report;
- (d) that in the event the Project goes ahead, the Council agrees to release £20,000 from Revenue Reserves in 2006/07 in order to fund the revenue impact of the Project;
- (e) that authority be delegated to the Cabinet to progress the Project on the understanding that a Group will be set up to advise the Cabinet on the best way forward, this Group to be chaired by the Portfolio Holder for E-Government.

The Meeting closed at 5.35 p.m.

Chairman

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE SCRUTINY STEERING BOARD

Wednesday, 8th March 2006 at 6.00 p.m.

PRESENT: Councillors Mrs. S. J. Baxter, A. N. Blagg, Mrs. J. M. Boswell, A. J. Dent, Mrs. R. L. Dent, Mrs. A. E. Doyle, B. L. Fuller C.B.E., Q.F.S.M., Mrs. K. M. Gall (substituting for J. A. Ruck), Ms. J. A. Marshall, D. C. Norton, S. R. Peters, N. Psirides J.P., and C. J. K. Wilson.

(NOTE: Councillor P. M. McDonald was present at the meeting pursuant to Overview and Scrutiny Procedure Rule No. 14)

1/05 **ELECTION OF CHAIRMAN**

RESOLVED that Councillor B. L. Fuller C.B.E., Q.F.S.M. be appointed Chairman of the Board for the remainder of the municipal year.

2/05 **ELECTION OF VICE-CHAIRMAN**

RESOLVED that Councillor C. J. K. Wilson be appointed Vice-Chairman of the Board for the remainder of the municipal year.

3/05 **APOLOGIES**

An apology for absence was received from Councillor J. A. Ruck.

4/05 **DECLARATION OF INTEREST AND WHIPPING ARRANGEMENTS**

No declarations of interest and whipping arrangements were made.

5/05 **MINUTES**

The Minutes of the Meeting of the Policy and Strategy Scrutiny Committee held on 31st January 2006 were submitted.

RESOLVED that the Minutes be approved and confirmed as a correct record.

6/05 **PROCEDURE RULES OF THE SCRUTINY STEERING BOARD**

Consideration was given to the information report relating to the Scrutiny Steering Board Procedure Rules. It was pointed out that members of the Standards Committee had made some minor amendments.

RESOLVED:

- (i) that the report be noted; and
- (ii) that under point 14, page 5, bullet point 5 where it stated "the Heads of Service and Corporate Directors to be given 4 days prior notice of their required attendance..." should be altered to state one weeks notice be given.

7/05

ROLES OF SCRUTINY COMMITTEE MEMBERS AT WORCESTERSHIRE COUNTY COUNCIL

Members considered the report relating to the roles of members of the Overview and Scrutiny Steering Committee at Worcestershire County Council which had been requested at the last meeting of the former Policy and Strategy Scrutiny Committee.

A discussion ensued regarding the advantages of using a system of shadow portfolio holders and whether such a system could be beneficial to this Council.

RESOLVED:

- (i) that the report be noted; and
- (ii) that a report be submitted to the Board on the use of shadow portfolio holders by other Councils.

8/05

CULTURE AND COMMUNITY TASK GROUP – MEMBERSHIP AND TERMS OF REFERENCE

Members were informed that a total of five members had requested to be part of the Culture and Community Task Group.

The appointed Chairman of the Task Group, Councillor P. M. McDonald, informed the Board of his views on what the aim of the Task Group would be and what information the Task Group required. A short discussion ensued and issues which were raised included the Task Group looking into the operational costs of Woodrush and Haybridge Sports Centres, as well as the Task Group identifying “opportunities” and “partnership working” in the service area.

RESOLVED:

- (i) that the Culture and Community Task Group be comprised of Councillors P. M. McDonald (Chairman), Mrs. S. J. Baxter, A. N. Blagg, Mrs. K. M. Gall, D. McGrath and S. P. Shannon;
- (ii) that, subject to the following amendments, the draft terms of reference set out by the Task Group Chairman be approved by the Board and be discussed further at the first meeting of the Task Group:
 - (a) operational costs of Woodrush and Haybridge Sports Centres be investigated;
 - (b) “opportunities” and “partnership working” be identified in the service area; and
- (iii) that the first meeting of the Culture and Community Task Group be held on 14th March 2006 at 5.30pm.

9/05

CONSULTANTS TASK GROUP – MEMBERSHIP AND TERMS OF REFERENCE

Members were informed that a total of five members had requested to be part of the Consultants Task Group.

The appointed Chairman of the Task Group, Councillor D. C. Norton, informed the Board of his views of what the terms of reference would be for the Task Group.

RESOLVED:

- (i) that the Consultants Task Group be comprised of Councillors D. C. Norton (Chairman), Mrs. R. L. Dent, G. H. R. Hulett, Mrs. J. D. Luck, N. Psirides J.P. and E. C. Tibby;
- (ii) that the draft terms of reference set out by the Task Group Chairman be approved and be discussed further at the first meeting of the Task Group; and
- (iii) that the first meeting of the Consultants Task Group be scheduled to take place within the next two weeks.

10/05

WORK PROGRAMME INCLUDING SCRUTINY PROPOSAL REQUESTS

(1) Scrutiny Proposals

Members were informed that three scrutiny proposal requests had been received, however, one regarding Development Control and Building Control had since been withdrawn as the issues raised were now being looked into by the Chairman of the Planning Committee.

A scrutiny proposal relating to health proposals for Bromsgrove and Worcestershire was discussed. It was pointed out that although it was possible for this Council to scrutinize this topic, it did come under the remit of Worcestershire County Council so this Council would need to ensure it did not duplicate work already carried out. Since the scrutiny proposal had been submitted, this subject area had been discussed at a Council meeting.

The third scrutiny proposal submitted related to taxi licensing charges. Members were informed that reviewing of taxi licensing charges was already carried out by the Licensing Committee.

RESOLVED:

- (i) that the scrutiny proposals be noted; and
- (ii) that, for the reasons set out above, none of the scrutiny proposals be added to the work programme of the Board.

(2) Work Programme

Consideration was given to the work programmes of the Health and Leisure Scrutiny Committee, the Housing and Planning Policy Scrutiny Committee and the Policy and Strategy Scrutiny Committee, as well as the future work programme of the Scrutiny Steering Board.

Other subjects for scrutiny raised and discussed at the meeting were the Council's relationship with BDHT, affordable housing and dog fouling.

RESOLVED

- (i) that the following Work Programme be approved -

Subject	Date of Consideration	Other Information
Taxi Rank provision in Bromsgrove Town Centre	April/May 2006	Update regarding implementing recommendations approved by Executive Cabinet.
Disabled Facilities Grants	April/May 2006	Chairman of Task Group to report back to the Board on response time of Home Improvement Agency in relation to DFG. Board to decide if the issue is to be considered for future scrutiny.
High Hedges Legislation	April/May 2006	Report to next meeting of the Board to include information submitted Executive Cabinet. Board to decide if the issue is to be considered for future scrutiny.

SCRUTINY STEERING BOARD
8th March 2006

Subject	Date of Consideration	Other Information
BDHT	April/May 2006	Task Group to be set up - Chairman appointed (Councillor Mrs. S. J. Baxter). Membership and terms of reference to be considered.
Passport for Leisure Scheme	31st May 2006	Awaiting Task Group Report.
Museum and Tourist Information Centre	31st May 2006	Awaiting Task Group Report.
Culture and Community Services	31st May 2006	Task Group set up – 6 members – 8th March 2006.
Use of Consultants	31st May 2006	Task Group set up – 6 members – 8th March 2006.
CCTV	31st May 2006	Report to Board to include: overview of achievements and problems with CCTV; new performance indicators; and legal issues relating to CCTV.
Drop in Centres at Schools	TBA	Invite Police to give a presentation to members of the Board.
Flyposting	8th November 2006	Board to review effectiveness of policy and consider if further scrutiny is required
Central Networks	November 2006/ January 2007	Invite representative from Central Networks.
Affordable Housing	4th April 2007	Presentation by Strategic Housing Manager on progress.

(ii) that the following be addressed elsewhere:

Subject	To be considered by/referred to
Refuse and Recyclables Collection	Sub-Committee of Executive Cabinet.
Grounds Maintenance and related issues	Sub-Committee of Executive Cabinet.
Planning Core Strategy of the LDF – Draft Policies	Sub-Committee of Executive Cabinet.
Car Parking for Commuters – Land Adjacent to Railway Station	Performance Management Board.
Dog Fouling	To be incorporated into one of the Sub-Committees of Executive Cabinet (Street Scene Strategy).

10/05

DATE OF NEXT MEETING

The date of the next scheduled meeting of the Board for the next municipal year 2006/07 was 31st May 2006, however, it was decided a meeting of the Board in April 2006 was required.

RESOLVED that the date of the next meeting be scheduled to be held on 12th April 2006.

The Meeting closed at 7.55 p.m.

Chairman

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE SCRUTINY STEERING BOARD

Wednesday, 12th April 2006 at 6.00 p.m.

PRESENT: Councillors B. L. Fuller C.B.E., Q.F.S.M. (Chairman), C. J. K. Wilson (Vice-Chair), A. N. Blagg, Mrs. J. M. Boswell, A. J. Dent, Mrs. R. L. Dent, Ms. J. A. Marshall, D. C. Norton, S. R. Peters and N. Psirides J.P.

11/05 **APOLOGIES**

Apologies for absence were received from Councillors Mrs. S. J. Baxter and Mrs. A. E. Doyle.

12/05 **DECLARATION OF INTEREST AND WHIPPING ARRANGEMENTS**

No declarations of interest and whipping arrangements were made.

13/05 **MINUTES**

The Minutes of the Meeting of the Scrutiny Steering Board held on 8th March 2006 were submitted.

RESOLVED that the Minutes be approved and confirmed as a correct record.

14/05 **TASK GROUPS – TERMS OF REFERENCE**

Members considered the report relating to task groups and their terms of reference. The Corporate Director (Resources) stated by having a meeting with the proposer of the scrutiny exercise and the appointed chairman of a task group to discuss the terms of reference and information required, it was hoped it would add value to the process.

It was also explained that the work loads of officers at particular times of the year would also need to be taken into consideration when setting up a task group.

It was commented that the scrutiny exercise scoping checklist which task group chairmen would need to complete, would ensure a consistent and focused approach.

RESOLVED:

- (i) that the report be approved;
- (ii) that a copy of any future scrutiny proposals received be sent to the Corporate Directors;
- (iii) that once a chairman is appointed to a new task group, a meeting with the Corporate Directors be arranged with the chairman to discuss the terms of reference and information required by members of the task group; and
- (iv) that before the first meeting of a task group, and after (iii) above, the terms of reference of the task group be agreed by the Board.

15/05 **TAXI RANKS TASK GROUP - UPDATE**

Members considered the report relating to the progress made in implementing the recommendations approved by the Executive Cabinet which had been put forward by the Taxi Ranks Task Group.

Further to the report, members were informed that the Highways Partnership Unit anticipated that the Traffic Regulation Order (TRO) for the area outside the Golden Cross Public House would be amended to allow taxis to pick up and set down passengers by September 2006.

RESOLVED that the report be noted.

16/05

DISABLED FACILITIES GRANTS TASK GROUP - UPDATE

Councillor Ms. Marshall, Chairman of the Disabled Facilities Grants Task Group, reported back to members the performance of the North Worcestershire Care and Repair Service in relation to Disabled Facilities Grants (DFGs).

She stated that the time taken to process a DFG had improved and there would be new information leaflets available in the next few months explaining the DFG process with key information about local contacts. It was hoped that the North Worcestershire Care and Repair Service would continue to shorten the time taken to process DFGs and its performance would be monitored.

Members were informed that, as requested, officers had calculated the average time and mean time it took this Council and the North Worcestershire Care and Repair Service to process DFGs. However, it was explained that neither set of figures gave an accurate or fair comparison due to the diverse range of works that were carried out by the two organisations.

Councillor Ms. Marshall stated that she did not feel the DFG process needed to be scrutinised any further at that time.

RESOLVED that when the new information leaflets explaining the DFG process became available in the next few months, copies be sent to all members for their information.

17/05

HIGH HEDGES

Consideration was given to the report relating to High Hedges which members had requested at the last meeting of the Board.

A discussion ensued regarding the application fee and the issues surrounding finding out the "real" cost to the Council. The Head of Planning and Environment Services explained to members that he did not have any "in-house" information to base a report on as the Council had not received an application. It was also mentioned that no one had enquired about the service for some months.

RESOLVED:

- (i) that the report be noted;
- (ii) that, for members information, the Head of Planning and Environment Services submit a report to the Board in the next few months (subject to workload) giving information relating to the number of applications received by other local authorities and their calculated costs for providing the service; and
- (iii) that the application fee remain at £500 and the service run for another 12 months before being reviewed again.

18/05

BDHT TASK GROUP – MEMBERSHIP AND TERMS OF REFERENCE

Members were informed that a total of five members had requested to be part of the BDHT Task Group.

The Board considered the scrutiny exercise scoping checklist which had been completed by the appointed Chairman, Councillor Mrs. Baxter. Particular attention was given to the "specific" subjects to be scrutinised.

A brief discussion ensued regarding whether "Management of Homeless Hostels" could be amended to "Management of the Homelessness Strategy" (which would still encompass homeless hostels) or whether the management of homeless hostels should be looked at as a separate issue.

It was reported that the Chairman of the Task Group had already spoken to the Strategic Housing Manager who had agreed to submit a report to the first meeting of the Task Group. It was anticipated the first task group meeting would take place at the end of April 2006.

RESOLVED:

- (i) that the BDHT Task Group be comprised of Councillors Mrs. S. J. Baxter (Chairman), Mrs. J. M. Boswell, Mrs. J. Dyer, G. H. R. Hulett, D. McGrath and S. R. Peters;
- (ii) that the Corporate Director (Services) contact the Chairman of the BDHT Task Group in relation to the "Management of Homeless Hostels" item; and
- (iii) that subject to (ii), the scrutiny exercise scoping checklist and therefore, the BDHT Task Group's terms of reference, be approved.

19/05

PROGRESS REPORT ON CURRENT TASK GROUPS

Museum and Tourist Information Centre Task Group

It was reported that the Museum and TIC Task Group would be including two options in the final report to the Board in relation to the Museum in Bromsgrove. It was anticipated that the Task Group's final report would be submitted to the next meeting of the Board.

Passport for Leisure Task Group

The Chairman of the Task Group stated that their final meeting of the Passport for Leisure Task Group had been scheduled to take place on 4th May 2006 and the Task Group's final report would be submitted to the next meeting of the Board.

Culture and Community Task Group

Members were informed that the Culture and Community Task Group had their third meeting on 11th April 2006 and had scheduled their final meeting to take place on 9th May 2006, when members would finalise their report to the Board. As scheduled, the Task Group's final report would be submitted to the next meeting of the Board.

Consultants Task Group

The Chairman of the Task Group stated that there had been two meetings so far. It was the Task Group's intention to interview all Heads of Service at the next two meetings of the Task Group. The next meeting was scheduled to be held on 26th April 2006.

The Task Group Chairman informed the Board that the Task Group had made the mistake of not adhering to its terms of reference of looking at the use of consultants and had included the use of interims too. The Task Group Chairman recognized this error and assured the Board that the Task Group would in future concentrate on the use of consultants only.

It was hoped that the report of the Consultants Task Group would be ready for the next meeting of the Board, however, it was reported that it was possible their work would not be complete and the report would be submitted to the following meeting of the Board.

AGREED:

- (i) that the final reports of the Museum and TIC Task Group; Passport for Leisure Task Group; and Culture and Community Task Group would be submitted to the next meeting of the Board which was scheduled to be held on 31st May 2006;
- (ii) that, as originally agreed by the Board at its meeting in March 2006, the Consultants Task Group would scrutinize only the use of consultants and not interims; and
- (iii) that, if it was not possible for the report of the Consultants Task Group to be submitted to the meeting of the Scrutiny Steering Board scheduled to be held in May, it be submitted to the following meeting of the Board scheduled to be held on 5th July 2006.

20/05

SCRUTINY PROPOSAL REQUEST

It was reported that a scrutiny proposal relating to dog warden and associated services had been received. Members were reminded that a similar scrutiny proposal was considered at the last meeting of the Board and since then a Street Scene and Waste Management Advisory Group was being set up which could look at matters surrounding dog wardens and dog fouling.

RESOLVED that the scrutiny proposal be referred to the Street Scene and Waste Management Advisory Group.

21/05

WORK PROGRAMME

Consideration was given to the work of the Scrutiny Steering Board.

RESOLVED that the following Work Programme be approved -

Subject	Date of Consideration	Other Information
Drop in Centres at Schools	31st May 2006	Inspector D. Shaw to attend meeting to discuss issue.
Shadow Portfolio Holders at other Councils	31st May 2006	Report to Board.
Passport for Leisure Scheme	31st May 2006	Awaiting Task Group Report.
Museum and Tourist Information Centre	31st May 2006	Awaiting Task Group Report.
Culture and Community Services	31st May 2006	Awaiting Task Group Report – Task Group set up March 2006.
CCTV	31st May 2006	Report to Board to include: overview of achievements and problems with CCTV; new performance indicators; and legal issues relating to CCTV.
Flyposting	31st May 2006 (Originally set for November 2006)	Board to review effectiveness of policy and consider if further scrutiny is required. Comments from Officers Group to be submitted to the Board. (A briefing requested on the Clean Neighbourhood Act.)
Use of Consultants	31st May 2006 / 5th July 2006	Awaiting Task Group Report – Task Group set up March 2006
BDHT	5th July 2006	Awaiting Task Group Report – Task Group set up April 2006.
High Hedges Legislation	TBC	Report relating to the cost incurred by other local authorities. The service at BDC to be reviewed in April 2007.
Central Networks	November 2006/ January 2007	Invite representative from Central Networks.
Affordable Housing	4th April 2007	Presentation by Strategic Housing Manager on progress.

The Meeting closed at 6.45 p.m.

Chairman

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE PERFORMANCE MANAGEMENT BOARD

Friday, 21st April 2006 at 2.00 p.m.

PRESENT: Councillors B.L. Fuller C.B.E., Q.F.S.M. (Chairman), G.N. Denaro, Mrs. J. Dyer M.B.E., and J.A. Ruck.

(NOTE: Councillor Mrs. M.M.T. Taylor was also present at the meeting).

29/05 **APOLOGIES**

Apologies for absence were received from Councillors C.B. Lanham, Mrs. J. D. Luck and P.M. McDonald

30/05 **MINUTES**

The Minutes of the Meeting of the Board held on the 20th March 2006, were submitted.

RESOLVED that the Minutes be approved and confirmed as a correct record.

31/05 **RECOVERY PLAN - UPDATE**

Consideration was given to three separate Reports on the Council's Recovery Plan, encompassing (i) a revised four month summary for the period March to June 2006; (ii) an overview of the Recovery Plan; and (iii) a detailed copy of the Recovery Plan timetable. Members raised a number of general questions to which the Assistant Chief Executive and the Corporate Director (Resources)' responded appropriately. However, a number of specific issues were raised, and it was

RESOLVED

- (i) that the Committee's appreciation and congratulations be extended to the staff on the news that 96% of the Recovery Plan was "on target";
- (ii) the Chairman, referring to paragraph 2.3.6 (Research External Funding Opportunities) expressed his concern over the "as and when appropriate" commentary. In this regard he was advised of the practice within other, neighbouring authorities of employing funding co-ordinators, and was assured that this whole issue would be addressed during the next round of budget talks;
- (iii) referring to paragraph 2.6.2 (Joint Attendance at Conferences/Seminars), it was suggested that there should be a mechanism in place to ensure that Group Leaders were aware of what was available; and
- (iv) it was further agreed that, whilst it was acknowledged that the Recovery Plan was well on target, it was nevertheless in need of an "overhaul", and, following initial discussions with the new Lead Government Official (John Edwards), this would be referred to the Senior Management Team for due consideration.

