

BROMSGROVE DISTRICT COUNCIL

EXECUTIVE CABINET

27th JUNE 2007

ANNUAL REPORT 2006-07 PARTS 1 TO 4

Leader of the Council Portfolio Holder for Finance	Councillor Roger Hollingworth Councillor Geoff Denaro
Responsible Head of Service	Assistant Chief Executive and Head of Financial Services

1. Summary

- 1.1 To present to Members the Council's Annual Report for 2006/07. There are four parts to the Annual Report:-
- Part 1 – a plain English summary for residents that will be published in the resident's magazine, Together Bromsgrove in July.
 - Part 2 Performance Results (**Appendix 1**);
 - Part 3 Statement of Accounts (**Appendix 2**);
 - Part 4 Summary of Accounts (**Appendix 3**).
- 1.2 In addition, the Council has to produce a Statement of Internal Control and an integrated performance and financial outturn report for Members. The integrated report has been treated as a separate report to Cabinet, while the Statement of Internal Control is included within the Statement of Accounts (**Appendix 2**).
- 1.3 Finally, there have been a number of changes in accounting practice for the 2006/07 accounts, that need to be reported to Members. These are set out in section 3.6 of the report.

2. Recommendations

- 2.1 To consider the information contained in Parts 2, 3 and 4 of the Annual Report (Part 1, in Together Bromsgrove will be based on the approved information contained in Parts 2, 3 and 4).

- 2.2 To recommend to full Council the approval of Part 2, the unaudited Annual Report Performance, in accordance with the Local Government Act 1999 (Best Value).
- 2.3 To recommend to full Council the approval of Part 3, the unaudited Statement of Accounts for the year ended 31st March 2007 in accordance with the Accounts and Audit Regulations 2003 amended 2006.
- 2.4 To recommend to full Council the approval of Statement of Internal Control

3. Background

3.1. Part 1 – Together Bromsgrove

3.1.1 This part of the report is currently being written, as Together Bromsgrove will not be sent out until July; however, some of the key messages that the public summary will contain include:-

- The Council's improved performance on its basket of performance indicators. 38% of our Best Value Performance Indicators were above average for 2006/07, compared to 21% in 2005/06;
- The Audit Commission's Comprehensive Performance Assessment rating of Poor and what the Council is doing to address the recommendations;
- Headline information on the Council's financial management e.g. Council Tax level and actual spending; and
- Information on the Council's priorities including key performance indicators where appropriate and information on plans for the town centre and Longbridge.

3.1.2 The report will be in an innovative plain English newspaper style.

3.2. Annual Report Part 2 – Performance

3.2.1 The Local Government Act 1999 (Best Value) requires that councils' publish their performance results and forward targets for Best Value Performance Indicators by the end of June for the previous year. The statute refers to this report as the "Best Value Performance Plan". The Council has started to use the term "Annual Report" this year, for any aspect of its outturn reporting to improve public understanding of its reporting.

3.2.2 Through the monthly reporting of performance information and the Improvement Plan to Cabinet and the Performance Management Board, Members should be familiar with the information contained in this report (see **Appendix 1**).

3.2.3 Pages 20 onwards of the report provide detailed information on each indicator's performance and future year targets, based on the outturn position; however, the key part of the report is pages 18 and 19, which show that the Council achieved 65% of its target in 2006/07 and was within 10% for another 19%, this compares to 43% and 20% respectively for 2005/06. This suggests improved performance management by the Council. Similarly, 59% of indicators improved in 2006/07, compared to 39% in 2005/06, but most importantly the number of indicators now above the average level of local authority performance is now 38%, compared to 21%. Members who attended the recent Audit Commission feedback meeting on the Comprehensive Performance Assessment report will remember that the Improvement Director stressed that while Best Value Performance Indicators may not be the most interesting of subjects, they are absolutely critical to achieving a Fair Comprehensive Performance Assessment rating which is so important to the Council's national, regional and local reputation. 2007/08 will need to see a similar improvement in performance.

3.3. Annual Report Part 3 - Statement of Accounts 2006-07

3.1 The Accounts and Audit Regulations 2003, amended 2006, require that the Statement of Accounts be presented to a relevant Committee or to the Council meeting as a corporate body for approval.

3.2 The Statement of Accounts for 2006/07 is being reported to Members within the statutory deadline of 30th June 2007.

3.3 The Statement of Accounts 2006/07 is attached at **Appendix 2**. All figures are subject to external audit examination. It is anticipated that KPMG will begin the audit in July 2007.