32/05

AUDIT COMMISSION – USE OF RESOURCES

A report which detailed the outcome of the Use of Resources assessment recently carried out by the Council's appointed auditors, KPMG, was submitted. In considering the report, officers indicated that (i) the Council would be putting together an Action Plan which, in essence, would become the Recovery Plan for Financial Services, and (ii) that the Asset Management Plan currently being compiled would include a full asset register listing all land and property in the Council's ownership. It was also

RESOLVED that it be formally recorded that this Board expressed their concern over the use of the word "ethical" under paragraph 4.3 of KPMG's report (Internal Control – The Council has arrangements in place that are designed to promote and ensure probity in the conduct of its business).

33/05

HUMAN RESOURCES STRATEGY

A report setting out the vision and objectives of the Human Resources and Organisational Development Department over the next two years, was submitted.

RESOLVED

- (i) that the People Strategy Document be extended to embrace Personal Development Reviews (possible amendment to Paragraph 3.9?);
- (ii) that any vacancies should be reviewed by Senior Management Team to ensure that the post was still valid;
- (iii) that the Document be further extended to embrace Continuous Professional Development (possible amendment to Paragraph 4.2);
- (iv) that progress reports on the People Management Action Plan for 2006-2008 be submitted to the Board every six months; and
- (v) that, in all other respects, the Report be noted and approved.

34/05

UPDATE ON PERFORMANCE DEVELOPMENT REVIEWS

A report setting down an update of the Performance Development Reviews completed to date, was submitted.

RESOLVED

- (i) that the Senior Management Team be requested to consider the merit of holding two "full" reviews per year rather than an annual PDR with a six month review; and
- (ii) that, in all other respects, the Report be noted and approved.

35/05

SICKNESS MONITORING

Following a request made at the last Meeting (Minute 25/05 (ii) refers), a Report analysing sickness in relation to refuse and recycling operatives and how that had been affected by the introduction of wheeled bins, was submitted.

It was noted by members that the breakdowns set out in the Report did not differentiate between injury and/or sickness, and, subject to this information being submitted to a future meeting, it was

RESOLVED that the Report be noted.

36/05

TRANSFER OF HIGHWAYS PARTNERSHIP ENQUIRIES TO CUSTOMER SERVICE CENTRE

A Report outlining the proposed transfer of the Highways Partnership Unit telephone calls to the Customer Service Centre, together with the impact of the subsequent transfer of their staff on the future use of the Burcot Room, was submitted.

RESOLVED

- (i) that the successful migration of HPU services in other areas be noted; and
- (ii) that the transfer of the HPU and its subsequent impact on the future use of the Burcot Room be referred to the Scrutiny Steering Board as a possible Task and Finish exercise.

37/05

SPOTLIGHT MEETINGS

The Assistant Chief Executive gave a verbal report on the frequency, make-up, costs and future arrangements of the Bromsgrove Spotlight meetings, and it was

RESOLVED that further talks be held with the local Police in this regard and that a Report on the outcome be submitted to the June meeting of the Group.

38/05

LOCAL GOVERNMENT ACT 1972

RESOLVED that, under Section 100A(4) of the Local Government Act 1972, the public be excluded from the Meeting during consideration of the item of business the subject of the following Minute on the grounds that it involves the likely disclosure of "Exempt Information" as defined in Part 1 of Schedule 12A to the Act, the relevant paragraph of that part being as set out below:-

<u>Minute No.</u>	<u>Paragraph</u>
39/05	14

39/05

REVENUES & BENEFITS FRAUD AND INVESTIGATION TEAM BUSINESS PLAN

Members were advised that the Department for Work and Pensions Performance Plan requires Councils Fraud Teams to have a separate Performance Plan, and, accordingly, the third Business Plan created for that Section was submitted for consideration. In this regard, members noted that there were no costs included within the Report, and therefore had no perception of value for money, and, accordingly, it was

RESOLVED that the Report be re-submitted to the Board at its June meeting, with the necessary information included.

The Meeting closed at 4.05 p.m.

Chairman

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

Tuesday, 25th April 2006, at 6.00 p.m.

PRESENT: Councillors G. N. Denaro (Chairman), C. B. Lanham (Vice-Chairman), A. N. Blagg, A. J. Dent, G. H. R. Hulett and D. C. Norton.

9/05 **MINUTES**

The Minutes of the Meeting of the Board held on 28th March 2006 were submitted.

RESOLVED: that the Minutes of the Meeting be approved as a correct record.

10/05 **EXTERNAL AUDIT PRESENTATION**

The Board received a presentation from Mr. A. Cardoza and Mr. M. Surrige, representatives of KPMG the Council's External Auditors, which covered the role of External Audit, the proposed timetable for the submission of External Audit reports and plans to the Board, the purpose and benefits of an Audit Board and the key features of a good Board. The KPMG representatives responded to Members' questions and comments.

In response to a comment that the Board needed early warning of any future concerns the External Auditors may have, the Corporate Director (Resources) indicated that this would be brought to the Board as part of the quarterly monitoring report.

RESOLVED:

- (a) that the contents of the presentation be noted;
- (b) that the Self Assessment Checklist on measuring the effectiveness of the Audit Board, as set out in the Audit Commission's "Audit Committees: Practical Guidance for Local Authorities", be completed by the Board in six months' time.

11/05 **2003/04 AND 2004/05 FINAL ACCOUNTS MEMORANDUM**

The Board considered a report which presented the 2003/04 and 2004/05 Final Accounts Memorandum produced by KPMG, the Council's External Auditors. KPMG had issued an unqualified audit opinion on the Council's financial statements for both years. The KPMG representatives in attendance indicated that the Council had responded positively to the recommendations set out in the Memorandum.

During the discussion, reference was made to a report on the outcome of the Use of Resources assessment recently undertaken by KPMG which had been considered at the last meeting of the Performance Management Board. The Corporate Director (Resources) indicated that a similar report would be submitted to the next meeting of the Audit Board, together with an action plan to improve the Council's score rating.

The KPMG representatives left the meeting following this item and the Chairman thanked them for their attendance.

RESOLVED: that the 2003/04 and 2004/05 Final Accounts Memorandum be noted.

12/05

INTERNAL AUDIT TESTING

Further to a request made at the previous meeting of the Board, Members considered a report which provided examples of areas that were tested during audit assignments undertaken by the Council's Internal Audit Section.

RESOLVED: that the contents of the report be noted.

13/05

AUDIT BOARD WORK PROGRAMME

Consideration was given to a report which set out the proposed work programme for the Board. The report also presented the Internal Audit Performance Indicators for 2006/07 and provided further information on the productivity of the Internal Audit Section, together with details of a proposed "Recommendation Tracker" to enable the Internal Audit Section and the Audit Board to monitor the implementation of Internal Audit recommendations by service areas.

Following discussion, it was

RESOLVED:

- (a) that the proposed work programme as set out in the report be noted and approved;
- (b) that the 2006/07 Performance Indicators be noted and approved;
- (c) that the proposed "Recommendation Tracker" arrangements be noted and approved, and that only those recommendations with a red status or where the Internal Audit Section have concerns be reported to the Audit Board.

The Meeting closed at 7.22 p.m.

Chairman

BROMSGROVE DISTRICT COUNCIL

EXECUTIVE CABINET

17TH MAY 2006

MONEY LAUNDERING REGULATIONS AND POLICY

Responsible Portfolio Holder	Cllr Roger Hollingworth
Responsible Head of Service	Head of Financial Services

1. SUMMARY

- 1.1 To advise Members of the actions being undertaken by officers in addressing the statutory requirements as required under the Money Laundering Regulations 2003 and other related legislation.

2. RECOMMENDATION

- 2.1 The attached policy relating to the procedures to be followed in respect of money laundering be recommended to Council to be adopted by Bromsgrove District Council.
- 2.2 The Head of Financial Services is appointed as the Council's nominated Money Laundering Reporting Officer (MLRO) and the Audit Services Manager be appointed as the Deputy Money Laundering Reporting Officer.

3. BACKGROUND

- 3.1 The requirements of the Money Laundering Regulations 2003 became effective on the 1st March 2004. Along with the previously enacted legislation contained in the Proceeds of Crime Act 2002, that became affective on all United Kingdom citizens in February 2003, the combined usage of these pieces and other legislation is to support the fight against crime, including terrorism, by preventing criminals from profiting from crime. The introduction of the Money Laundering Regulations 2003 extends the previous responsibilities of the Proceeds of Crime Act 2002 regarding the reporting of any knowledge of or suspicions of money laundering.
- 3.2 The three main 'money laundering' offences under the Proceeds of Crime Act are concealment, making arrangements for, and acquiring, using or possessing criminal property, where criminal property covers any benefit from criminal conduct (not only cash but also all forms of tangible and intangible property, including costs saved and tax evasion etc). The associated penalties for the above offences are up to 14 years in prison and / or fines for those individuals concerned. It is also an offence to disclose information that may prejudice an investigation (known as 'tipping off') or to not report any knowledge or suspicions of money laundering – these are punishable by up to five years in prison and / or fines for those individuals concerned.

- 3.3 The resulting requirements of the Proceeds of Crime Act and Money Laundering Regulations for all staff is that any knowledge or suspicions of money laundering are to be reported, failure of which is punishable by imprisonment and / or a fine as detailed above. This is also applicable to Council Members under the Proceeds of Crime Act 2002 that has been in effect on all United Kingdom citizens since February 2003.
- 3.4 Legislation requires that a Money Laundering Reporting Officer (MLRO) is appointed; it is also good management practice to appoint a deputy to this role for those instances where the MLRO is absent, particularly because of the sanctions that are available for non-compliance. The appointed officers will attract a number of personal obligations in fulfilling this role and therefore the appointed officer must be of sufficient standing within the authority to be able to make judgements and communicate the money laundering policies effectively.
- 3.5 Additionally to address the requirements of satisfying the implications of the legislation in conducting Council business, the authority is required to:
- Train all relevant staff affected,
 - Introduce and ensure that current identification procedures within council business systems are sufficiently robust,
 - Introduce procedure for forestalling and preventing money laundering, including procedures for reporting by staff to the MLRO and the MLRO to the National Criminal Intelligence Service (NCIS), and
 - Ensure that adequate documentation is maintained where knowledge of and suspicions have been reported.
- 3.6 The attached policy has been produced in line with best practice and to support the identification of money laundering activities.

4. FINANCIAL IMPLICATIONS

- 4.1 The provision of training to all those staff considered requiring training, which is also dependent of the numbers affected and the level of training that is required to satisfy the Council's obligations, could have resource implications. The Council would need to satisfy those staff affected by this legislation by the provision of sufficient, relevant and adequate training because of the penalties that are associated with non-compliance in reporting. Additionally, briefings via other Council media (Newsletters, intranet etc) are to be utilised in ensuring all staff are aware of the reporting requirements etc. It is anticipated that the corporate training budget be utilised to fund the associated training.

5. LEGAL IMPLICATIONS

- 5.1 Failure of officers in not reporting knowledge or suspicions of money laundering could result in imprisonment and or a fine for the officer(s) concerned. Additionally this is applicable to Council Members.

- 5.2 Failure of the MLRO(s) to not report that knowledge or suspicions of money laundering provided to them could result in imprisonment and or a fine for the officer concerned.
- 5.3 The introduction of the requirements in addressing this legislative requirement is to reduce crime by removing criminal property from the system and reduce the black economy.
- 5.4 To comply with the statutory requirements of the Proceeds of Crime Act 2002 and Money Laundering Regulations 2003 in the conduct of Council business.

BACKGROUND PAPERS

None

CONTACT OFFICER

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DRAFT POLICY

Procedures for dealing with the Proceeds of Crime Act And Money Laundering Regulations.

INTRODUCTION

The Proceeds of Crime Act (2002) is intended to make it more difficult for criminals to gain from their illegal activities. PoCA applies to all organisations in the UK that receive payments from the public or other organisations.

PoCA applies to Bromsgrove District Council.

The Money Laundering Regulations (2003) impose certain requirements on specified types of businesses. These regulations do not specifically apply to most of Bromsgrove Council's normal business, but could potentially apply to some areas such as property disposal or commercial rents.

It is also possible that the Act or Regulations could apply simply because a member of staff becomes suspicious of unusual activities in premises that the Council have a connection with.

Good practice means that some of the requirements of the Money Laundering Regulations are put in place. This will reduce the risk that the Council and staff will breach PoCA.

OVERVIEW OF THE PROCEDURES

<p>The Procedures are printed on the back of the ML Staff Form and the MLRO Form</p>

Money Laundering Reporting Officer: The Council will nominate a Money Laundering Reporting Officer (MLRO). The MLRO's duty will be to receive reports from staff of any suspicions they have about the source of money paid to the Council. The MLRO will then decide whether to report the matter to NCIS – National Criminal Intelligence Service (or HM Customs and Excise if cash payments for goods / property in excess of £10,000 / €15,000).

The position of MLRO is not mandatory because the Council is not a regulated body under the Money Laundering Regulations. The Council does need to have a nominated officer for the PoCA so the MLRO will cover this.

Cashiers and other staff handling money: Your responsibility is to report any suspicions to the MLRO (or a Manager who will pass on the information). Once you have done this you are clear of that responsibility.

Important: If there is any suspicion, the payer must not be told – that could lead to prosecution – the money must be accepted and reported as soon as the payer has left the premises or put the ‘phone down.

The Procedures: Forms will be issued for staff to report any suspicious transactions. These will be simple to complete. The procedures will be printed on the back of the form. It is important that the form is completed and passed on as quickly as possible – it is a hot potato. Completing the form should not be left until the end of day.

The procedures will be known as ***The Money Laundering Procedures***.

A copy of the Draft Money Laundering Procedures follows; any revisions will be shown on the forms when they are issued.

In the event of not having a form available, the suspicion must be reported immediately to the MLRO directly or via a line manager.

Thresholds

Customer Service Centre - Any payments that exceed £2,500 should be recorded and the details sent to the MLRO weekly.

Payments in cash exceeding €15,000 (say £10,000) for goods or property must be reported to the MLRO immediately. The MLRO will then inform HM Customs and Excise.

There is no threshold or de minimus for suspicious payments. All suspicious payments whatever the form of payment – cash, cheque, card, transfer, etc – must be reported immediately.

WARNING:

It cannot be emphasised strongly enough that any member of staff who is suspicious about a payment or movement of funds for the Council or becomes suspicious that a criminal activity is occurring on property connected to the Council, **must** follow the Procedures.

The Act lays down penalties for offences, such as failing to report or informing the suspect, that range up to 14 years imprisonment.

FOLLOWING THE PROCEDURES WILL PROTECT YOU.

Failure to follow the Council's procedures will make the individual concerned vulnerable to prosecution; although it should be noted that Council staff are at a far lower risk than Private Sector staff in financial businesses, but care and diligence are still expected.

Draft Money Laundering Form – (Staff ML Form)

If the payment is over £2,500 but not suspicious:

Customer Service Centre – ensure that a report is sent weekly to the MLRO.

If the payment is suspicious (any value): Complete Parts A and B and send to MLRO immediately: Read the guidance on the back about banking etc.

Part A

Name of person reporting			
Section and Tel: Number			
Date and Time of Transaction			
Place of transaction			
Value of transaction		£	
Name of person making payment			
Title and Gender of person			
Address for person			
Post Code:		Tel: No:	
Purpose of payment			

Part B – Please read the Procedures before completing this section.

Reason for suspicion.	
<i>Continue on separate sheet if needed.</i>	
Where is the money?	
Name of witness.	

Part C – For use by MLRO

Date and Time Received.		
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MLRO Procedures are on the back of MLRO Form

Draft Money Laundering Procedures *(on back of Staff ML Form)*

Applies to: All staff. **Effective From:** **

Glossary:

Suspicion If any member of staff has reason to believe that **any** payment made to the Council or any funds handled by the Council could be the proceeds of a criminal activity they have suspicion and should report it.

Thresholds **All payments taken exceeding £2,500** should be recorded and the details sent to the MLRO weekly. Only follow the full procedures if there is also a suspicion.

Payments in cash exceeding £10,000 (strictly 15,000 Euros) for goods / property must be reported to the MLRO immediately who will inform HM Customs and Excise.

MLRO Money Laundering Reporting Officer. The officer nominated to report suspicions to the NCIS (National Criminal Intelligence Service) and HM Customs and Excise.

The MLRO is the Head of Financial Services.

Jayne Pickering , Council House , Phone 01527-881207

j.pickering@bromsgrove.gov.uk

The deputy MLRO is Neil Shovell, Audit Services Manager Phone 01527-881667

n.shovell@bromsgrove.gov.uk

STAFF PROCEDURES

IMPORTANT.

- IF YOU HAVE A SUSPICION WHILE YOU ARE DEALING WITH A CUSTOMER YOU MUST CONTINUE WITH THE TRANSACTION.
- YOU MUST NOT INFORM OR INDICATE IN ANY WAY THAT YOU HAVE A SUSPICION.
- YOU MUST NOT REFUSE THE PAYMENT.

Payments over the Thresholds that are NOT SUSPICIOUS.

- Cashiers – receipts will be automatically reported. Please ensure that any over threshold payments you take from other staff are dealt with as above. If not refer to your manager.
- All – receipts over £10,000 in cash should be reported to the MLRO immediately. Complete Part A
- IF the payment is NOT suspicious - DO NOT follow the stages below.

IF YOU ARE SUSPICIOUS that the money could be connected with crime.

- Remember you must not indicate your suspicion to the customer.
- After the customer has left, get your line manager or another member of staff to witness the following:
 - Put the money / cheque / payment slip into a large envelope and seal it. Touch the evidence as little as possible.
 - List the contents of the envelope on the outside. Write your name and the date and time on the envelope. Seal the envelope. Have your witness sign and date the envelope.
 - Put the envelope in a safe.
- Inform your line manager and complete the Money Laundering Form – Parts A and B.

Back of ML Staff Form

- ❑ Send the Form to the MLRO or pass it to your line manager to do so.
- ❑ Under-bank by the value of the transaction.

Electronic transactions.

- ❑ The Head of Financial Services will ensure a suitable system is in place for dealing with CHAPS.

Draft Money Laundering Form – (MLRO Form)

If the payment is over £2,500 but not suspicious – Complete Part C of the “Staff Form”, you do not need this form.

If the payment is over £10,000 in cash – Contact Internal Audit for the documents for Customs and Excise. Complete Part D and make a note that C & E have been notified.

If the payment is suspicious (any value) complete Parts D and E or D and F

Part D – Copy from Staff ML Form for cross-referencing

Name of person reporting		
Section and Tel: Number		
Value of transaction	£	
Name of person making payment		
Date and Time Staff ML Form received		

Part E – Decision not to report.

Reason for decision.	
<i>Continue on separate sheet if needed.</i>	
When was the money banked?	

Part F – Decision to report

Date and Time Reported		
Method of reporting		
Date response received.		
Further action required?		
<i>Continue on separate sheet if needed.</i>		

MLRO - Procedures

Receipt of Staff ML Form – All forms.

- Log the date and time the form was received on part C of the Staff Form.

Transaction over £2,500 but not suspicious.

- As above and file, unless cash over €15,000, MLRO Form is not required.

Cash transaction over €15,000 (approx. £10,000) for goods.

- Inform Customs and Excise. Forms and information from Audit Services.

SUSPICIOUS TRANSACTIONS.

- Assess the suspicion.
- Ask for more information, if required.

Note: The MLRO is expected to operate quickly; delays awaiting extra data must be kept to a minimum. **IF IN DOUBT - REPORT.**

DECIDE NOT TO REPORT.

- Note on the MLRO Form the reason for the decision.
- File the MLRO Form.
- Arrange for money to be banked

DECIDE TO REPORT.

- Ensure that any money (cash / cheques / vouchers etc) has been properly secured.
- Complete MLRO Form.
- Complete and fax / post the NCIS form.
- Make a copy for file.
- File the forms.
- Set a diary date to follow up response from NCIS.

NB: Because PoCA does not allow for delays in reporting, a deputy MLRO should be available to cover for absence. The Deputy should have access to the MLRO's file to answer any questions asked by the NCIS.

Suspicious Payments	Cash payments over 15,000 Euros for goods
Fax details to NCIS	Get Info Pack from Internal Audit and phone HMCE
National Criminal Intelligence Service PO Box 8000 London SE11 5EN. Fax: 0207 238 8286	HM Customs and Excise National Advice Service Tel: 0845 010 9000.

BROMSGROVE DISTRICT COUNCIL

EXECUTIVE CABINET

17th May 2006

PROPOSED POLICY AND FEE STRUCTURE FOR THE MANDATORY LICENSING OF PRESCRIBED HOUSES IN MULTIPLE OCCUPATION

Responsible Portfolio Holder	Councillor Peter Whittaker
Responsible Head of Service	Head of Planning and Environment

1. SUMMARY

1.1 This report:

- Sets out details of the requirements introduced under the Housing Act 2004 for the mandatory licensing of certain types of Houses in Multiple Occupation (HMO's)
- Brings forward for Members approval, a draft policy setting out how this Council will meet the statutory requirement for the licensing of certain types of HMO.
- Presents for Members consideration, a proposed fee structure for the Council to charge when licensing HMO's that fall within the definition set out in the legislation.
- Advises Members of the new Housing Health and Safety Rating System (Housing Act 2004) that replaces the old fitness standard (Housing Act 1985) and recommends that the signing and serving of legal notices be delegated to officers.

2. RECOMMENDATIONS

2.1 That the draft policy for the Mandatory Licensing of Prescribed Houses in Multiple Occupation set out at Appendix 1 be approved.

2.2 That the proposed Fee structure set out within Sect 13 of the draft policy for the Mandatory Licensing of Prescribed Houses in Multiple Occupation set out at Appendix 1 be approved.

2.3 That authority be delegated to the Head of Planning and Environment for the approval, revocation and variation of licences relating to prescribed houses in multiple occupation.

2.4 That authority be delegated to The Housing Standards Officer and the Private Sector Housing Team Leader for the signing of any housing related legal notices.

3. BACKGROUND

- 3.1 The Housing Act 2004 introduced a new mandatory licensing system for certain types of Houses in Multiple Occupation (HMO's).
- 3.2 The legislation states that from April 2006 the owners of certain types of HMO's must apply to their local housing authority (local council) to have their property licensed.
- 3.3 In general terms, a house in multiple occupation (HMO) is any house or flat which is occupied by more than one household who share (or lack) kitchen, bathroom or toilet facilities.
- 3.4 Only certain types of HMO are required to be licensed under the Housing Act 2004. From April 2006 owners of these certain types of HMO must apply to the Council to have their property licensed. An HMO must have a licence if **all** three of the following apply:
- The property is three or more storeys high.
 - It has five or more people living in more than one household.
 - The occupants share amenities such as bathrooms, toilets or cooking facilities.
- 3.5 Mandatory licensing does not apply where a property consists of self contained flats, consists of two residential storeys above commercial premises or where it is owned or managed by an RSL, Local authority, education, police or health service.
- 3.6 Licensing will apply to all qualifying HMO's throughout the District and the Council is required to maintain a register of licensed HMO's for the public to view.
- 3.7 A draft policy setting out how this authority will meet the requirements of the new legislation and apply the discretionary options available under the Housing Act 2004 is set out at Appendix I. The draft policy has been developed in accordance with The Licensing and Management of HMO's and other Houses (Prescribed Descriptions) (England) Regulations 2006.
- 3.8 Section 4 of this report summarises the key elements of the draft policy and Section 5 sets out a proposed structure for the fees that are to be charged to a landlord for the granting of a licence.

4.0 Draft Policy for the Mandatory Licensing of Prescribed Houses in Multiple Occupation – Summary of Key Points

- 4.1 Licences will be valid for five years. However licences may be granted for shorter periods where there are concerns about the property or the manager.
- 4.2 Licences must be granted if the Local Authority is satisfied that:
- the HMO is reasonably suitable for occupation by the number of persons permitted under the licence
 - the licence holder is a fit and proper person

- the proposed licence holder is the most appropriate person to hold the licence
- the proposed manager, if not the licence holder, is fit and proper, and
- the proposed management arrangements are satisfactory, including that the person involved in the management of the house is competent and the funding for management is suitable.

4.3 An HMO licence will specify the maximum number of occupants who may occupy an HMO. The occupancy number will depend on the number and size of rooms and the kitchen and bathroom facilities. The licence will also include **Mandatory Conditions** requiring the licence holder to:

- produce gas safety certificates obtained within the last year on an annual basis
- keep electrical appliances in a safe condition and supply on demand to the LA a declaration to that effect
- keep furniture made available by the licence holder in a safe condition and supply on demand to the LA a declaration to that effect
- ensure that smoke alarms are installed and to keep them in proper working order and supply on demand to the LA a declaration as to the condition and positioning of such alarms
- supply the occupiers with a written statement of the terms on which they occupy the property.

4.4 In addition to mandatory licensing conditions, the Council may apply **Discretionary Conditions** to licences specific to particular properties such as works to be undertaken within a particular timescale.

4.5 **Inspection** of an HMO will not always take place when an application is received, but must take place within five years of the application. Each application will be risk assessed on receipt and high risk HMO's and properties not previously known to the Council will be visited as a priority. Inspections will be carried out in accordance with the Housing Health and Safety Rating System (HHSRS), which is set out in the Housing Act 2004 and replaces the current housing fitness standard. This will include a risk assessment of the effect of housing conditions on the health and safety of occupiers.

Informal action will be used to encourage owners to carry out works where required, but if this fails, enforcement action will be taken in accordance with the Act and our enforcement concordat.

4.6 The Council has the power to set a fee for licences which will usually be required every 5 years. Properties can be licensed for shorter periods where there is concern about the property or the manager.

4.7 Where there is no prospect of an HMO being licensed, the Act requires the Council to make an **Interim Management Order**. This enables the Council to take over the management of an HMO and become responsible for running the property and collecting rent for up to a year. In extreme cases this can be extended as a Final Management Order to five years with the Council also having the power to grant tenancies.

It is proposed that these powers would only be used in exceptional circumstances and be agreed by Executive Cabinet before seeking authorisation by the Residential Property Tribunal.

- 4.8 Where a Landlord is, or shortly will be, taking steps to make an HMO non-licensable (for example proposing to reduce its occupancy), the Council may serve a **Temporary Exemption Notice** (TEN) for a maximum period of three months. A second three-month TEN can be served in exceptional circumstances.
- 4.9 This policy is subject to both consultation and further guidance from Central Government, and will be revised and reviewed as appropriate.

5.0 Proposed Fee Structure for the Licensing of HMO's

- 5.1 Local authorities have powers under the Housing Act 2004 to set a fee for granting licences. The ODPM Guidance suggests a fee of between £110 and £180 per unit of accommodation included within the HMO covered by the licence. However, the fee is to be determined by the local housing authority, who in setting its fees may take account of all costs incurred in carrying out its licensing functions. It is important for local authorities to demonstrate a transparent approach to their charging policy.
- 5.2 The LGA in conjunction with Idea, CIPFA and the ODPM have developed a toolkit to assist local authorities to identify the costs involved in licensing and setting their fee levels. It is intended to be a starting point and the basis from which local authorities can develop their own clear and justifiable fee structure. This process, that enables local authorities to calculate an average licence fee, has been utilised in a simplified way to calculate the proposed fee in Bromsgrove based on staff costs and related overheads.
- 5.3 Section 13 of the draft policy for the Mandatory Licensing of Prescribed Houses in Multiple Occupation (Appendix I) sets out the estimated costs associated with the licensing process, identifying the time involved by the various local authority officers in each stage of the procedure. The cost of creating and maintaining a computerised database based upon an estimated 20 applications is also added into the equation.
- 5.4 The total hours (averaged over the 5 year period) costed out, equate to £310.36 per licence. It is therefore proposed that the Licence Fee be set at £310. It is proposed that an increase of up to 60% is charged where extra work is involved for example, where late applications, incomplete/ missing information or fees not being enclosed, create additional workload. Making this a separate charge is considered to be a more equitable for most landlords who are expected to make an efficient application.
- 5.5 The approach taken to setting fees varies from authority to authority. Within Worcestershire fees approved to date range from £0 to £600 per licence.

Members may wish to consider the valuable contribution that private landlords make in helping to meet the housing needs of the District. An approach that sets a higher level of fee structure could possibly have a counter productive impact by discouraging private landlords from letting their accommodation.

- 5.6 Fees will be reviewed on an annual basis to reflect inflation in salary and overhead costs and any change in the method of delivery.

6.0 The New Housing Health and Safety Rating System (HHSRS)

- 6.1 A new Housing Health and Safety Rating System (HHSRS) for the inspection of dwellings is set out in the Housing Act 2004, replacing the old Housing Fitness Standard. The new HHSRS assessment will be used for the inspection of HMO's and will include a risk assessment of the effect of housing conditions on the health and safety of occupiers.
- 6.2 The HHSRS involves the assessment of 29 potential hazards and scores their severity in deciding whether improvements are needed. If more serious "category 1" hazards are found, the Council has a duty to require the owner to remedy the defect. If less serious "category 2" hazards are found, the Council has the discretionary power to require action.
- 6.3 Where category 1 or 2 hazards are identified, informal action will be used to encourage owners to carry out works, but if this fails enforcement action will be taken in accordance with the Act and our enforcement policy. In such circumstances it is recommended that the signing and serving of housing related legal notices be delegated to The Housing Standards Officer and the Private Sector Housing Team Leader..

7. FINANCIAL IMPLICATIONS

- 7.1 The inspection and processing of HMO licences is to be carried out within the duties of the existing Private Sector Housing staff. The officer time and overheads associated with processing an HMO licence have been calculated in setting the proposed licence fee.
- 7.2 The fee structure will be reviewed annually to ensure that cost increases, unforeseen additional workload and any changes in the method of processing licences is accurately reflected in the fees charged.

8. LEGAL IMPLICATIONS

- 8.1 The draft policy has been developed in accordance with The Licensing and Management of HMO's and other Houses (Prescribed Descriptions) (England) Regulations 2006.
- 8.2 The Housing Act 2004 makes it a criminal offence if a person controlling or managing an HMO does not have the required licence. A person found guilty of such an offence will be subject to a fine up to a maximum of £20,000. Breaching any condition of a licence is also an offence, punishable by a fine not exceeding level 5 on the present scale (£5,000 currently).
- 8.3 The Council will encourage owners to apply for licensing through advice and encouragement, but where landlords fail to apply as a result of such informal action, legal proceedings will be initiated with a view to prosecution by the courts. Similarly any breach of conditions will initially be dealt with informally,

but if the breach continues, legal proceedings will be instigated in accordance with the Act and the adopted Enforcement Concordat.

8.4 The legislation allows applications to the Residential Property Tribunal (RPT) for a Rent Repayment Order (RRO), where a landlord is convicted for failure to licence. If rents were paid through Housing Benefit, the Council can use its powers under the Act to seek RROs for repayment of twelve months' Housing Benefit or for the period since the landlord was required to licence the HMO.

8.5 The Council will enable licence applicants to make representation to the Licensing Sub Committee where they are aggrieved with an officer's decision to set particular conditions or to refuse, revoke or vary a licence. They will also be able to make representations against an intention to serve an IMO.

A landlord may also appeal formally to the Residential Property Tribunal. An appeal against the decision of the RPT is to the Lands Tribunal and can only be made with the permission of the RPT or the Lands Tribunal.

9.0 CORPORATE OBJECTIVES

CORPORATE PLAN KEY OBJECTIVES	HOUSING LINKS
To make a major contribution towards achieving a healthy, caring and socially aware community.	<ul style="list-style-type: none"> • Enforcing housing standards and licensing, achieving Decent Homes, funding of grants to improve housing conditions. • Reducing homelessness and supporting vulnerable people by encouraging well managed private sector housing.
To provide a clean, safe and attractive environment	<ul style="list-style-type: none"> • Promoting home security and safety through application of the HHSRS and inspection of HMO's.
To protect and improve our environment and promote sustainable communities	<ul style="list-style-type: none"> • Assistance and encouragement to homeowners and grants to improve energy efficiency and affordable warmth.
To foster and sustain a strong and expanding economy	<ul style="list-style-type: none"> • Provision of Housing For All and encouraging well managed private sector housing. • Ensure sufficient and balanced supply of affordable housing to support employment.

To be an efficient and effective Council	<ul style="list-style-type: none">• Partnership working and consultation with private landlords.
--	--

Background Papers

The Licensing and Management of HMO's and other Houses (Prescribed Descriptions) (England) Regulations 2006

Housing Act 2004

Enforcement Concordat

Housing Strategy 2006

Private Sector Housing Strategy 2004

Housing Assistance Policy 2004

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BROMSGROVE DISTRICT COUNCIL

Draft

Policy for the Licensing of certain types of Houses in Multiple Occupation under the Housing Act 2004

1. Background

The Housing Act 2004 introduced a new mandatory licensing system for certain types of Houses in Multiple Occupation and this paper sets out how the Council intends to meet the requirements of the new legislation and how it intends to deal with discretionary options.

Most of the requirements for licensing are set by Government, but some can be enhanced or determined locally.

2. Houses in Multiple Occupation

A house in multiple occupation (HMO) is any house or flat which is occupied by more than one household who share (or lack) kitchen, bathroom or toilet facilities. If these facilities are for exclusive use but they are not self-contained with the living accommodation, the property will still count as an HMO. Self-contained flats in converted buildings may also be HMOs if they were converted before 1991 and at least one third of the flats are occupied under short tenancies. HMOs include bedsits, some shared houses, hostels and houses converted into flats. A household is made up of members of the same family.

3. HMO Licensing

From April 2006 the owners of certain types of HMOs must apply to the Council to have their property licensed. HMO licensing will apply throughout the District. The Council must maintain a register of licensed HMOs for the public to view.

An HMO must have a licence if **all** three of the following apply:

- it is three or more storeys high
- it has five or more people in more than one household, and
- the occupants share amenities such as bathrooms, toilets or cooking facilities.

The following properties are exempt:

- where the whole property is in self-contained flats
- where the basement is in commercial use and there are only two residential storeys above
- where it is owned or managed by a housing association, local authority, education, police or health services.

The responsibility for licensing rests with the person having control of, or the person managing, the property. This is basically the owner, or the person who lets the property and collects the rent.

4. Suitability for Occupation

Licences must be granted if the Local Authority (LA) is satisfied that:

- the HMO is reasonably suitable for occupation by the number of persons permitted under the licence (See Appendix 1, SI 2006 No.373, Schedule 3.)
- the licence holder is a fit and proper person
- the proposed licence holder is the most appropriate person to hold the licence
- the proposed manager, if not the licence holder, is fit and proper, and
- the proposed management arrangements are satisfactory, including that the person involved in the management of the house is competent and the funding for management is suitable.

5. Fit and Proper Person

The Council is required to assess whether the applicant and any manager or person associated with them or formerly associated with them are fit and proper people to own or manage an HMO. In making this assessment the LA must have regard to:

- any previous convictions relating to offences involving violence, sexual offences, drugs or fraud
- whether the proposed licence holder has contravened any laws relating to housing or landlord and tenant issues
- whether the person has been found guilty of unlawful discrimination practices
- whether the person has managed HMOs otherwise than in accordance with any approved code of practice (yet to be published).

To help with our assessment of 'fit and proper person', we will require licence applicants to obtain a Criminal Records Bureau (CRB) certificate, Disclosure Scotland Certificate or Subject Access Certificate from West Mercia Constabulary and provide us with details of the results as part of their HMO licence application. Where a landlord is applying for a licence for more than one property, one certificate will suffice.

The Council can take other relevant matters into account, and our assessment will consider whether the applicant has:

- been refused an HMO licence or been convicted of breaching the conditions of a licence
- been in control of a property subject to an HMO Control Order, an Interim Management Order (IMO) or Final Management Order (FMO)
- been in control of a property where work in default was carried out by a local authority and the debt is outstanding
- been convicted of Housing Benefit fraud or subject to legal proceedings by a local authority for breaches of planning, compulsory purchase, environmental protection legislation or other relevant legislation
- any outstanding debt with the Council in relation to Housing Services
- unsuitable management arrangements (e.g. long distance)

- not been deemed fit and proper by another Local Authority, or
- not been compliant with the Tenancy Deposit Scheme (new national scheme).

6. Management Arrangements

Satisfactory management arrangements under section 4 above will consist of:

- a system for tenants to report defects (including emergencies) and arrangements for responding
- a system of periodic inspections to identify repair or maintenance matters
- a declaration from the owner, where he is not the manager, that adequate funding will be provided to the manager to deal with repairs.

The Licensing and Management of Houses in Multiple Occupation and Other Houses Regulations (Statutory Instruments 2006 No. 371,372 and 373) came into force on the 6th April 2006. These Regulations require HMOs to be kept in a reasonable state of repair, all installations and appliances (including those for fire safety) to be in good working order and the common parts to be kept clean and in a reasonable state of decoration. The applicant must also let certain persons know in writing that they have made an application for a Mandatory HMO License or give them a copy of it (SI 2006 No. 373). See Appendix 1

7. Duration of Licences

Licences will usually be valid for five years and will specify the maximum number of occupiers or households.

The Council may grant licences for shorter periods where there are concerns about the property or the manager.

8. Mandatory Licence Conditions

An HMO licence will specify the maximum number of occupants who may occupy an HMO. The occupancy number will depend on the number and size of rooms and the kitchen and bathroom facilities. It will also include conditions requiring the licence holder to:

- produce gas safety certificates obtained within the last year on an annual basis
- keep electrical appliances in a safe condition and supply on demand to the LA a declaration to that effect
- keep furniture made available by the licence holder in a safe condition and supply on demand to the LA a declaration to that effect
- ensure that smoke alarms are installed and to keep them in proper working order and supply on demand to the LA a declaration as to the condition and positioning of such alarms
- supply the occupiers with a written statement of the terms on which they occupy the property.

9. Discretionary Licence Conditions

In addition to the mandatory licensing conditions, the Council will apply the following discretionary conditions to all licences:

- HMOs will comply with the statutory Management Regulations within four months
- owners or managers must provide copies of up to date reports of fire detection, alarm system and emergency lighting to the Council annually within a Fire Safety Risk Assessment Document for property containing copies of log sheets of routine fire system testing
- a requirement for regular maintenance of the property and facilities
- the name, address and telephone number of licensee or manager is to be displayed in the common parts of the HMO
- a copy of a valid gas safety certificate must be displayed in the common parts
- a copy of the licence must be displayed in the common parts
- copies of current tenancy agreements
- that tenancy agreements must set out how owners or managers intend to deal with anti-social behaviour from tenants or visitors
- that any anti-social behaviour arising in the HMO is dealt with under the terms of tenancy agreement
- up to date valid Electrical Certificate
- building insurance certificate
- emergency contact details and copy displayed in common parts

Specific conditions relevant to particular properties may also be applied such as a requirement for facilities or equipment at the property, or works to be undertaken within a particular timescale.

10. HMO Space Standards

Licence applications will need to include dimensions of rooms and details of the kitchen and bathroom facilities along with a basic sketch of the layout of the property i.e. each storey, to enable assessment of the number of occupiers permitted under the licence.

11. Inspection Policy

Officers will not always visit HMOs when an application is received, but they must inspect the property within five years of the application. Each application will be risk assessed on receipt and high risk HMOs and properties not previously known to the Council will be visited as priority.

Inspections will be carried out with regard to licensing requirements. If additional licence conditions are required after an inspection of an HMO, the licence will be varied to include such conditions.

An inspection of each HMO will also be carried out under the Housing Health and Safety Rating System (HHSRS), which is set out in the Housing Act 2004

and replaces the current housing fitness standard. This will include a risk assessment of the effect of housing conditions on the health and safety of occupiers. The HHSRS involves the assessment of 29 potential hazards and scoring their severity to decide whether improvements are needed. If more serious "category 1" hazards are found the Council has a duty to require the owner to remedy the defect. If less serious "category 2" hazards are found, the Council has the discretionary power to require action.

Where category 1 or 2 hazards are found informal action will be used to encourage owners to carry out works, but if this fails enforcement action will be taken in accordance with the Housing Act 2004 Act and our enforcement concordat.

12. Licence Fees

LAs have powers to set a fee for licences which will usually be required every 5 years, but the Council can licence properties for shorter periods when there is concern about the property or the manager.