3.4 Annual Report Part 4 - Summary Accounts 2006-07

3.4.1 Councils are now encouraged to produce summary accounts and to obtain feed back on the form and content of the document. The Summary Accounts are intended to be a user friendly summary of the more detailed and technically complex statutory Statement of Accounts. Summary Accounts were produced for the first time for the 2005/06 accounts. They were available on the Council's web site along with a facility for users to comment. The Summary for 2005/06 was also presented to a focus group in January 2007 and feed back obtained from this has been used in making changes to the format of the 2006-07 document. This is the first year that the Summary Accounts have been presented to Cabinet.

3.5 Statement of Internal Control

3.5.1 The Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Councils' functions and which includes arrangements for the management of risk

and the prevention and detection of fraud and corruption. This statement outlines the internal control system, reviews its effectiveness and sets out the improvements planned for the future.

3.6 Statement of Accounts 2006/07 - Changes in Accounting Practice

- 3.6.1 There are a number of legislative and guidance documents that the Council follows to produce the Statement of Accounts. These include UKGAAP, (United Kingdom Generally Accepted Accounting Practice) Best Value Accounting Code of Practice (BVACOP) and Financial Reporting Standards (FRS); however the main guidance that is followed is the Code of Practice on Local Authority Accounting in the United Kingdom 2006 'A Statement of Recommended Practice' (the 2006 SORP)
- 3.6.2 The 2006 SORP sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003 prepared in accordance with the Accounts and Audit Regulations 2003 and by sections 41 and 42 of the Local Government and Housing Act 1989 to prepare a Statement of Accounts which 'presents fairly' the financial position. The aim of the SORP is to ensure as far as possible a broad consistency of practice and a minimum standard of content enabling electors, council taxpayers and other interested parties to obtain clear information on local government activities.
- 3.6.3 The SORP is annually updated by CIPFA to ensure that local government accounting practice remains in line with changes to national and international financial standards and the 2006 SORP has introduced some major changes to local authority financial statements. These changes are intended to make the financial statements easier to read and bring them more in line with practices in the private sector. These changes include:
- Replacement of the Consolidated Revenue Account with an Income and Expenditure Account and a reconciliation to the General Fund Balance. This change means that this revenue statement now conforms to UK Generally Accepted Accounting Practice (UKGAAP).
 - Replacement of the Statement of Total Movements in Reserves with a Statement Of Total Recognised Gains and Losses (STRGL). This statement summarises the movements in equity on the Balance Sheet. This new statement ensures that local authority accounts converge with UK GAAP.
 - Removal of the requirement for to make capital charges. Again this is in order to comply with UK GAAP. Depreciation continues to be charged in the Income and Expenditure Account.
 - Removal of the requirement to have keep an Asset Management Revenue Account, resulting in the charges previously shown

within this account, such as depreciation and interest payments, being shown on the face of the Income and Expenditure Account and Reconciliation to the General Fund.

- The above changes have no effect on the Council Tax.

3.6.4 The 2006 SORP has also changed the order of the financial statements so the 'core' single entity financial statements are grouped together (i.e. Income and Expenditure Account, Statement of Movement on the General Fund Balance, STRGL, Balance Sheet and Cash Flow Statement). These are followed by the notes to the core statements and the 'supplementary' statements (i.e. Housing Revenue Account and Collection Fund).

3.6.4 Due to the major changes introduced by the 2006 SORP the figures for 2005/06 have been restated to allow for comparison with the 2006/7 figures.

3.6.5 The core financial statements are:

Income and Expenditure Account (I&E Account)

The Income and Expenditure Account shows all the income receivable and expenditure incurred in operating the Council for the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and real projected value of retirement benefits earned by employees in the year i.e. the requirement of FRS 17 Retirement Benefits. The service expenditure analysis complies with the Best Value Accounting Code of Practice and as such may vary slightly from the Service Areas defined in the management structure of the Council.

Statement of Movement on the General Fund Balance

This statement summarises the differences between the Deficit on the I&E Account and the movement on the General Fund Balance. The I&E Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Council is required to raise council tax on a different basis. This statement makes adjustments to ensure that certain transactions in the I&E Account do not affect net expenditure of the Council funded from Revenue Support Grant, National Non Domestic Rates and the Council tax.

The main differences are:-

- Capital expenditure is accounted for as it is financed rather than when the fixed assets are consumed.

- Payment of a share of housing capital receipts to Government shows as a cost in the Income and expenditure account, but is met from useable capital receipts rather than council tax.
- Retirement benefits are charge as amounts become payable rather than as future benefits are earned.