The level of the fee will be important as it will need to cover costs. The ODPM guidance suggests a fee structure of between £110 to £180 per unit of accommodation within the HMO to which the licence applies. The fee structure must be clear and transparent and not generate a profit. Nationally, fees per property have ranged from nil to £1000. This authority has calculated the fees as below;

Estimation of costs associated with HMO Licensing

	Action	Time in Minutes	By Whom
1.	Enquiry received and service request entered on computer database	15	HSO
2.	Information pack sent out	15	HSO
	Application form returned		
3.	Write out receipt/ attach to application form/ complete receipt voucher	15	HSO
4.	Enter a service request on computer database and associated action details	15	HSO
5.	Generate acknowledgement letter and send to applicant	15	HSO
6.	Check details on application form are complete and correct	30	HSO
7.	Enter particulars on application form on to premises record on computer database	15	HSO
8.	Make up new premises file	15	HSO
9.	Prepare memo to planning regarding HMO details	15	HSO
10.	Examine gas, electrical safety and other certificates submitted with license application for validity	60	HSO
11.	Check submitted fit and proper person check and verify with other Council Services	120	HSO

12.	Visit property to check license application details and determine priority for inspection under HHSRS	120	HSO
13.	Prepare license documents and certificates of service for all documents	120	HSO
14.	Enter relevant details on computer records	30	HSO
15.	Check license documents and certificates of service	30	TL
16.	Final check of license documents and certificates of service	30	M
17.	Sign license documents	15	HS
18.	Serve license documents on recipients by post	15	HSO
	End of license application		
19.	Additional time to cover license conditions check and associated admin and database	180	HSO

Additional Cost of Service

Creation and maintenance of computer database complete with formulas for HMO Licensing. TL = 22 hours, split between an estimated 20 applications for licences = 1.1 hours per application

Key

HSO = Housing Standards Officer
 TL = Private Sector Housing Team Leader
 M = Strategic Housing Manager
 HS = Head of Planning and Environment Services

Time Totals

HSO = 13.25 hours
 TL = 1.6 hours
 M = 0.5 hours
 HS = 0.25 hours

Gross hourly rates including an overhead element, averaged over the next 5 years with estimated 5% per annum (including annual increments and inflation)

Staff	06/07	07/08	08/09	09/10	10/11	Total	Average
HSO	17.45	18.32	19.24	20.20	21.21	96.42	19.28
TL	17.81	18.70	19.64	20.62	21.65	98.42	19.86
M	25.35	26.62	27.95	29.35	30.82	140.09	28.02
HS	32.96	34.61	36.34	38.16	40.07	182.14	36.43

Total Costs

HSO – 13.25 hours @ 19.28 = £ 255.46
 TL – 1.6 hours @ 19.86 = £ 31.78
 M - 0.5 hours @ 28.02 = £ 14.01
 HS – 0.25 hours @ 36.43 = £ 9.11

Grand Total £310.36

Notes

1. The applicant will be required to submit a Fit and Proper Person Check (e.g. a Subject Access Certificate from West Mercia Constabulary - Fee £10)
2. The basic fee will be £310 with an increase of up to 60% where extra work is involved.
 - 20% extra where the application is received after 3rd July 2006;
 - 20% extra where the information is incomplete or missing and/or
 - 20% extra where fees are not enclosed or are insufficient.
3. Publicity costs have not been included. Expenditure on publicity in relation to the activities of the Strategic Housing Section are incurred on a regular basis.
4. Fees will be reviewed annually to take account of salary, overhead inflation and any changes to the staff undertaking the various stages of the licensing procedure. Future use of advisors at the Customer Service Centre).

13. Interim and Final Management Orders

Where there is no prospect of an HMO being licensed, the Act requires the Council to make an Interim Management Order. This enables the Council to take over the management of an HMO and become responsible for running the property and collecting rent for up to a year. In extreme cases this can be extended as a Final Management Order to five years with the Council also having the power to grant tenancies.

The Council will only use these powers in exceptional circumstances. Any proposed action will have to be agreed by the Executive Cabinet. In addition, Orders can only be made with the authorisation of the Residential Property Tribunal (see section 19 for details).

The Council will attempt to develop a procedure with partner Registered Social Landlords so that they can manage such properties on behalf of the Council.

14. Temporary Exemption Notices

Where a Landlord is, or shortly will be, taking steps to make an HMO non-licensable, the Council may serve a Temporary Exemption Notice (TEN). A TEN can only be granted for a maximum period of three months. A second three-month TEN can be served in exceptional circumstances. A TEN will be served where an owner of a licensable HMO states in writing that he/she is taking steps to make an HMO non-licensable and states that the HMO will not be licensable within three months.

The Council does not wish these notices to be used routinely, and a second notice will only be allowed in exceptional and unforeseen circumstances. Any exception to the policy will be agreed by Executive Cabinet.

15. Penalties for Non-Compliance

The Housing Act 2004 makes it a criminal offence if a person controlling or managing an HMO does not have the required licence. A person found guilty

of such an offence will be subject to a fine up to a maximum of £20,000. Breaching any condition of a licence is also an offence, punishable by a fine not exceeding level 5 on the present scale (£5,000 currently).

The Council will encourage owners to apply for licensing through advice and persuasion, but where they fail to apply as a result of such informal action we will take legal proceedings with a view to prosecution by the courts. Similarly any breach of conditions will initially be dealt with informally, but if the breach continues legal proceedings will be instigated in accordance with the Act and the adopted Enforcement Concordat.

16. Rent Repayment Orders

The new legislation allows applications to the Residential Property Tribunal (RPT) for a Rent Repayment Order (RRO), where a landlord is convicted for failure to license. If rents were paid through Housing Benefit, the Council will use its powers under the Act to seek RROs for repayment of twelve months' Housing Benefit or for the period since the landlord was required to license the HMO, if less. The Council will also provide tenants with information about how to apply for an RRO.

17. Discretionary HMO Licensing

The Council does not intend to apply for additional discretionary powers to extend the licensing of all HMOs in a specific area where HMOs are so badly managed as to give rise to particular problems from tenants or members of the public, such as anti social behaviour. Such powers are not necessary in this District as there are no areas where several HMO's are linked to anti social behaviour.

Similarly we do not intend to apply for new powers to introduce selective licensing for all private sector housing (including non HMOs) in designated areas. This is to enable LAs to licence properties in an area where there is low housing demand or anti-social behaviour. These additional powers are not necessary as there are no areas of low housing demand in the District and no problems with anti social behaviour associated with particular types or areas of housing.

18. Appeals

The Council will enable licence applicants to make representation to the Licensing Sub Committee where they are aggrieved with an officer's decision to set particular conditions or to refuse, revoke or vary a licence. They will also be able to make representations against an intention to serve an IMO.

A landlord may also appeal formally to the Residential Property Tribunal if the Council decides to:

- refuse a licence
- grant a licence with conditions
- revoke a licence
- vary a licence, or
- refuse to vary a licence

The Residential Property Tribunal has quasi-judicial status and is made up of housing lawyers, valuers, surveyors and lay people. Members qualified to chair committees and tribunals are appointed by the Lord Chancellor and other members are appointed by the ODPM. Three members usually sit on each committee or tribunal. An appeal against the decision of the RPT is to the Lands Tribunal and can only be made with the permission of the RPT or the Lands Tribunal.

19. Grants

Currently the only grants available to owners of potential HMO's are Discretionary Empty Homes Grants up to a maximum of £5,000 where a property is unused with the condition that the property is subject to nomination rights being vested in the District Council for a period of 3 years.

This grant would help towards the cost of improvement works, including

- Provisions of a means of escape in case of fire
- Provision of a fire alarm and detection system
- Substantial repairs (but not if they are as a result of poor maintenance)
- Provision of additional bathroom or kitchen facilities (not appliances)
- Provision or upgrading of an inefficient heating system
- Provision or upgrading of inadequate insulation, and
- Provision of security measures.

Grant aid will only be available when an inspection of the potential HMO is carried out by officers and they determine that particular works are required to reduce risk to any tenants from category 1 and 2 hazards. Grant aid will be available on a discretionary basis and in accordance with our policy in relation to Empty Homes Grants.

20. Further Development

This draft policy is subject to consultation and further guidance from Central Government and will be revised and reviewed as appropriate. It is linked to our Housing Strategy 2006, Private Sector Housing Strategy 2004 and our Housing Assistance Policy 2004. The Private Sector Housing Strategy and Housing Assistance Policy are undergoing review in Summer 2006 as a result of the new Housing Strategy 2006.



BROMSGROVE DISTRICT COUNCIL

EXECUTIVE CABINET

WEDNESDAY, 17TH MAY 2006 AT 6.00PM

COMMITTEE ROOM, THE COUNCIL HOUSE, BROMSGROVE

SUPPLEMENTARY AGENDA

Council Agendas and Minutes are available on our web site at
www.bromsgrove.gov.uk/meetings

MEMBERS: Councillors R. Hollingworth (Executive Leader), Mrs. J. M. L. A. Griffiths (Deputy Executive Leader), B. L. Fuller C.B.E., Q.F.S.M., Mrs. M. A. Sherrey J.P., Mrs. C. J. Spencer, Mrs. M. M. T. Taylor and P. J. Whittaker.

4A. Annual Audit and Inspection Letter and Audit and Inspection Plan

K. DICKS
Acting Chief Executive

The Council House,
Burcot Lane,
BROMSGROVE
Worcs.
B60 1AA

10th May 2006

BROMSGROVE DISTRICT COUNCIL

EXECUTIVE CABINET

17th May 2006

ANNUAL AUDIT AND INSPECTION LETTER AND AUDIT AND INSPECTION PLAN

Responsible Portfolio Holder	Councillor Roger Hollingworth
Responsible Head of Service	Corporate Director (Resources)

- 1.1. The Audit Commission and Council's External Auditor (KPMG LLP) has issued the draft Annual Audit and Inspection Letter and the Audit and Inspection Plan. A copy of these documents are attached to this report as Appendix A and B respectively.
- 1.2. Members will note that the Annual Audit and Inspection Letter addresses a number of matters, and each issue is concluded with a recommendation. Management are currently considering responses to the recommendations and a verbal reponse will be given at the meeting, with, if necessary, a formal report to the June Cabinet.

1. RECOMMENDATIONS

- 2.1 Members are asked to consider the Annual Audit and Inspection Letter and, subject to any comments they may wish to make, to accept the Letter.
- 2.2 Members are asked to note the Audit and Inspection Plan.

3 ANNUAL AUDIT AND INSPECTION LETTER

- 3.1 Attached at Appendix A is the Annual Audit and Inspection Letter. The letter summarises the conclusions and significant issues arising from the 2004/05 audit and inspection programme, with separate audit and inspection plans produced for 2004/05.
- 3.2 Included within the Annual Audit and Inspection Letter is a space for management responses. Due to time constraints officers have not had chance to formalise their responses and will provide a verbal update at the meeting, with, if necessary, a formal report to the June Cabinet.
- 3.3 The Letter does acknowledge that the Council has improved and is "tangibly a different organisation to what it was two years ago" but also states that much remains to be done before the Council can emerge from engagement.

4 Audit and Inspection Plan

- 4.1 Attached at Appendix B is the Audit and Inspection Plan for 2006/07. The Plan sets out the audit and inspection work that KLPMPG LLP (appointed auditors) and the Audit Commission propose to undertake in 2006/07.

4.2 The main elements of note are:

- 4.2.1 the planned inspection of Culture and Community services and officers, mindful of capacity and resource issues, will look to work with the audit commission to ascertain the most appropriate time for this to be undertaken.
- 4.2.2 the progress assessment which is scheduled to take place between October and December 2006.

5. FINANCIAL IMPLICATIONS

5.1 Audit fees quoted within the audit plan are within budget.

6. LEGAL IMPLICATIONS

6.1 None.

7. OTHER SUB HEADINGS

7.1 None

Personnel Implications
Governance/Performance Management Considerations
Community Safety Considerations
Risk Management Considerations
Policy Considerations
Environmental Considerations
Equalities Implications

Background Papers

None

Contact officer

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Annual Audit and Inspection Letter

May 2006



Annual Audit and Inspection Letter

Bromsgrove District Council

Audit 2004/2005

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.
- 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, 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 to the Council

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.

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www.audit-commission.gov.uk

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Key messages

The purpose of this letter

- 1 This Annual Audit and Inspection Letter (AA&IL) for Members, which incorporates the Annual Audit Letter, is presented by Bromsgrove District Council's ('The Council', 'Bromsgrove') Relationship Manager, Sandy McMillan of the Audit Commission and the Appointed Auditor, KPMG LLP (Jon Gorrie the Engagement Director). This letter summarises the conclusions and significant issues arising from the 2004/05 audit and inspection programme, with separate audit and inspection plans produced for 2004/05.
- 2 Both the Audit Commission and KPMG LLP (KPMG) have issued separate reports during the year having completed specific aspects of the audit and inspection programme. These reports are listed at Appendix 2 for information.
- 3 Auditor's responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission Inspectors are detailed in section 10 of the Local Government Act 1999. The contents of this Letter should be viewed in the context of that more formal background.
- 4 In order to expedite the timeliness of reporting its audit findings for 2004/05, KPMG issued an Interim Memorandum in August 2005, and a combined 2003/04 and 2004/05 Final Accounts Memorandum in February 2006. KPMG has not included the detailed findings from those reports in this report but have included the summaries and conclusions.

Council performance

- 5 Since being categorised as a poor council in 2004 the Council has made some progress. The Council is making some progress and it is tangibly a different organisation than it was two years ago, but much remains to be done before it can emerge from engagement.
- 6 There has been good progress in defining ambitions for the future but prioritisation of resources is not yet effective. Organisational capacity to deliver recovery is improving but it is still fragile, and there are areas where significant improvement is required. The pace of member development has been slow and some aspects of decision-making and scrutiny arrangements are not operating effectively.
- 7 Some services continue to perform at a good level and there have been improvements in recycling, planning processing times and more recently in benefits. However overall service performance remains below average and those services where performance is weaker tend to show less improvement.

- 8 The council has responded positively to the progress assessment. Councillors are now more actively engaged in performance management and business planning is more closely aligned to corporate priorities. Significant challenges remain in addressing councillor development and improving cross party working.
- 9 In May 2005 our inspection of E Government found that it was a fair service with uncertain prospects for improvement.
- 10 KPMG issued an unqualified opinion on the Best Value Performance Plan and the systems for producing the Performance Indicators contained within that plan.
- 11 The Council overall scored 1 out of 4 for the new use of resources assessment, indicating inadequate performance. The key areas in which it needs to progress to move to a level 2 (adequate performance) assessment are summarised in the recommendations in paragraph 17.

The accounts

- 12 During the calendar year 2005, the Council produced two year's of financial statements, 2003/04 and 2004/05, delayed as a result of issues arising from the 2001/02 and 2002/03 statements of accounts; both of which included a qualified audit opinion from KPMG.
- 13 Demonstrating the improvement made by the Council over the past twelve months KPMG issued unqualified audit opinions on both the Council's 2003/04 and 2004/05 statements of accounts in November 2005 and February 2006 respectively. As a result the Council is now on track for a 2005/06 accounts and audit timetable in line with that of other local authorities.
- 14 KPMG issued a final accounts memorandum to the Council in February 2006, which contained the detailed findings, amendments and performance improvement observations arising from its audit of the two sets of accounts.

Financial position

- 15 The Council has retained its debt-free status for a further year. At the financial year end 31 March 2005, the Council had £19 million of liabilities offset by £56 million of assets, including £23 million in various forms of property and £26 million in short-term investments. We understand from current budget monitoring information that this position has not changed fundamentally and as part of our 2005/06 audit work we will continue to review and report upon this.

Other accounts and governance issues

- 16 Under the Council's Treasury Management Policy, Members should receive reports on treasury management performance during the year. Short-term investments account for 46 per cent of the Council's assets and are subject to treasury management; however, there has been limited reporting to Members during 2004/05 on treasury management performance.

Action needed by the Council

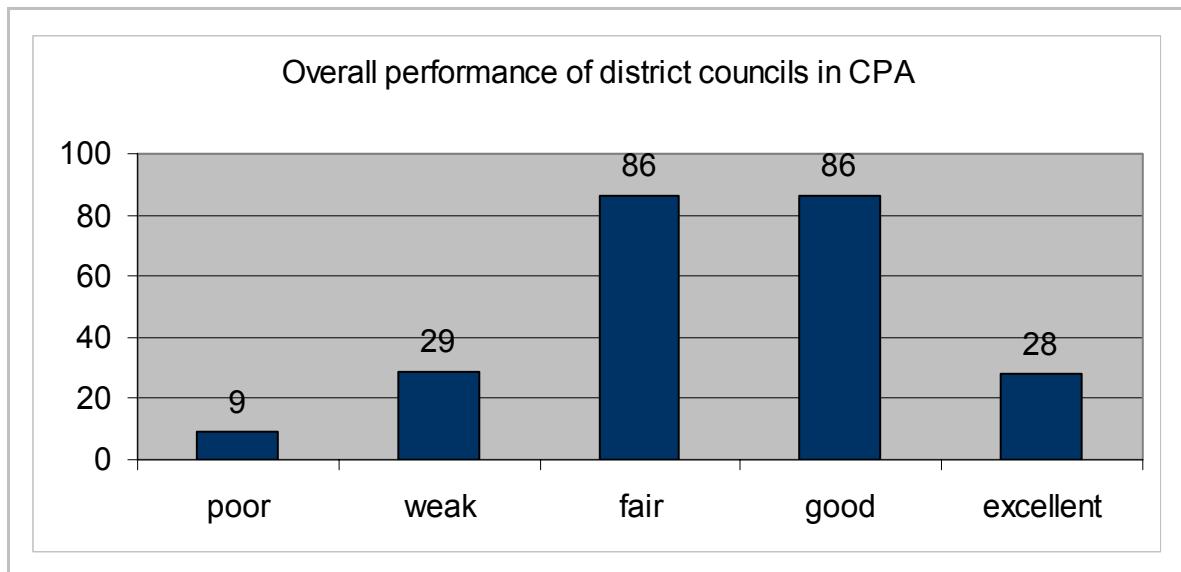
- 17 The Council should implement the recommendations included within this report, in particular the Council:
- needs to develop an appropriate and detailed action plan to address the issues and recommendations raised as part of the Use of Resources work;
 - needs to ensure it reports all financial activities, particularly treasury management issues to Members to promote good governance;
 - must enhance its performance management framework, including benchmarking its performance to enable the Council to place its improvement in context; and
 - must further develop its risk management framework and promote a risk awareness culture through the organisation, supported by Members.

Council performance

- 18 The Council is unique in England in that it was not subject to all aspects of Comprehensive Performance Assessment. In June 2004 the Council requested engagement with the Office of the Deputy Prime Minister. As a consequence of the council's request for engagement the Audit Commission agreed to change its approach to the council's comprehensive performance assessment. It agreed that the assessment would not take place as planned along with the other Worcestershire district councils in September 2004. As part of the agreement to do this the council was given, and accepted, a CPA category as a poor council. The council will continue to be categorised as a poor council until such time as the commission undertakes a full CPA. The timing of this assessment will be determined by the monitoring board, and it will take place when the board is satisfied that sufficient progress has been made to justify it. The Monitoring Board has not yet agreed that sufficient progress has been shown. The Council has set itself a target of coming out of engagement by March 2007.

Figure 1 Overall performance of district councils in CPA

Three times as many district councils are rated Good or Excellent than Poor or Weak



Source: Audit Commission

Direction of travel report

Council services

- 19 There is a mixed picture of improvement in the Council's overall delivery of services. As illustrated by the table below, between 2002-03 and 2004-05 just over half of the Council's performance indicators have shown improvement and just under half do not. It should be noted that the majority of indicators still show below average performance for 2004-05, and those which were already below average performance show lower levels of improvement.

Figure 2

	Since 2002/03 ^{Note 3}			
	PIs that have improved	PIs that have not improved	Data only for one year	
Key PIs				
PIs in 'Best' Quartile	8	2	1	23%
PIs in 2nd Quartile	4	2	3	19%
PIs in 3rd Quartile	6	5	2	28%
PIs in 'Worst' Quartile	3	10	1	30%
	53%	48%		

Progress assessment

- 20 In 2004 we categorised the Council as 'poor'. Since then the Council has been in engagement with the Office of the Deputy Prime Minister (ODPM), with its progress overseen by a Monitoring Board. We have worked closely with the Monitoring Board to support the Council in the delivery of its priorities for improvement. In December 2005 we published a progress assessment on the Council. Such progress assessments are undertaken on an annual basis on all underperforming councils (those categorised as weak or poor under CPA). The conclusions of this assessment are outlined below.
- 21 The Council is making some progress. The direction of travel is positive and it is tangibly a different organisation now than it was two years ago. However, much remains to be done and some significant challenges will need to be addressed if the Council is to achieve its ambition of emerging from engagement by 2007.
- 22 The Council has made good progress in defining its ambitions for the future. There is a clear recognition amongst both members and officers of the need for improvement, of where it wants to get to, and what needs to be done to achieve it. The Council is looking outwards and is working productively in partnership with others across the county. However, it is not effectively prioritising its resources. It has revised its corporate priorities and has updated its budget challenge and service business planning process. A challenge for the authority was to undertake a more robust and priority-led budget and service planning round for 2006/07, and to develop this approach in future years.

- 23 Capacity to deliver recovery is improving, but is still fragile and there are areas where significant improvement is required. Clear managerial leadership has not always been evident in driving the pace and scale of the changes needed, although the focus on recovery has recently improved. Capacity is stretched by the demanding recovery agenda and the full complement of permanent management posts is only just now being completed. Solid progress has been made in improving basic financial accounting and internal control arrangements, however the Council has come from a very low base here and much remains to be done. Staff at all levels in the council are making positive contributions to the recovery process. Management of the depot has improved significantly. Good use has been made of interim managers, and the organisation's culture is now much more collaborative and 'can-do', with improved internal communications. Capacity across the authority to undertake effective performance, financial and risk management is still at an early stage.
- 24 The pace of member development has been slow, and some aspects of the Council's modernised decision-making and scrutiny arrangements are not operating effectively. Members are not working effectively together across all party groups to drive and focus on improvement.
- 25 The Council continues to deliver some good services to local people, and it has made significant improvements in some areas. The Council is now doing much better at recycling and composting waste. Most planning applications are being processed quickly, and the new Customer Service Centre has been successfully opened. However, some service areas were not performing strongly. Benefits claims were not being processed as quickly as they should, although performance was improving, and the BFI note this trend has continued. Street cleaning remains a challenge. The Council is not making effective use of customer feedback to challenge and improve services.
- 26 The Council has worked hard to put in place a range of plans and investments that should help it to sustain improvement. The Council is investing in its benefits service, various strategies have been developed or drafted to help shape future decision-making, and a bid for capacity-building funding has been agreed. Plans are in place to support more effective working and leadership by the Council's 'top team' of senior managers and members. However, the Council recognises the need to continue to work on member development and better cross-party working.

Council's actions since the progress assessment

- 27 The Council has responded positively to the progress assessment and has accepted its key messages. In many areas it has continued to make progress with plans that were in place at the time of the assessment, and further progress has been evident since. In particular progress in financial accounting has continued.
- 28 The corporate plan has been reviewed to ensure there are more explicit targets, and monitoring systems pay particular attention where there is evidence of below average performance. Business planning has also been more closely aligned to corporate priorities.

- 29 Members have been more actively engaged in performance management through a newly established Board. Business planning has been linked more closely to corporate priorities and applied more consistently across services. There has been some progress in relationships between political groups but significant tensions remain.
- 30 Unaudited council figures show significant improvement in the benefits service.

Other performance work

Best Value Performance Plan (BVPP)

- 31 Bromsgrove published a Best Value Performance Plan before the 30 June deadline. KPMG issued an unqualified opinion on the Council's 2005/06 BVPP on 14 December 2005 and there are no statutory recommendations to which the Council must formally respond.

Best Value Performance Indicators (BVPIs)

- 32 KPMG satisfactorily completed its audit of the Council's Best Value Performance Indicators.
- 33 KPMG issued an unqualified opinion on the Council's systems for compiling its 2004/05 BVPIs and the accuracy of the Audit Commission's selected BVPIs. KPMG submitted the indicators to the Audit Commission by the due date after applying a small number of audit adjustments.
- 34 The detailed findings arising from KPMG's audit of the BVPP and BVPIs were reported in its August 2005 Interim Memo.

Performance management framework

- 35 The Council did not have an effective performance management framework in place during 2004/05. KPMG noted that with regard to the Council's BVPIs these were not:
- built into the corporate objectives;
 - sufficiently monitored at a corporate level; or
 - subject to appropriate management action to act on poor performance.
- 36 However, in order to demonstrate a commitment to performance improvement the Council has established a Performance Management Board (PMB) in November 2005 to enable the Executive Cabinet to concentrate on decision making whilst the PMB monitors and actions the delivery of those decisions.
- 37 The PMB has selected 45 indicators across the Council's services that it believes are key to demonstrating and monitoring performance.
- 38 The current information presented to the PMB does not benchmark against similar sized authorities which reduces the impact of the performance presented. For example third quarter performance for 2005/06 shows that 49 per cent of indicators are meeting or exceeding targets for performance; however, without comparative data that achievement may be taken out of context. For example, indicators exceeding targets may be in the lowest national quartile, or conversely indicators below target may be in the highest quartile.

- 39 Furthermore, KPMG's review of Bromsgrove's BVPIs identified that quarterly indicators were often inaccurate, and the officer responsible for the BVPI coordination had to make a number of corrections prior to audit. This will undermine the substance of the indicators reported to the Board.

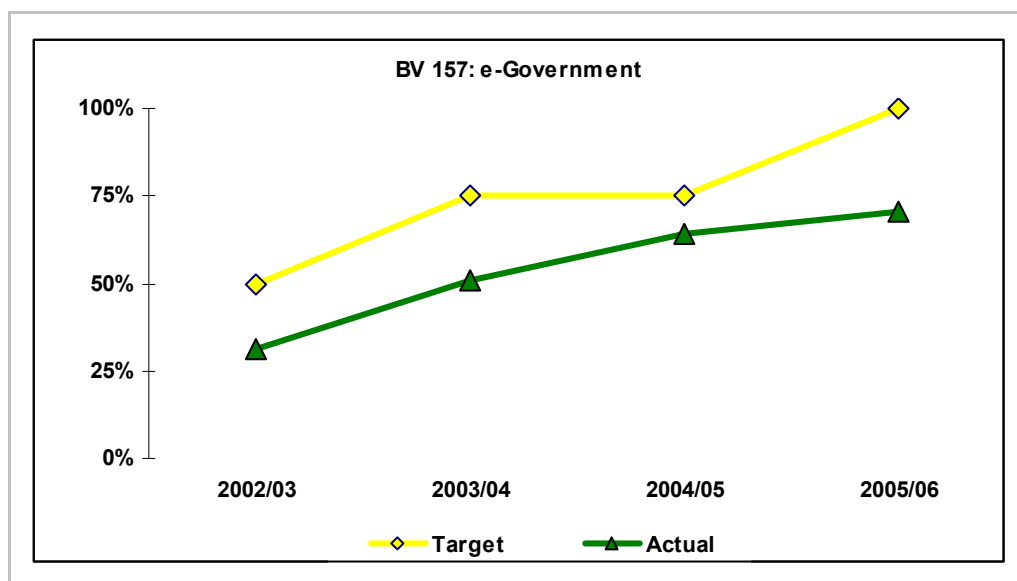
Recommendations 1 and 2: Performance framework

R1 The Council should incorporate benchmarking into the performance indicators to allow the PMB to place current performance into an appropriate context.

R2 Whilst the Council has a Top 45 set of performance indicators, the Council should still consider reporting by exception ie reducing the number of indicators presented to the PMB to streamline the reporting process and enable the PMB to focus on poor performing areas.

e-Government

- 40 The Government set a target for local government of 100 per cent electronic delivery of key services by 31 December 2005, which is measured under BVPI 157: *The number of types of interactions that are enabled for electronic service delivery as a percentage of the types of interactions that are legally permissible for electronic delivery.*
- 41 The Council's e-Government strategy aims to ensure that the Council delivers excellence in the quality of its services to all its customers through the use of information technology systems. A significant proportion of service improvement has been delivered through the Worcestershire Hub, which aims to provide customers with more choice about how and when they access services.
- 42 In addition the Council has opened a Customer Service Centre adjacent to the Dolphin Centre, which offers the following services:
- council tax;
 - business rates;
 - payment facilities for both Council and County Council services;
 - street scene;
 - waste management; and
 - bus passes and car park permits.
- 43 However, despite these efforts the Council has consistently under-performed against its BVPI 157 target since 2002/03, with the third quarter performance for 2005/06 reported as 70.34 per cent, almost 30 per cent below the national target.
- 44 The chart below plots the Council's performance since 2002/03 in delivering it's e-Government strategy.

Figure 3 BVPI 157 e-Government against target

- 45 The Council's e-Member and e-Officer Champions must finalise the e-Government agenda and deliver the final promises as set out in its vision.

Recommendation 3: e-Government

R3 The Council must develop time bound action plans that are driven by effective project management based on realistic targets to ensure it fully delivers the e-Government agenda.

Other Audit Commission inspections

- 46 In May 2005 we published a report on the Council's E Government service. This judged that the council provided a fair service with uncertain prospects for improvement.
- 47 The service showed a number of positive aspects. The web site was well presented and becoming more interactive over time and the Customer Service Centre had been opened successfully. However, analysis of customer need and performance against the Government target for e-enabled services was weak. E-Government was not being used to tackle equality and diversity, there were no customer care standards and performance management was poor.
- 48 Prospects for improvement were uncertain because understanding of public need was limited, and service plans lacked detail so the council was unable to quantify the resources in needed to meet its high level objectives. Weaknesses in performance and project management continued to undermine confidence in future improvement.

Working with other inspectorates and regulators

- 49 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. These include:
- Benefits Fraud Inspectorate (BFI); and
 - Local Government Office contact.
- 50 We share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessment.
- 51 In January 2006 the BFI published a report on the Council's benefits service. The Council had been chosen for inspection because of the historic poor performance of the benefits service.
- 52 The inspection found that overall the Council was performing to a poor standard. The service did not meet national standards in any of the four themes of performance standards (claims administration, security, user focus and resource management). Despite recent improvement the time taken to process claims, performance was below standard and a lack of prioritisation and inefficient working practices were identified. Councillors and senior officers were not aware of poor performance in preventing and recovering overpayments. Performance in taking sanctions against fraudsters had improved, but the Council had failed in its duty to prosecute in instances where fraud had been proven. There also needed to be improvements in the way the service dealt with its customers, and in particular there were insufficient customer care standards.
- 53 Management information provided to councillors was often inaccurate. There was also a lack of management checks and audit coverage was inadequate.
- 54 Since the inspection the BFI have continued to work with the Council to support service improvement. There has been a steady improvement in claims processing performance and the council is working actively to deliver further improvements across the service.

Accounts and governance

- 55 KPMG issued unqualified audit opinions on the Council's 2003/04 and 2004/05 Statement of Accounts.**

Audit of 2004/05 accounts

- 56** KPMG is required to audit the Council's financial statements and to give an opinion on whether they present fairly the Council's financial position and its income and expenditure; and have been prepared in accordance with relevant legislation and applicable accounting standards.
- 57** KPMG's audit of the Council's 2003/04 statement of accounts took place from August to October 2005 with an unqualified opinion issued on 24 November 2005. KPMG's issued an unqualified opinion on the Council's 2004/05 Statement of Accounts on 22 February 2006 based on the audit work carried out in November 2005 to January 2006.

Matters arising from the final accounts audit

- 58** The published accounts are an essential means by which the Council discharges its stewardship of the public funds at its disposal and its financial performance in the use of those resources.
- 59** The 2003/04 Statement of Accounts was presented to and approved by Members in May 2005, but due to the significant number of audit adjustments was re-presented to Members in October 2005, before KPMG could issue its audit opinion.
- 60** The 2004/05 Statement of Accounts was approved by Members in July 2005, meeting the statutory deadline of 31 July 2005. These accounts repeated a number of errors included within the 2003/04 accounts. However, due to timing issues the audit adjustments incorporated into the 2004/05 accounts did not have a significant impact on the overall position of the Council's reserves, and therefore did not require re-presentation to Members.
- 61** The timeliness in producing the accounts will become increasingly important next year as the deadline for completion of the accounts continues to be brought forward in line with the Whole of Government's Accounts (WGA) timetable. The Council has cleared the backlog of statutory reporting and now has a real opportunity to meet the 2005/06 deadline. KPMG will continue to work closely with the Council to ensure that it meets the deadline.
- 62** During the course of the audit KPMG identified some audit adjustments and presentation and disclosure amendments within the Council's financial statements. These were discussed and agreed with the officers of the Council and the amendments were duly incorporated into the final versions of the accounts.

- 63 The table below summarises the impact of KPMG's audit adjustments on the Council's balances within both the 2003/04 and 2004/05 Statements of Accounts.

Table 1

	Year	Pre-audit £'000	Post-audit £'000	Movement £'000
Housing revenue balance	2002/03	23	-47	-70
	2003/04	-51	206	257
	2004/05	357	246	-111
General fund revenue balance	2002/03	1,212	1,057	-155
	2003/04	2,073	1,957	-116
	2004/05	2,590	2,550	-40
Overall revenue balances as at 31 March 2005		3,031	2,796	-235

- 64 KPMG has already reported the detailed issues arising from the final accounts audit in its combined final accounts report for 2003/04 and 2004/05. The key recommendations arising from KPMG's work on the Council's statement of accounts over the past 12 months are as follows.
- The Council must significantly improve the quality of the working papers provided for the audit.
 - The Council must deliver, and closely monitor, a closedown timetable to ensure that the 2005/06 statement of accounts are produced by the statutory deadline of 30 June 2006.
 - The Council must improve on the recording of expenditure within the capital programme to clearly distinguish between capital and revenue expenditure.
 - The Council must implement and follow consistent accounting policies, particularly those relating to capital expenditure.

Report to those with responsibility for governance in the Council

- 65 Under the Statement of Auditing Standards (SAS) SAS610 Communication of audit matters to those charged with governance, KPMG are required to communicate to Members matters which come to its attention as a result of the audit of the financial statements.
- 66 KPMG confirmed in its Combined 2003/04 and 2004/05 Final Accounts Memo that all audit adjustments had been incorporated into the Council's statement of accounts and that there were no issues to report to Members.

Financial standing

67 During the year, KPMG reviewed the adequacy of the arrangements the Council has in place to ensure that its financial standing is soundly based.

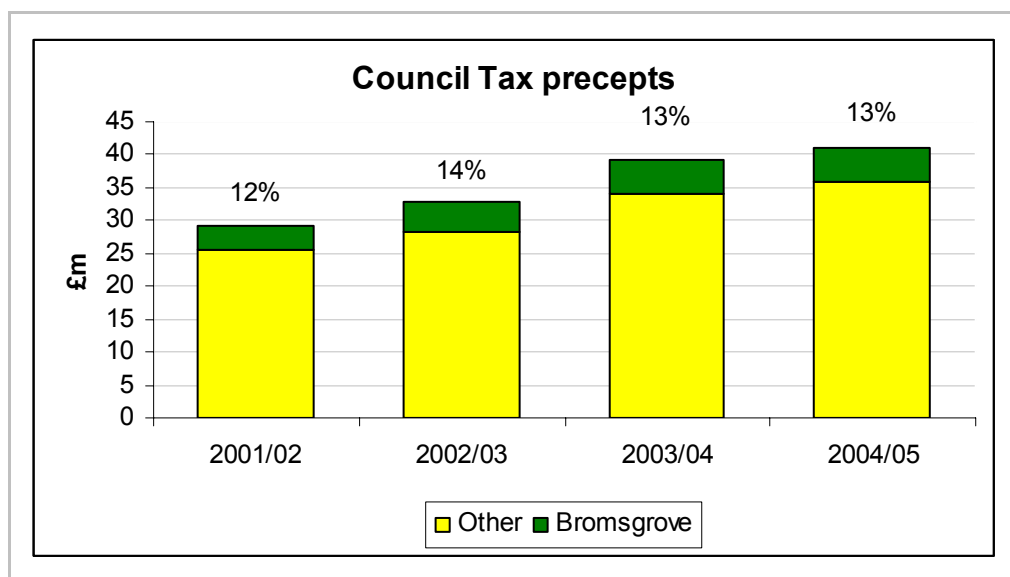
General fund spending

68 The Council's original budget for 2004/05 projected a £193,000 deficit on the general fund, based on budgeted spend of £9.18 million. After audit adjustments (as identified above) the Council returned a surplus of £593,000, a variance of £786,000. The main reasons for this are outlined below.

- The Council's treasury management activities generated an additional £300,000 in interest earned due to increases in interest rates between the date the budget was set and the outturn.
- £200,000 was saved through vacancy management, where departments were not fully staffed through the year, and supplemented by additional payroll savings through the restructuring that occurred mid-way through the year.
- The Council received £200,000 in income from Bromsgrove District Housing Trust not included in the original budget.

69 The precept levied on the Collection Fund forms a significant proportion of the income in support of general fund expenditure. The Council has maintained its share of the Council tax precept to an average 13 per cent of the total each year.

Figure 4 Proportion of the Council tax precepts relating to Bromsgrove District Council (excluding parish councils)



- 70 Over the past three years the balance on the Collection Fund account, which includes Business Rates and Council Tax, has risen to £1 million after audit adjustments. The main contributing factor to this surplus has been the excess of Council Tax income collected over precepts paid out. Since 2002/03 this excess has contributed to £0.8 million of the surplus now held on the Collection Fund account.
- 71 The Council's calculation of the council tax level and subsequent impact on the increasing Collection Fund balance has been hindered by the delays in finalising its financial statements. The Council has had difficulties in preparing the calculation without a firm indication of the exact level of its reserves. Now that the Council has cleared the back-log in finalised financial statements, it should have more accurate information on which to base its calculation of the Council Tax level in line with required revenue balances.

Recommendation 4: Council tax base

R4 The Council should ensure that future calculations of the Council Tax Level take into account the existing (and future) level of reserves, including any implications arising from the need to distribute any surplus to precepting authorities.

Treasury management performance

- 72 Following the housing stock transfer to Bromsgrove District Housing Trust (BDHT) on 29 March 2004, the Council's ability to generate a higher level of investment income significantly increased. The Council placed £30 million with two fund managers: Invesco (£15 million) and Casenove (£15 million). During the year Casenove decided to pull out of the local government market and the funds were returned to the Council, and which were managed in-house until a replacement fund manager was appointed. From 2005/06 these funds have been placed with HSBC.
- 73 The Council held £33.7 million in short-term investments at 31 March 2004, and £25.8 million at 31 March 2005, giving an average of £29.75 million. This level of investments returned investment income in the Consolidated Revenue Account of £1.6 million, representing an average return of 5.38 per cent. The sources of this income are:
- Casenove £277,000;
 - Invesco £659,000; and
 - In-house £664,000.
- 74 The Council's Treasury Management Policy (TMP) for 2004/05 was approved by Members in March 2004. The TMP requires regular reporting to Members on the performance and changes to treasury management activities, including non-compliance with the TMP.

- 75 The Council's TMP is supported by an annual Treasury Management Strategy Statement (TMSS) that includes information on the Council's prudential indicators which set the limit for borrowing at £6 million. The prudential code (2003) requires the Chief Finance Officer to establish procedures to monitor both performance against all forward looking prudential indicators and the requirement specified in paragraph. The Chief Finance Officer will need to establish a measurement, monitoring and reporting process that highlights significant deviations from expectations.
- 76 To date, there has been limited reporting to Members on either treasury management performance or compliance with the Prudential Code. Such reporting is required by the Council's own policies as well as representing good practice.
- 77 The Council has already acknowledged this issue and has put in place procedures to provide Members with periodic reports on treasury management activities.