Statement of Total Recognised Gains and Losses

The I&E Account brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. However, the Council may recognise other gains and losses in its Balance Sheet that are not debited or credited to the Income and Expenditure Account. This statement brings these other gains and losses together with the deficit on the I&E Account to show the total movement in the Council's net worth for the year.

The Balance Sheet

This statement shows the Council's overall financial position for all activities as at 31st March 2007. The Council holds £40.981m of Fixed Assets which includes the Council Offices at Burcot Lane, The Dolphin Centre, the Market Hall and various parks and recreation grounds. There is also £373k of intangible assets which relates to capital expenditure which does not create a physical asset, e.g. computer software, but which provides benefit for a period of more than one year.

As at 31st March 2007, the Council held £21.612m of short term investments. This is mainly the funds managed by the Council's external fund managers Invesco and HSBC.

The Cash Flow Statement.

This summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. It excludes internal transactions between accounts that do not involve transactions with third parties. During 2006/07 over £95m passed through the Council bank accounts.

The Housing Revenue Account (HRA)

Although the housing stock was transferred to Bromsgrove District Housing Trust on 29th March 2004, the Council was required to maintain the HRA until the Office of the Deputy Prime Minister approved our application to close the HRA with effect from 4th April 2006. All balances within the HRA have now been transferred to the General Fund.

The Collection Fund

The Collection Fund shows the transactions of the Council in relation to the collection of Council Tax, and National Non-Domestic Rates and

the way in which these have been distributed to the preceptors, the General Fund and the NNDR Pool. It is a statutory requirement for billing authorities to maintain this account.

3.6.6 Statement of Accounts 2006/07 on Display

The Accounts and Audit Regulations 2003, amended 2006, require the Statement of Accounts to be on public display for 20 working days. It will be available at the Council House from Friday 20th July 2007. This will be advertised in the local press. During that time members of the public will be able to inspect accounts and the external auditor will be available on Friday 17th August to receive and answer questions or objections on the accounts

4. Financial Implications

4.1.1 None other than included in the report and the Statement of Accounts.

5. Legal Implications

5.1.1 If the unaudited Statement of Accounts is not referred to Council for approval the Council will not meet its statutory responsibilities and the external auditors will report non-compliance in the Audit Management letter.

6. Corporate objectives

6.1 Improvement Objective - The approval of the Statement of Accounts within the statutory timescale will be assessed by the external auditors in their review for the Use of Resources assessment. Preparation of the Statement of Accounts within statutory timescales is evidence of efficient and effective financial management and reporting arrangements.

7. Risk Management

7.1 The main risks associated with the details included in this report are:

7.1.1 Non compliance with the statutory deadlines.

7.1.2 Qualification of accounts by External Audit.

7.1.3 Ineffective Performance Management

7.2 These risks are being managed as follows:

7.2.1 Non compliance with statutory deadlines

Risk Register: Financial Services

Key Objective Ref.: 6

Key Objective: Effective and Efficient Accountancy Service

7.2.2 Qualification of Accounts by External Audit

Risk Register: Financial Services
 Key Objective Ref.: 6
 Key Objective: Effective and Efficient Accountancy Service

7.2.3 Ineffective Performance Management

Risk Register: Corporate
 Key Objective Ref.: 19
 Key Objective: Effective Business and Performance Management

7.3 Key actions and controls to manage these risks include:

- Detailed timetable in place to monitor actions for final accounts closedown
- Allocation of qualified and professional staff to focus on closure of accounts
- Action plan in place to address Use of Resources issues
- Financial Training for budget holders to ensure awareness of financial regulations and management
- Regular monitoring of BVPIs at Departmental and Corporate Management Team meetings
- Regular review of BVPIs by Members.

8. Customer Implications

8.1 The information will be reported in a plain English way through the resident's magazine Together Bromsgrove. The Summary Accounts will provide a much simplified version of the full Statement of Accounts for our customers.

9. Other Implications

Procurement Issues: None
Personnel Implications: None
Governance/Performance Management: None
Community Safety including Section 17 of Crime and Disorder Act1998: None
Policy: None
Environmental: None
Equalities and Diversity: None

4. Other consulted on the Report

Portfolio Holder	At Cabinet.
Chief Executive	Yes

Corporate Director (Services)	Yes
Assistant Chief Executive	Yes
Head of Service	Yes
Head of Financial Services	Yes
Head of Legal & Democratic Services	Yes
Head of Organisational Development & HR	Yes
Corporate Procurement Team	No

Appendices

Appendix 1 – Annual Report Part 2 - Performance Results.

Appendix 2 – Annual Report Part 3 - Statement of Accounts.

Appendix 3 – Annual Report Part 4 - Summary of Accounts.

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