Recommendation 5: Treasury management performance

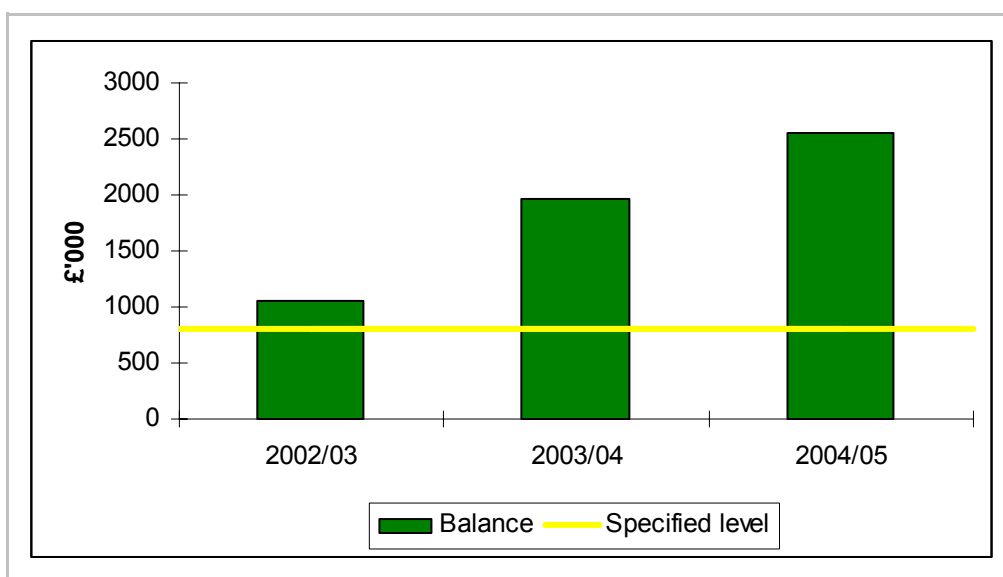
R5 The Council should produce quarterly reports that benchmark treasury management performance to ensure it is achieving best value from its fund managers.

Housing Revenue Account

- 78 The Council's Housing Revenue Account (HRA) contained only nominal entries during 2004/05. The Council will request closure of the HRA from the Office of the Deputy Prime Minister which will allow Bromsgrove to transfer the surplus (currently £246,000) into the general fund, on the proviso that if the Council ever has to re-open the HRA that same amount will be transferred back.

Revenue balances

- 79 As at the 31 March 2005 the Council held £2.8 million in revenue balances, split between £2.55 million in the general fund and £250,000 in the HRA. The Council has a further £69,000 in specific reserves, the majority of which has been earmarked for capital expenditure. The Council's overall position therefore identifies £2.82 million of reserves in support of future revenue expenditure. The Council needs to set a clear plan as how it determines an appropriate, risk assessed, minimum level of balances.
- 80 The current minimum level of reserves has been set at £850,000; however, the Council has not taken a risk assessed approach in setting this minimum level for its revenue balances and therefore cannot clearly demonstrate how these balances will contribute to the effective financial management of the Council.

Figure 5 General fund revenue balances 2002/03 to 2004/05**Recommendation 6: Revenue balances**

R6 The Council should calculate a risk assessed minimum level of balances required to sustain revenue expenditure. This should be based on a risk assessment of key variables and incorporate the overall objectives as specified in the Corporate Plan via the Medium Term Financial Strategy.

Financial stability

- 81 The Council's cash position and debt-free status has proved a significant factor in enabling Bromsgrove to maintain its financial stability. The table below provides an analysis of Council's cash and cash equivalent holdings.

Table 2

	2002/03 £'000	2003/04 £'000	2004/05 £'000
Long term investments	50	50	50
Current assets	24,188	40,338	32,879
Total current liabilities	5,455	6,950	4,804
Net position on cash and cash equivalents	18,783	33,438	28,125

82 The Council's liquidity has increased through 2003/04 to 2004/05 and its current ratio as at 31 March 2005 was above the generally accepted level. This, together with the Council's strong positive net position on cash and cash equivalents, indicated that Bromsgrove had a sound financial position from which to plan ahead. We understand from current budget monitoring that this position has not fundamentally changed and as part of our 2005/06 audit we will confirm and report upon the final position.

Capital programme

83 The Council's expected to incur £8.537 million general fund capital expenditure in 2004/05. The final outturn position identified slippage of 15 per cent, at £7.240 million. The main areas of slippage were the result of:

- improvements to town access at Mill Lane was under-spent by £148,000 due to delays in carrying out the feasibility study;
- registered social landlords not drawing on the Council's £258,000 budget to purchase/repair housing in the district;
- £299,000 under-spend on the Council's budget for disabled facilities grants;
- management shortages at the depot meant that the Council did not purchase £345,000 of the vehicles it had originally planned; and
- delays to the Dolphin Centre upgrade in 2003/04, but no adjustment to the budget was made, resulting in £184,000 continued under-spend in 2004/05.

84 From its review of the Council's asset management during the year KPMG noted that the Council did not evaluate the impact of prior years on the capital programme. For example the Council did not re-profile the budget on the Dolphin Centre as a result of prior year issues, also the Council has continually under-spent on disabled facilities grants, but no trend analysis has been built into the budget setting process.

85 The Council did not establish a budget for capital expenditure on the Housing Revenue Account; however, £2.083 million was incurred relating to the housing stock transfer to Bromsgrove District Housing Trust. This amount was funded from the capital receipt relating to the transfer.

Recommendations 7 and 8: Capital programme

R7 The Council needs to re-evaluate its capital budget setting process to ensure it takes into account issues arising from earlier years and ensure that all projects are covered.

R8 The Council needs to ensure it has robust project management arrangements over its capital programme to ensure that all projects are delivered on time and to budget.

Use of the prudential code

- 86 The Prudential Code provides greater financial freedom to local authorities to invest as long as their capital plans are affordable, prudent and sustainable. The 2006/07 capital programme of £5.7million is funded by through three main sources: s106 receipts £900,000; £500,000 from government grants; and the remaining £4.3 million from capital receipts.
- 87 If the Council can effectively monitor treasury management performance against external borrowing rates then the prudential code will offer an alternative form of capital funding. The current PWLB borrowing rates available to local councils ranges between 4.2 per cent and 4.4 per cent. Therefore provided that the cost of borrowing remains less than the income that could be earned from investing its own capital resources, it might be better value for money for Bromsgrove to consider borrowing as an option to finance its future capital expenditure.

Recommendation 9: Prudential borrowing

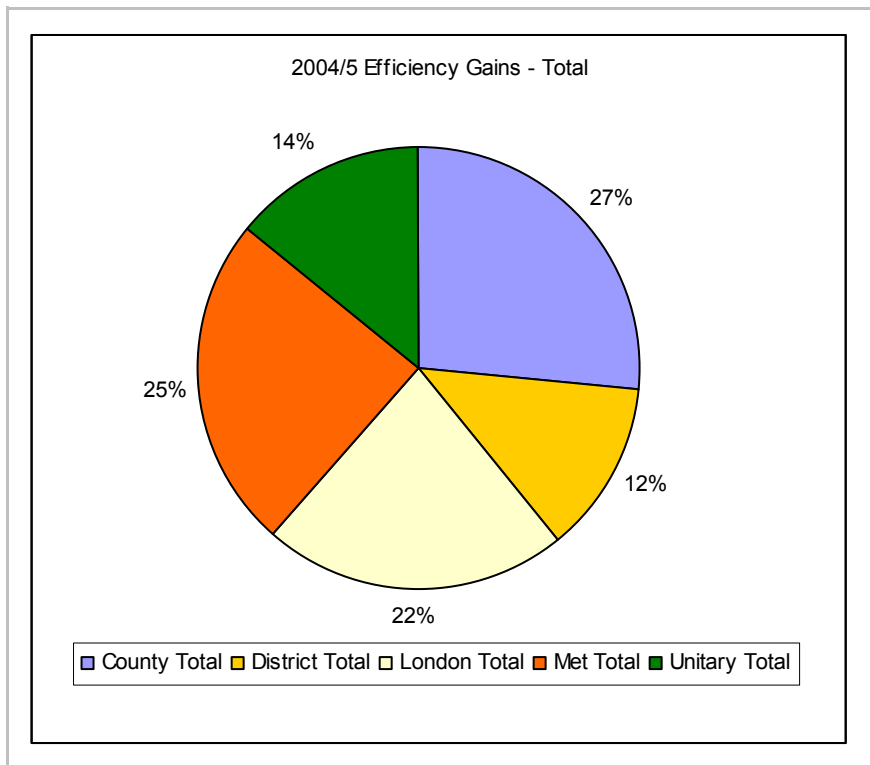
R9 The Council should risk assess and carry out a cost-benefit analysis of the two options available to it with regards to funding its future capital programme, for example through prudential borrowing.

Efficiency savings

- 88 As part of the Gershon agenda on efficiency the Council is required to achieve 2.5 per cent efficiency gains over a three-year period. In 2004/05 Bromsgrove reported £326,600 efficiency gains. The chart below shows the distribution of the total £760 million¹ efficiency gains achieved by all local government bodies in 2004/05 by type of local authority. Bromsgrove contributed 0.35 per cent of the £95 million efficiency gains achieved by districts.

¹ Source: Office of the Deputy Prime Minister www.odpm.gov.uk

Figure 6 2004/05 efficiency gains by local government type



89 The Council's 2005/06 efficiency target is £615,500 and remains on track to meet this target. KPMG will report on the Council's achievement of this target once the figures are reported in June 2006.

Systems of internal financial control

- 90 KPMG are required to consider whether the Council has adequate arrangements in place to satisfy itself that its systems of internal financial control are adequate and effective.
- 91 KPMG's work identified significant weaknesses in the Council's overall control framework for the systems of internal financial control; however the Council took appropriate action to resolve these issues. KPMG reported in its Interim Memo of August 2005 and confirmed in its Combined 2003/04 and 2004/05 Final Accounts Memorandum that the Council has implemented key control account reconciliations.
- 92 During its work on the Council's statement of accounts, KPMG did notice, however, that a number of controls were not operating effectively, particularly the use of exception reports across the fundamental financial systems.

Risk management

- 93 During 2004/05 the application of risk management was poor and as KPMG reported in its interim memo, the Council only really began the process for developing risk management through a risk management steering group late in 2005. Bromsgrove approved a new Risk Management Strategy in January 2006 to replace a previous version that was never properly publicised or enforced.
- 94 The Council has recognised that good risk management supports and facilitates good decision making processes, but to be effective will require support from Members. As such Bromsgrove has identified the need for a risk champion to ensure risk management is given a higher profile and priority within the Council.
- 95 The Council will provide risk management training to the Chairmen and Vice-Chairmen of the Scrutiny Committee, the Performance Management Board, the Audit Board and the Planning Committee. However, the Council will need to ensure that it rolls out risk management training to all Members.
- 96 Risk management is in its early stages of development, with strategic risk registers due in March 2006 and operational risk registers due to be produced in June 2006. The Council should aim to integrate its risk and performance management, to facilitate more informed decision making on service delivery.
- 97 The Council needs to ensure the processes it is currently putting in place are sufficiently flexible and resilient to facilitate the future development of risk and performance management, including the development of an assurance framework.

Recommendation 10: Risk management

R10 The Council should map its risk register to its corporate and operational objectives to help align future risk and performance integration.

- 98 KPMG will continue to review the Council's progress on risk management through 2006.

Internal Audit

- 99 KPMG reviews the work of Internal Audit as part of its assessment on the Council's internal control environment. Internal Audit carried out further work on the Council's financial systems which then enabled KPMG to place reliance on its work. This was carried out in time for KPMG's audit of the accounts to commence.
- 100 KPMG has made a number of recommendations have been made on the work of Internal Audit during the year and reported in its letter to the Corporate Director in May 2005 and in its Interim Memo of August 2005, which highlighted a number of significant weaknesses. Since those reports were issued KPMG has seen good progress in the quality of the work carried out by Internal Audit.
- 101 Internal Audit was affected by the organisational restructuring, with two audit posts below Audit Services Manager becoming vacant. The Council is currently in the progress of appointing two auditors to bring the department back to full strength. However, the appointees will be faced with a steep learning curve and will require training and development, including potentially the need for time off to study for professional exams; all of which could impact on the total number of audit hours available.
- 102 As noted earlier the research into shared services led by Worcester County Council has removed the Internal Audit aspect from the study. However, given the issues with regards to Internal Audit's delivery of its audit plan, combined with the revised staffing structure the Council needs to closely monitor the delivery of this service through the new Audit Board.

Recommendation 11: Internal Audit

R11 Internal Audit should establish realistic milestones and targets for the delivery of its audit plan that incorporates appropriate actions in case of slippage.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 103 **The Council has maintained effective controls over the prevention and detection of fraud and corruption.**
- 104 KPMG reviews the adequacy of the Council's arrangements to manage its affairs in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption.

- 105 However, it remains the management's responsibility to ensure that there are appropriate controls in place to prevent loss through fraud and error and to ensure that appropriate governance arrangements are in place and operating satisfactorily.
- 106 KPMG reported its detailed findings within its Interim Memorandum, where no significant weaknesses in the Council's arrangements to prevent and detect fraud and corruption were identified.
- 107 Since that report the Council produced a revised Anti-Fraud and Corruption in February 2006 which incorporates the expectations of Members, staff and third parties. KPMG will continue to monitor the Council's procedures for the prevention and detection of fraud and corruption during its 2006 work.

Legality of transactions

- 108 **The Council has adequate arrangements in place for ensuring the legality of its financial transactions.**
- 109 KPMG is required to review the arrangements that the Council has in place to identify whether transactions that might have a significant financial consequences and contracts that it enters into are legally sound.
- 110 As reported in its Interim Management Letter, KPMG has not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Electors' questions and objections

- 111 **No questions or objections were raised with KPMG with regard to the 2003/04 or the 2004/05 financial statements.**
- 112 Sections 15 and 16 of the Audit Commission Act 1998 provide local electors with an annual opportunity to inspect the accounts of a local Council and subsequently, to put questions and/or objections relating to those accounts to the external auditor. Any such representations must be resolved prior to the closure of the audit.
- 113 KPMG can report that it has not received any questions or objections on the 2003/04 or the 2004/05 accounts from local Council electors under Sections 15 and 16 of the Audit Commission Act 1998.

Use of resources judgements

- 114 The Use of Resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. KPMG and the Audit Commission anticipate the Use of Resources judgements will form part of the future CPA framework.
- 115 KPMG has assessed and scored the Council's arrangements in five areas as Table 3 shows.

Table 3 Council's arrangements

Element	Assessment
Financial reporting	1 out of 4
Financial management	1 out of 4
Financial standing	2 out of 4
Internal control	1 out of 4
Value for money	1 out of 4
Overall	1 out of 4

(Note: 1 = lowest, 4 = highest)

- 116 In reaching these judgements KPMG has drawn on the above work and supplemented this with a review against the Audit Commission's specified Key Lines of Enquiry.
- 117 KPMG reported the findings to senior officers in March 2006 which included references to the improvements needed to progress to the next level. The Council has already made progress in implementing the recommendations, although areas for further development remain, as summarised in Table 4.

Table 4

KLOE	Areas beginning to be addressed	Areas for further development
Financial Reporting	The Council has now cleared its backlog of financial statements with unqualified audit opinions issued by KPMG on both the 2003/04 and 2004/05 Statement of Accounts. This now provides a clear opportunity to produce the 2005/06 statements of accounts within the statutory deadline.	<p>The Council needs to compile sufficient working papers as laid out in our 'prepared by client' schedule which are available prior to the commencement of the external audit.</p> <p>The Council also should ensure that the statements of accounts are subject to robust Member and officer scrutiny prior to approval.</p>
Financial management	The Council has begun to implement appropriate financial and budgetary training to officers and Members to improve its budgetary control. Furthermore, the Council has designated a responsible department for corporate property management.	<p>The Council also needs to link the MTFS to corporate objectives and be driven by the Corporate Business Plan. The Council needs to integrate business planning with financial planning, ensuring that the internal service plans are supported by the MTFS.</p> <p>The Council needs to update the asset management plan to reflect the transfer of housing stock to Bromsgrove District Housing Trust in March 2004.</p> <p>Members should be provided with reports that enable appropriate and informed decisions with regard to the Council's land and buildings portfolio, at both a strategic and service level.</p>

KLOE	Areas beginning to be addressed	Areas for further development
Financial standing	The Council has produced a balanced budget with expenditure set within the Council’s resources.	<p>To move to the next level Bromsgrove should:</p> <ul style="list-style-type: none"> • set and monitor targets for income collection and recovery of arrears, based on age profile of debt; • consistently maintain spending within overall budget and without significant unexpected overspends or under-spends; • identify target levels for reserves and balances that are based on a thorough understanding of its needs and risks, including its treasury management strategy and is meeting these targets; and • produce monitoring information that evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly.

KLOE	Areas beginning to be addressed	Areas for further development
Internal Control	<p>The Council has a risk management steering group which has helped develop a new risk management strategy.</p> <p>The Council has also implemented and brought up-to-date fundamental control reconciliations on the Council's financial systems.</p> <p>The Council has established an Audit Board which will help to improve the Council's internal control environment.</p>	<p>The Council needs to finalise its corporate (due March 2006) and operational (due June 2006) risk registers and assign a Member group with the responsibility to manage, oversee and receive reports on the implementation of risk management.</p> <p>The Council needs to allocate responsibility for review and approval of the Statement of Internal Control (SIC) to an appropriate member group who will consider the SIC separately from the accounts .</p> <p>The Council should conduct an annual review of the effectiveness of the system of internal control and report on this in the SIC and the sources of assurance to support the SIC should be identified and reviewed by senior officers and Members.</p>
Value For Money	<p>The Council has established a Procurement Steering Group that will assist the Council in driving our inefficiencies and reducing costs.</p> <p>The Council has also begun to develop a performance management framework, under the Performance Management Board, that should link to costs and drive performance improvement across service areas.</p>	<p>The Council should analyse and report on the links between costs and performance across its services and how these are aligned with its corporate priorities.</p> <p>The Council should build and develop the VFM and efficiency culture. This needs to involve the understanding and ownership of Members.</p>

Recommendation 12: Use of Resources

R12 The Council should review the individual KLOEs and develop suitable action plans to move to the next level.

Other work

Grant claims

- 118 KPMG has continued to apply a risk-based approach to the certification of grant claims and have reduced the time spent on the audit of these claims but its ability to reduce this further depends on the adequacy of the Council's control environment.
- 119 KPMG has certified all claims for the year ending 2004/05 that have been submitted to them for audit.

National Fraud Initiative

- 120 In 2004/05, the local Council took part in the Audit Commission's National Fraud Initiative. The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 121 The Council participated in the NFI exercise and fully complied with the requirements of the initiative. It has set aside specific resources to follow up data matches and shared its findings with the Audit Commission.

Looking forwards

Future audit and inspection work

- 122** KPMG and the Audit Commission have an agreed plan for 2005/06 and have reported in this Letter those aspects that have already been completed. The remaining elements of that Plan, including KPMG audit of the Council's 2005/06 accounts, will be reported in next year's Annual Audit & Inspection Letter. The Audit Commission's and KPMG's planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 123** KPMG and the Audit Commission have sought to ensure, wherever possible, that their work relates to the challenges facing the Council. Both organisations will continue with this approach when planning their programme of work for 2006/07. Both organisations will also seek to reconsider, with Council, Bromsgrove's improvement priorities in the light of the latest CPA assessment and the Council's own analysis, and develop an agreed programme by 31 March 2006. KPMG and the Audit Commission will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation at Bromsgrove.

Revision to the Code of Audit Practice

- 124** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 125** The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Corporate Director (Resources) in April 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

A new CPA framework

- 126** The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils. The revised framework will be published in the early part of 2006 with implementation from April 2006.

Closing remarks

- 127 This letter has been discussed and agreed with senior officers at the Council. A copy of the letter will be reported to the Executive Cabinet on 17 May 2006.
- 128 The Council has taken a positive and constructive approach to KPMG and the Audit Commission's audit and inspection and both organisations would like to take this opportunity to express their appreciation for the Council's assistance and co-operation during the year of audit and inspection.

Availability of this letter

- 129 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

KPMG LLP
Chartered Accountants, Birmingham

Sandy McMillan
Relationship Manager, Audit Commission

March 2006

Status of both the Audit Commission's and KPMG LLP's reports to the Council

- 130 This annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.
- 131 External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

Appendix 1 – Background to this letter

The purpose of this letter

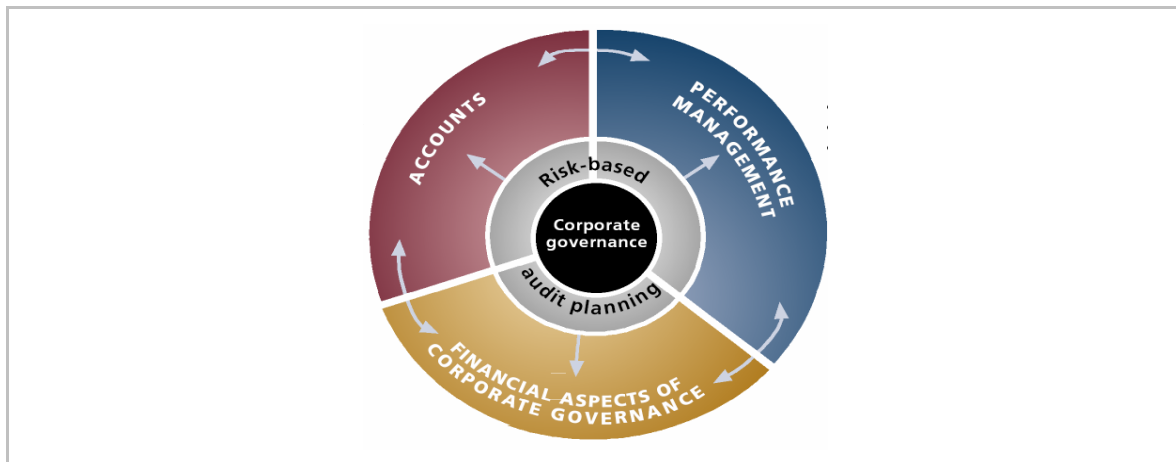
- 1 This is the KPMG's and the Audit Commission's Audit and Inspection 'Annual Letter' for Members, which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and the Appointed Auditor, KPMG. The Letter summarises the conclusions and significant issues arising from both organisations recent audit and inspections of the Council.
- 2 KPMG has issued separate reports during the year setting out the findings and conclusions from the specific elements of its audit work programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. KPMG's audit has been conducted in accordance with the principles set out in that statement. KPMG's findings, conclusions and the results of its audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged by KPMG and the Audit Commission for the audit and inspections at the Council during 2004/05.

Audit objectives

- 5 KPMG's main objective as the Council's appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. KPMG adopt a risk-based approach to planning its audit, and its audit work has focused on the Council's significant financial and operational risks that are relevant to its audit responsibilities.
- 6 Central to KPMG's audit are the Council's corporate governance arrangements. KPMG's audit is then structured around the three elements of its responsibilities as set out in the Code and shown in Figure 7.

Figure 7 Code of Audit Practice

Code of practice responsibilities



Accounts

- Opinion.

Financial aspects of corporate governance

Reviewing how effectively the Council ensures:

- financial standing;
- systems of internal financial control;
- standards of financial conduct and the prevention and detection of fraud and corruption; and
- legality of transactions with significant financial consequences.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection objectives

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

Appendix 2 – Audit and inspection reports issued

Table 5

Report title	Date issued
2004/05 Annual Audit Plan	March 2005
Inspection of E Government	May 2005
KPMG's Interim Memorandum	August 2005
2004/05 BVPI Opinion	September 2005
2003/04 Accounts - Unqualified Opinion	November 2005
Progress Assessment	December 2005
2005/06 BVPP Opinion	December 2005
2004/05 Accounts - Unqualified Opinion	February 2006
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	February 2006
KPMG's Combined 2003/04 and 2004/05 Final Accounts Memorandum	February 2006

Appendix 3 – Audit and inspection fee

Table 6 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	37,000	57,000*
Financial aspects of corporate governance	22,000	22,000
Performance	22,000	22,000
Total Code of Audit Practice fee	81,000	101,000
Additional voluntary work (under section 35)	0	0
Total	81,000	101,000

*Includes £20,000 overrun fee on the 2004/05 Statement of Accounts audit.

Inspection fee update

The full year inspection fee is £18,270. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.

Appendix 4 – Current year recommendations

Priority	Recommendation	Management response
High	<p>Recommendation 1: Performance framework</p> <p>The Council should incorporate benchmarking into the performance indicators to allow the Performance Management Board (PMB) to place current performance into an appropriate context.</p>	
Medium	<p>Recommendation 2: Performance framework</p> <p>Whilst the Council has a Top 45 set of performance indicators, the Council should still consider reporting by exception i.e. reducing the number of indicators presented to the PMB to streamline the reporting process and enable the PMB to focus on poor performing areas.</p>	
High	<p>Recommendation 3: e-Government</p> <p>The Council must develop time bound action plans that are driven by effective project management based on realistic targets to ensure it fully delivers the e-Government agenda.</p>	
High	<p>Recommendation 4: Council Tax Base</p> <p>The Council should ensure that future calculations of the Council Tax Base take into account the existing (and future) level of reserves, including any implications arising from the need to distribute any surplus to precepting authorities.</p>	

Priority	Recommendation	Management response
High	<p>Recommendation 5: Treasury management performance</p> <p>The Council should produce quarterly reports that benchmark treasury management performance to ensure it is achieving best value from fund managers.</p>	
Medium	<p>Recommendation 6: Revenue balances</p> <p>The Council should calculate a risk assessed minimum level of balances required to sustain revenue expenditure. This should be based on a risk assessment of key variables and incorporate the overall objectives as specified in the Corporate Plan via the Medium Term Financial Strategy.</p>	
Medium	<p>Recommendation 7: Capital programme</p> <p>The Council needs to re-evaluate the capital budget setting process to ensure it takes into account issues arising from earlier years and ensure that all projects are covered.</p>	
High	<p>Recommendation 8: Capital programme</p> <p>The Council needs to ensure it has robust project management arrangements over its capital programme to ensure that all projects are delivered on time and to budget.</p>	
Medium	<p>Recommendation 9: Prudential borrowing</p> <p>The Council should risk assess and carry out a cost-benefit analysis of the two options available to it with regards to funding its future capital programme, for example through prudential borrowing.</p>	

Priority	Recommendation	Management response
High	<p>Recommendation 10: Risk management</p> <p>The Council should map its risk register to its corporate and operational objectives to help align future risk and performance integration.</p>	
High	<p>Recommendation 11: Internal Audit</p> <p>Internal Audit should establish realistic milestones and targets for the delivery of its audit plan that incorporates appropriate actions in case of slippage.</p>	
High	<p>Recommendation 12: Use of Resources</p> <p>The Council should review the individual KLOEs and develop suitable action plans to move to the next level.</p>	

Appendix 5 – Follow-up of prior year recommendations

We are required to review the Council's performance against the recommendations made in the 2003/04 Annual Audit and Inspection Letter. These have been detailed in the table below.

Recommendation	Position as at February 2006
<p>Recommendation 1: BVPIs The Council should ensure the indicators are subject to quality review before submitting BVPI data for inclusion in the BVPP and prior to audit.</p>	<p>The policy and performance officer undertakes a quality check of all BVPI information. The indicators are also now reviewed at the Performance Monitoring Board.</p>
<p>Recommendation 2: Performance Management The Council should continue its work in building its performance management framework and strategy.</p>	<p>The Performance Monitoring Board undertakes a quarterly review of local and statutory PIs. The new frameworks for personal development reviews include performance measurement targets for all staff.</p>
<p>Recommendation 3: Future liabilities The Council should consider carrying out an evaluation of the likelihood of any future claims against the Council and consider seeking legal advice to evaluate the cost of any personal injury claim.</p>	<p>The subject of asbestos was raised as an issue prior to the LSVT and a second survey report was carried out in conjunction with expert advice from the Council's own architects department. The Trust made provision in its business plan for a contingency sum of £1.75 million for dealing with asbestos: this would be the first port of call for any asbestos claims. The Council is only liable under the environmental warranties it had to give, once this contingency of £1.75 million has been utilised by the Trust, and in this regard the first call by the Council would be on the VAT savings scheme.</p> <p>No further work has been undertaken on this area.</p>

Recommendation	Position as at February 2006
<p>Recommendation 4: Overheads and support costs The Council needs to fully consider the impact of support costs and review its procedures for overhead allocation since the transfer of housing stock.</p>	<p>The finance team have commenced a review of the areas that are currently defined as support services with a full reallocation to be undertaken in March 2006.</p>
<p>Recommendation 5: Worcestershire Hub The Council is heavily reliant on the Worcestershire e-Government Partnership for the delivery of key elements of the e-Government programme, and should ensure that the Council has appropriate representation at the Partnerships programme board.</p>	<p>The e-government steering group has ownership of all e-government issues and projects. The council is aiming to be at the forefront of implementation of the improvements.</p>
<p>Recommendation 6: BVPI The Head of IT Services should use a recognised methodology (ie IDeA ESD Toolkit) to formally measure and confirm the Council's performance against BVPI 157. The measurement of BVPI 157 and the actions taken to meet the target should be a corporate exercise rather than being an IT issue. In this regard the departments should consider the actions required to achieve the target within their areas and this be fed into a corporate action plan, which is monitored by the Operational Management Team (OMT).</p>	<p>This has been undertaken by the interim head of e-government and customer services. There is a clear plan of action to be undertaken by the Council during 2006/07 and 2007/08.</p>

Recommendation	Position as at February 2006
<p>Recommendation 7: Project management The Council needs to establish formal project management, change and risk management methodologies for its internal e-Government projects. This should include the identification of the inter-dependencies that each project may have and the barriers that could affect the successful delivery of the projects.</p>	<p>Project management training has commenced with an external provider for all relevant staff members. A formal methodology will be approved through the committee framework.</p>
<p>Recommendation 8: IT strategy The corporate IT strategy should be completed as a matter of urgency and take account of and be aligned to the Council’s e-Government strategy.</p>	<p>A full e-Government and ICT strategy for 2006/2007 has been successfully presented and the following two years will be presented by 24 March.</p>
<p>Recommendation 9: Statement of accounts The Council should set a clear timetable and devote sufficient resources for the production of the 2003/04 financial statements so as to ensure that the 2004/05 accounts can be presented in line with statutory dates. This should be project managed to avoid a recurrence of the delays in the presentation of the 2002/03 Accounts to Members. The Council should also ensure sufficient working papers are produced to support the financial statements in order to improve the timeliness of the audit.</p>	<p>Statement of accounts for 2003/04 and 2004/05 both unqualified with improvements to each set of accounts. 2004/05 was presented to members within the statutory deadline. External support will be sourced during the close of 2005/06 to ensure improved compliance to SORP and audit requirements.</p>

Recommendation	Position as at February 2006
<p>Recommendation 10: Freedom of Information Act</p> <p>The Council need to ensure officers and Members are familiar with the requirements of the Freedom of Information Act through appropriate training.</p> <p>The Council should consider how it will monitor its performance under the Freedom of Information Act. This should include developing a system to allow tracking of information requests.</p>	<p>There is a FOI officer who liaises with departments and members on FOI issues. There have been a number of newsletters to inform staff of the procedures to be followed.</p>
<p>Recommendation 11: Equality</p> <p>The Council should ensure there is a strategy in place to develop and improve its policies and help the Council meet its target.</p>	<p>Draft equalities strategy under review. Equalities champions group in place with a member champion. Equalities forum with relationship developing with external partners.</p>
<p>Recommendation 12: Reserves and balances</p> <p>The Council should review reserves and balances as part of its medium term strategy and budget process as this is an essential tool to sound financial management.</p>	<p>Balances have been reviewed and subsequently reduced to meet one off costs as part of the review of the medium term financial plan.</p>
<p>Recommendation 13: Budget deficits</p> <p>The Council must adopt a vigilant approach to achieving budget savings in light of its anticipated annual deficits and to allow the Council to maintain a general fund working balance of £850,000.</p>	<p>Regular monthly monitoring is in place with budget holders and reports detailed the financial position of the council are presented to members on a quarterly basis.</p>

Recommendation	Position as at February 2006
<p>Recommendation 14: Capital resource allocation The Council should consider the effectiveness of its current capital resource allocation arrangements to ensure that resources are directed where is most appropriate.</p>	<p>There is a clear link between the request for capital resources and the priorities of the Council. Capital appraisal returns have to be completed for all requests.</p>
<p>Recommendation 15: Internal audit Internal audit should ensure they review the high level controls of key financial systems annually. Furthermore, the Council should ensure that all the recommendations raised in our interim memorandum are implemented.</p>	<p>The audit plan for 2006/07 has now been approved. The review of key financial system forms a part of the plan. There are currently two vacancies within the internal audit team to which the Council is aiming to recruit part qualified staff.</p>
<p>Recommendation 16: Improvements to control environment and reconciliations The Council must ensure the outstanding recommendations raised in the follow up report are addressed as a matter of urgency. The Council need to ensure that sufficient reconciliations are produced for 2003/04 and 2004/05 to satisfy itself that systems of internal control are robust.</p>	<p>Reconciliations are now completed and signed off by managers and held centrally. The completion of these reconciliations are part of the local indicators as part of the financial services business plan.</p>
<p>Recommendation 17: New financial ledger system The Council need to consider the use of appropriate computer audit specialists to ensure the data is processed within the system correctly.</p>	<p>No further work on this area – the upgrades to Agresso will be actioned as part of the POP system implementation. Integration with external systems will be improved over the next few months.</p>

Recommendation	Position as at February 2006
<p>Recommendation 18: Budget monitoring</p> <p>The Council should continue to improve budget monitoring procedures including timeliness of information, ensuring that any variations are followed up and appropriate explanations are given.</p>	<p>Regular monthly monitoring is in place with budget holders and reports detailing the financial position of the council are presented to members on a quarterly basis.</p>
<p>Recommendation 19: Risk management</p> <p>The Council should place risk management high on its agenda and ensure there is sufficient drive to embed a risk awareness culture into the Council. This is needed at all levels of the organisation. In particular the Council should establish a set of risk registers that should be regularly reviewed for completeness and appropriateness given any changes in the micro or macro environment.</p> <p>Once the risk registers have been produced the Council should embed risk management into its everyday management practices and service planning process, together with appropriate member involvement</p>	<p>A risk management steering group is now in place to ensure the risk management culture is driven forward through the council. There have been a number of training sessions which will continue during 2006/07 to raise awareness of risk management.</p> <p>A risk officer (one year contract) is to be appointed as part of the restructure.</p>
<p>Recommendation 20: Treasury management</p> <p>The Council must continue to monitor its Treasury Management processes particularly with the introduction of the Prudential Code and the additional £18 million received from the LSVT transfer.</p>	<p>An updated Treasury Management strategy to be reported to members in April 2006. The investment of the funds via the fund managers is monitored by officers on a quarterly basis – this will be formally reported to members on a similar basis in 2006/07.</p>

Audit and Inspection Plan

May 2006



Audit and Inspection Plan

Bromsgrove District Council

Audit 2006/2007

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.
- 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, 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 to the Council

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

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Introduction

- 1 This plan sets out the audit and inspection work that KPMG LLP ('KPMG') and the Audit Commission propose to undertake in 2006/07 at Bromsgrove District Council ('Bromsgrove', 'the Council'). The plan has been drawn up from their risk-based approach to audit planning and reflects:
 - the Code of Audit Practice;
 - Audit and inspection work specified by the Audit Commission for 2006/07;
 - Bromsgrove's local risks and improvement priorities; and
 - current national risks relevant to the Council's local circumstances.
- 2 The Council's relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

- 3 In carrying out their audit and inspection duties KPMG and the Audit Commission have to comply with the statutory requirements governing them, and in particular:
 - the Audit Commission Act 1998;
 - the Code of Audit Practice (the Code) with regard to audit; and
 - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code defines auditors' responsibilities in relation to:
 - the financial statements of audited bodies; and
 - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources. KPMG will give the first such conclusion by September as part of the 2005/06 audit.

The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.
- 7 The total fee estimate for the audit work planned for 2006/07 is £90,000 and the total fee estimate for inspection work planned for 2006/07 is £17,451. This compares with a total audit fee of £80,000 and inspection fee of £18,270 in 2005/06.
- 8 In addition KPMG will charge approximately £12,000 for the certification of claims and returns. Further details are provided in paragraph 36 and in Appendix 1.
- 9 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions Bromsgrove District Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 10 Changes to the plan and the fee may be necessary if KPMG's audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
 - the opinion on the 2006/07 accounts since KPMG has yet to audit the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
 - work on selected performance indicators, since KPMG has yet to assess the Council's overall arrangements for securing the quality of this data and then to undertake a formal risk assessment.
- 11 KPMG will formally advise the Council if any changes to the fee become necessary.

CPA and inspections

- 12 The CPA framework for District Councils from 2006 is currently subject to consultation. It is expected that the proposed methodology will be published by April 2006 and that the opportunity for re-categorisation will be available for some councils during 2006/07.
- 13 If the new methodology identifies the need or opportunity for a revised corporate assessment for Bromsgrove, we will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 14 Following the Council's classification as a Poor council in 2004, its Progress Assessment in 2005 and Direction of Travel Assessment in 2006; we have applied the principles of strategic regulation recognising the key strengths/weaknesses in Bromsgrove's performance. The Progress Assessment found that the Council had made some progress since the last Corporate Governance Inspection in 2003. The Direction of Travel assessment in March 2006 found some additional progress had been made. The key issues identified in these assessments include the following.
- The Council is making some progress and it is tangibly a different organisation than it was two years ago, but much remains to be done before it can emerge from engagement.
 - There has been good progress in defining ambitions for the future but prioritisation of resources is not yet effective.
 - Organisational capacity to deliver recovery is improving but it is still fragile, and there are areas where significant improvement is required.
 - The pace of member development has been slow and some aspects of decision-making and scrutiny arrangements are not operating effectively.
 - Some services continue to perform at a good level and there have been improvements in recycling, planning processing times and more recently in benefits. However, overall service performance remains below average and those services where performance is weaker tend to show less improvement.
 - The council has responded positively to the progress assessment. Councillors are now more actively engaged in performance management and business planning is more closely aligned to corporate priorities.
 - Significant challenges remain in addressing councillor development and improving cross party working.
- 15 As a consequence our inspection activity will focus on the following:
- In the light of the continued below average service performance we will conduct one service inspection in 2006-07. The Council is a relatively high spender on culture services and we propose therefore to undertake a service inspection of culture services. This will focus on sports, leisure, tourism, arts and museum services commissioned or directly provided by the council. This will include services provided in partnership with other bodies.

8 Audit and Inspection Plan | CPA and inspections

- As in 2005 we will conduct an annual assessment in 2006 of the council's progress in building on the strengths and addressing the weaknesses identified in CPA. Along with all underperforming councils (those categorised as poor or weak), this will include a published assessment.
- In March 2007 the Audit Commission will publish a Direction of Travel Assessment on all district councils in England. In 2006 this was not a scored judgement, but in 2007 will give each council an additional CPA category indicating the extent to which the council is making progress.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission's primary point with the authority and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders.
Progress Assessment	To assess progress of underperforming councils on an annual basis.
Direction of Travel review	To provide focus for continuous improvement. Likely to be included in CPA scorecard.
Service inspection	To assess the strategic approach with partners to culture services and the effectiveness of the service delivered by the Council. To provide recommendations for future improvement.

Summary of key audit risks

- 16** This section summarises KPMG's assessment and the planned response to the key audit risks which may have an impact on its objectives to:
- provide an opinion on Bromsgrove's financial statements;
 - provide a conclusion on the Council's use of resources;
 - provide a scored judgment on the use of resources to feed into the CPA process;
 - undertake audit work in relation to specified 2005/06 performance indicators to support the service assessment element of CPA; and
 - provide a report on the Council's 2006/07 Best Value Performance Plan (BVPP) by December 2006.
- 17** In assessing risk KPMG has applied its cumulative knowledge and experience gained through its appointment as the Council's auditor and:
- considered the Council's local improvement priorities and risks associated with them;
 - the Council's statement of internal control;
 - considered the impact of changes to accounting regulations;
 - held discussions with officers and statutory inspectors; and
 - considered the impact of known changes to the Code of Audit Practice.
- 18** KPMG has incorporated its findings and recommendations from reports issued in late 2005 and early 2006 as a measure to identify ongoing or reduced risk areas of the Council, such as the development of an effective assurance framework.
- 19** Using its cumulative knowledge and experience, including the results of previous work and other regulators' work, KPMG has identified the following areas of audit issues to be addressed:
- improving the Council's Use of Resources score under the KLOEs;
 - developing the performance management framework;
 - development of risk management;
 - supporting the shared services agenda, and effective partnership working;
 - delivery of efficiency savings;
 - delivery of the Council's recovery plan; and
 - the Council's application of the Local Authority Modernisation Programme.
- 20** The full details of these risks and KPMG's planned response are included in Appendix 5.

- 21 KPMG's planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or Bromsgrove's own risk management processes, including Internal Audit, KPMG will perform work as appropriate to enable it to provide a conclusion on the Council's arrangements.

Value for money conclusion

- 22 The Code of Audit Practice requires KPMG to issue a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion). The Audit Commission has developed relevant criteria for auditors to apply in reaching its value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, KPMG will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. KPMG will give the first such conclusion by the end of September 2006 as part its audit of the 2005/06 accounts. This may influence its risk assessment for similar work to be carried out as part of the 2006/07 and KPMG will keep the Council informed of any changes to this plan that may become necessary.

Use of resources judgement

- 23 Over and above the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment. KPMG's fee estimate 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes KPMG will discuss with the Council the implications, including any impact on the fee.
- 24 These judgements may also used by the Commission as the basis for its overall use of resources judgement.

Performance information

- 25 In 2006/07, auditors are required to undertake much more detailed and specific audit work in relation to specified performance indicators to support the service assessment element of CPA, subject to the basis of the agreed methodology. This work will be risk based and will link at least in part to its review of the Council's overall arrangements to secure data quality (as required for its value for money conclusion). KPMG's fee estimate includes an element for this work on the basis that it will assess Bromsgrove District Council as high risk in relation to its performance indicators.

This assessment will include a review of the management arrangements to compile and monitor the Council's performance indicators.

- 26 This risk assessment may change depending on KPMG's assessment of Bromsgrove's overall arrangements. When KPMG has finalised its risk assessment, KPMG will update its plan including any impact on the fee.

Best value performance plan

- 27 KPMG is required to report on whether or not Bromsgrove has complied with legislation and statutory guidance in respect of the preparation and publication of the Council's Best Value Performance Plan (BVPP).

Financial statements

- 28 KPMG will carry out its audit of the 2006/07 financial statements and follow the International Standards on Auditing (UK & Ireland).
- 29 KPMG are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with its knowledge of the Council.
- 30 On the basis of KPMG's preliminary work to date it has identified the following audit issues:
- providing the required data for the Whole of Government Accounts;
 - full implementation of the total cost principle under the Best Value Accounting Code of Practice;
 - applying the changes specified in the 2006 Statement of Recommend Practice;
 - monitoring and implementing the requirements of the prudential code; and
 - enhancing the Council's systems of internal financial control.
- 31 The issues and KPMG's audit response are described in more detail in Appendix 5 to this Plan.
- 32 KPMG's fee estimate for 2006/07 is based on the assumption that the current standard of working papers will continue to be improved and that Internal Audit will complete its planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by July 2007.
- 33 KPMG has yet to undertake the audit of the 2005/06 financial statements and its 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion work;
 - KPMG's documentation and initial testing of material information systems;

- KPMG's assessment of the 2006/07 closedown arrangements; and
 - any changes in financial reporting requirements.
- 34 When KPMG has finalised its risk assessment in respect of Bromsgrove's financial statements, KPMG will update its plan in advance of the audit detailing its specific approach, including any impact on the fee quoted above.

Whole of government accounts

- 35 The Government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with the NAO and other stakeholders. The fee for this work is not included in this plan and we will discuss this with the Head of Financial Services when further details are available.

Claims and returns certification

- 36** KPMG will continue to certify the Council's claims and returns.
- Claims for £50,000 or below will not be subject to certification.
 - Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
 - Claims over £100,000 have an audit 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 audit approach for these claims.
- 37** Charges for this work is based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. Based on this, and on the assumption that the level of grant work will remain reduce, KPMG estimates that the fees for grant certification work will be around £12,000.

Other information

Outputs from the audit and inspection plan

- 38 The expected outputs from its planned audit and inspection work are listed in Appendix 3.

The team

Table 2

Name	Title
Sandy McMillan	Relationship Manager, Audit Commission
Jon Gorrie	Appointed Auditor, KPMG LLP
Andrew Cardoza	Audit Senior Manager, KPMG LLP
Mark Surridge	Assistant Audit Manager, KPMG LLP

- 39 KPMG and the Audit Commission are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.
- 40 Both KPMG and the Audit Commission comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Complaints

- 41 If the Council has any concerns or are dissatisfied with any part of KPMG's work, in the first instance the Council should contact Jon Gorrie, who is the appointed auditor to the Council: Tel. 0121 232 3694, e-mail jonathan.gorrie@kpmg.co.uk who will try and resolve the complaint. If the Council is dissatisfied with the response please contact Trevor Rees on 0161 236 4000, e-mail trevor.rees@kpmg.co.uk, Trevor is the national contact partner for all of KPMG's work with the Audit Commission.
- 42 After this, if the Council remains dissatisfied with how the complaint has been handled, the Council may access the Audit Commission's complaint procedure. Put the complaint in writing to: The Complaints Investigation Officer, Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ; or by e-mail to complaints@audit-commission.gov.uk. Their telephone number is 0207 166 2349, textphone (minicom) 0207 630 0421.

Status of reports to the Council

- 43 The Audit Commission and KPMG will provide reports, or other output as agreed, to the Council covering the risk areas identified above. Reports are:
- prepared for the sole use of the Council;
 - not to be relied upon by a third party or quoted or referred to without the Audit Commission's or KPMG's consent; and
 - written without assuming any responsibility by them to any other person.
- 44 The reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by KPMG as the Council's auditors to any Member or officer in their individual capacity, or to any third party.
- 45 ISA 260 Communication of Audit Matters to those Charged with Governance requires KPMG to report relevant matters relating to the audit to those charged with governance. For Bromsgrove District Council, the Audit Commission and KPMG has previously agreed that this responsibility will be discharged by reporting relevant matters to the Audit Committee.

Appendix 1 – Audit and inspection fee

Table 3

Fee estimate	Plan 2006/07 £	Plan 2005/06 £
Audit		
Accounts	48,000	45,000
Use of resources	42,000	35,000
Total audit fee	90,000	80,000
Inspection		
Relationship management	2870	*
Service inspection	5957	*
Corporate inspection	8624	*
Total inspection fee	17,451	18,270
Total audit and inspection fee		
Certification of claims and returns	12,000	12,000
Voluntary improvement work	0	0

* Comparative information is not available for 2005/06 due to the changed fee structure.

- 1 The total audit fee compared to the indicative fee banding equates to 5 per cent above the mid-point.
- 2 The audit fee (plus VAT) will be charged in four equal instalments from April 2006 to March 2007.
- 3 The fee above includes all work contained in this plan except:
 - any work required in relation to the Whole of Government Accounts (discussed in paragraph 35); and
 - any specific work required for CPA in 2006/07.

Specific audit risk factors

- 4 In setting the audit fee KPMG has taken account of the following specific risk factors:
- the Council's score against the Key Lines of Enquiry resulted in an overall 'inadequate performance' scoring in 2006;
 - the Council's risk profile and history of issues over the production of the statement of accounts; and
 - the extent of the changes to the SORP and the practical implications of those changes.

Assumptions

- 5 In setting the audit fee KPMG has assumed that:
- the Council will inform KPMG of significant developments impacting on its audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that KPMG can place reliance for the purposes of KPMG's audit recognising the shift in requirements of International Standards on Auditing (ISA) 400 Risk Assessments and Internal Control;
 - officers will provide good quality working papers and records to support the financial statements by July 2007, the assumptions of which will be revisited during KPMG's 2005/06 audit of accounts;
 - officers will provide requested information within agreed timescales;
 - officers will provide prompt responses to draft reports; and
 - the Council's Performance Indicators will be adequately prepared and reviewed.
- 6 The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment.
- 7 Where these requirements are not met or its assumptions change, KPMG will be required to undertake additional work which is likely to result in an increased audit fee.
- 8 Changes to the plan will be agreed with the Council. These may be required if:
- new risks emerge;
 - additional work is required of KPMG by the Audit Commission or other regulators; and

- there are any changes to financial reporting requirement, professional auditing standards or legislation which results in additional work.

Specific actions Bromsgrove District Council could take to reduce its audit fees

- 9 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. KPMG has identified the following actions Bromsgrove District Council could take.
 - The Head of Financial Services should review and sign off all working papers supporting the financial statements to ensure that they tie in to the approved draft accounts, and clearly cross referenced to supporting evidence.
 - Senior managers should take more responsibility for checking the accuracy of performance indicators and internal audit could usefully check that this had been done.
 - The working papers supporting grant claims should be reviewed in detail and ensure they clearly support how the grant claim has been compiled.

Process for agreeing any changes in audit fees

- 10 If either KPMG or the Audit Commission need to amend the audit [or inspection] fees during the course of this plan they will firstly discuss this with the Corporate Director (Resources). KPMG or the Audit Commission will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Appendix 2 – Criteria to inform the auditor's conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives

- 1 The Council (the audited body, 'body') has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

20 Audit and Inspection Plan | Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for ensuring compliance with the general duty of best value

- 7 The body has put in place arrangements to manage and improve value for money.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix 3 – Planned outputs

- 1 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 4

Planned output	Start date	Draft due date	Key contact
Audit and Inspection Plan*	February 2006	31 March 2006	Relationship Manager/ Appointed Auditor
Interim audit memorandum	May 2007	June 2007	Appointed Auditor
2006/07 BVPP opinion and 2005/06 PI audit memorandum	August 2006	September 2006	Appointed Auditor
Report on financial statements to those charged with governance (ISA 260)	August 2007	September 2007	Appointed Auditor
Opinion on financial statements	TBA	September 2007	Appointed Auditor
VFM conclusion	TBA	September 2007	Appointed Auditor
UoR Judgements	TBA	TBA	Appointed Auditor
Final accounts memorandum	1 July 2007	October 2007	Appointed Auditor
Local performance work	TBA	TBA	Relationship Manager
Culture Inspection	TBA	TBA	Relationship Manager
Progress Assessment	October 2006	December 2006	Relationship Manager
Culture Inspection	TBA	TBA	Relationship Manager
Annual audit and inspection letter (including direction of travel assessment)	October 2007	December 2007	Relationship Manager/ Appointed Auditor

* To be revisited during the year to reflect outcome of KPMG's 2005/06 final visit and 2006/07 interim visit.

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA's (UK and Ireland) when auditing the financial statements. Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff. Standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The standards define ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In Bromsgrove's 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 Council on matters which are considered to be of sufficient importance.
- 3 Auditors are required by the Code to:
 - carry out their work with independence and objectivity;
 - exercise its professional judgement and act independently of both the Commission and the audited body;
 - maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
 - resist any improper attempt to influence their judgement in the conduct of the audit.
- 4 In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors’ functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support its audit conclusions, it will be clearly differentiated as work carried out under s 35 of the Audit Commission Act 1998.
- 5 The Code also states that the Audit Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows.
 - Any staff involved on Audit Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director.
 - Audit staff are expected not to accept appointments as lay school inspectors.

- Firms are expected not to risk damaging working relationships by bidding for work within an audited body’s area in direct competition with the body’s own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Audit Commission’s statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors’ conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors’ independence.
- Auditors appointed by the Audit Commission should not accept engagements which involve commenting on the performance of other Audit Commission auditors on Audit Commission work without first consulting the Audit Commission.
- Auditors are expected to comply with the Audit Commission’s policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements).
- Audit suppliers are required to obtain the Audit Commission’s written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body.
- The Audit Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual’s relevant qualifications, skills and experience.

Appendix 5 – Key audit issues

Risk level	Issue title	Issue description	Code	Response
High	<i>Key Lines of Enquiry (KLOE)</i>	The Council received an overall level 1 score on the KLOEs representing inadequate performance, which KPMG reported to senior officers in March 2006. Arising from this review KPMG made a number of recommendations to move the Council to the next level.	Use of Resources	KPMG will review the actions taken by the Council to improve performance as part of its re-assessment of the overall score under the KLOEs. KPMG will carry out such work as deemed necessary to re-score the Council's performance under the KLOEs.
High	<i>Performance management framework</i>	The Council needs to further develop its performance management framework to ensure it is able to successfully map performance against cost, and demonstrate a commitment to improving performance. The Council needs to ensure that Corporate objectives are filtered down to service objectives then further to individual officer objectives.	Use of Resources	KPMG will continue to review and monitor the Council's progress in developing a performance management framework and assist by providing commentary based on its experience of developing performance management elsewhere.

Risk level	Issue title	Issue description	Code	Response
High	<i>Risk management</i>	<p>The Council has recently begun to implement risk management with corporate risk registers and operational risk registers due in March and June 2006 respectively. The Council therefore faces a significant challenge to embed risk management into day-to-day operations.</p> <p>The Council has yet to develop an assurance framework to help manage and deliver the agenda.</p>	Use of Resources	<p>KPMG will continue to review and monitor the Council's progress in developing an assurance and risk management framework and assist by providing commentary based on its experience of developing performance management elsewhere.</p> <p>KPMG will also review the Council's risk registers for completeness of information and assess the Council's ability to manage those risks.</p>
High	<i>Systems of internal financial control</i>	<p>The Council identified weaknesses in its systems of internal control in both 2003/04 and 2004/05. The main areas of weakness were:</p> <ul style="list-style-type: none"> • control account reconciliations; • budgetary control; and • Internal Audit. 	Audit of Accounts	<p>KPMG will review the progress made in enhancing the Council's systems of internal financial control in all the key areas.</p> <p>KPMG will review the work of Internal Audit and re-perform certain controls to validate the quality of work and findings.</p>

Risk level	Issue title	Issue description	Code	Response
High	<i>Shared services/ partnerships</i>	Increased partnership working and the provision of shared services is high on the government's agenda of local authorities. Worcestershire authorities are currently undertaking a feasibility study for the provision of a shared service agreement for a number of backroom services, such as revenues and benefits.	Use of Resources	KPMG will review the governance arrangements in place for working in partnership with other authorities to ensure that the initiative brings about benefit for the Council.
High	<i>Recovery Plan</i>	The Council has been in voluntary engagement since 2004 and has made progress in developing and implementing a recovery plan.	Use of Resources	KPMG will continue to monitor and engage in the Council's voluntary engagement process via attendance at the Monitoring Board and delivery of the recovery plan.
High	<i>Local Authority Modernisation Programme (LAMP)</i>	The Council is seeking to enter an agreement with an external provider to implement a number of e-initiatives at a cost of approximately £6.3 million. The Council believes this will lead to annual savings of £0.5 million.	Use of Resources	KPMG will monitor the project management of the project and comment on the delivery of the savings achieved against plan. KPMG will also review the accounting implications and the potential impact on the Council's financial statements.

Risk level	Issue title	Issue description	Code	Response
High	<i>The Statement of Recommended Practice (SORP) 2006</i>	The SORP 2006 provides the guidance on which the Council's statement of accounts is based. The 2006 SORP contains a number of significant accounting changes including: <ul style="list-style-type: none"> • direct charge of depreciation to services; • the Consolidated Revenue Account will be replaced by an Income and Expenditure Account; and • the Statement of Total Movement in Reserves will be placed by Financial Reporting Standard 3: Statement of Total Recognised Gains and Losses. 	Audit of Accounts	KPMG will audit the Council's statement of accounts to assess the extent to which they comply with the 2006 SORP.
Medium	<i>Efficiency savings</i>	The Gershon review requires the Council to achieve an efficiency gain of 2.5 per cent annually over a three year period. The Council is required to prepare an Annual Efficiency Statement (AES) to record its progress in achieving these savings.	Use of Resources	KPMG will monitor the progress made by the Council in producing its AES and where requested, help track the gains achieved and monitor the efficiency gains as part of its Use of Resources audit work.

Risk level	Issue title	Issue description	Code	Response
Medium	<i>Whole of Government Accounts</i>	<p>The timetable for the 2006/07 statement of accounts will be brought forward once more which could impact on the Council's closedown procedures and ability to produce complete and accurate information.</p> <p>This will also impact on the preparation of the Whole of Government Accounts (WGA). 2006/07 will be the first 'live' year for both auditors and local authorities, as discussed below.</p>	Audit of Accounts	KPMG will meet with key finance staff in the run up to the year end, then monthly thereafter to ensure the Council's closedown timetable is adhered to and where not, appropriate action is taken by the Council.

Risk level	Issue title	Issue description	Code	Response
Medium	<i>Prudential code</i>	<p>The Prudential Code has diminished the advantages previously held by debt-free authorities, and has created an environment where borrowing is no longer the burden it used to be.</p> <p>The Council may seek prudential borrowing to fund future capital expenditure as an alternative to utilising its depleting reserves.</p> <p>By entering into prudential borrowing the Council will need to demonstrate compliance with its prudential indicators and account for the revenue and balance sheet impact of these loans.</p>	Audit of Accounts	<p>KPMG will review the Council’s prudential indicators and accounting treatment of the borrowings and use of those borrowings to fund expenditure.</p> <p>KPMG will also review the Council’s treasury management performance in cases where the Council enters into prudential borrowing in lieu of utilising existing resources.</p>

Risk level	Issue title	Issue description	Code	Response
Medium	<i>Best Value Accounting Code of Practice (BVACOP)</i>	The BVACOP requires the full implementation of the total cost principle in the statement of accounts. The Council will need to demonstrate compliance with this code of practice by incorporating all costs into the Consolidated Revenue Account. It is important that all authorities incorporate any changes to BVACOP consistently to ensure the WGA returns are comparable and efficiency savings can be contrasted.	Audit of Accounts	KPMG will review the methodology for implementing the total cost principle and perform audit procedures during the final accounts stage to validate the process.

Appendix 6 – Helping KPMG to meet Bromsgrove's expectations

Summarised below the standard that KPMG will work to when performing Bromsgrove's audit, alongside the inputs required from the Council to ensure that this standard can be met. This expectation of Bromsgrove's support represents the assumption on which the audit fee has been based. If these assumptions are inaccurate then additional work may be required to complete the audit. This work will be charged to the Council in line within the Audit Commission's grade-related fee structure.

How KPMG will conduct itself		KPMG's expectation of Bromsgrove's support	
Listening to Bromsgrove's concerns	KPMG will be proactive in developing relationships with staff through the Council where its audit work requires their input.	Audit Plan	Brief its staff on key issues affecting the Council. Review and agree the draft plan.
Working together	KPMG will ensure that all recommendations, and in particular those relating to its performance management work, are included within its Annual Audit Letter having been agreed with the relevant officers	Interim Audit & Accounts Audit	Facilitate the completion of internal audits work (particularly on the core financial systems) in good time for its visits. Ensure that key officers are available for the duration of its audit.
	KPMG will ensure that the Section 151 Officer and other key members of staff are kept informed of the progress of its audit work throughout the year.	Annual Audit Letter	Respond to and agree interim reports in good time.

How KPMG will conduct itself		KPMG's expectation of Bromsgrove's support	
	<p>KPMG will liaise with staff at all levels of the Council to ensure that its work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.</p> <p>KPMG will continue to co-ordinate its work with that of internal audit and ensure that KPMG provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.</p> <p>KPMG will always respond promptly to requests for comment on aspects of the Council's operations, where appropriate.</p>	Other work	<p>Ensure that a full draft of the accounts are available at least a week prior to the agreed start date of its audit, and that only agreed adjustments are put into the accounts following receipt of this draft.</p> <p>Produce the documents listed within its prepared by client request by the agreed start date of its audit.</p> <p>Discuss and agree draft reports in good time for the final versions to be presented to Members.</p> <p>Ensure that all action plans are agreed and subsequently followed up.</p> <p>Agree a key Council contact as a focal point for the study or work.</p> <p>Discuss and review its findings so that action plans can be fully completed and implemented.</p> <p>Respond promptly to requests for documents to assist us with its work.</p>