Sevenoaks DISTRICT COUNCIL

Despatched: 02.09.13

# AUDIT COMMITTEE

**10 September 2013 at 7.00 pm**

**Conference Room, Argyle Road, Sevenoaks**

# AGENDA

**Membership:**

Chairman: Cllr. Grint

Cllrs. Mrs. Bayley, Ms. Chetram, Mrs. Cook, Fittock, McGarvey, Orridge, Mrs. Purves and Towell

| | | Pages | Contact |
|---|---|---|---|
| | **Apologies for Absence** | | |
| 1. | **Declarations of Interest**<br>Any declarations of interest not already registered. | | |
| 2. | **Minutes**<br>To agree the Minutes of the meeting of the Audit Committee held on 11 June 2013, as a correct record. | (Pages 1 - 8) | |
| 3. | **Surveillance Policy - Report of the Chief Surveillance Commissioner** | (Pages 9 - 36) | Christine Nuttall<br>Tel: 01732 227245 |
| 4. | **Statement of Accounts 2012/13 - Outcome of External Audit** | (Pages 37 - 162) | Helen Martin<br>Tel: 01732 227483 |
| 5. | **Annual Governance Statement 2012/13** | (Pages 163 - 180) | Bami Cole<br>Tel: 01732 227236 |
| 6. | **Internal Audit Progress Report** | (Pages 181 - 202) | Bami Cole<br>Tel: 01732 227236 |
| 7. | **Work Plan** | (Pages 203 - 204) | |

To assist in the speedy and efficient despatch of business, Members wishing to obtain factual information on items included on the Agenda are asked to enquire of the appropriate Contact Officer named on a report prior to the day of the meeting.

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For any other queries concerning this agenda or the meeting please contact:
**The Democratic Services Team (01732 227241)**

# AUDIT COMMITTEE

Minutes of the meeting held on 11 June 2013 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)

Cllrs. Mrs. Bayley, Ms. Chetram, Mrs. Cook, McGarvey, Orridge, Mrs. Purves and Towell

Apologies for absence were received from Cllr. Fittock

Cllrs. Ramsay and Mrs. Sargeant were also present.

## 1. Declarations of Interest

There were no additional declarations of interest.

## 2. Responses of the Council, Cabinet or Council Committees to the Audit Committee's reports and/or recommendations (if any)

There were no responses from the Council, Cabinet or Council Committees.

## 3. Presentation on the role of the Audit Committee

The Audit, Risk and Anti-Fraud Manager provided the Committee with a brief presentation on the role and scope of the Audit Committee. The presentation is available on the Council's website at:
http://cds.sevenoaks.gov.uk/ieListDocuments.aspx?CId=288&MId=1609

In response to a question, the Audit, Risk and Anti-Fraud Manager explained that a 'controlled environment' referred to the systems and controls in place designed by management which contributes towards the overall attitude, awareness and actions of management to ensure probity, value for money and good financial management.

## 4. Grant Thornton Update

The Committee received an update from representatives from the Council's external auditor, Grant Thornton. The Committee considered a document that explained the approach that Grant Thornton would be taking as they completed the external audit of 2012/13.

Mr Andy Mack, Mr Geoffrey Bannister and Ms Lauren Masoud, representatives from Grant Thornton, attended the meeting to present the Audit Plan and the Planned Audit Fee for 2013/14. Members heard that the Audit Plan gave an opinion on the accounts as well as giving a conclusion on value for money. Grant Thornton were also responsible for conducting audits on major grant claims, the biggest being Housing Benefits.

The fee letter for 2013/14 proposed that the audit fee be maintained at the same level as 2012/13. This reflected that Sevenoaks District Council was considered to be at the lower end of risk.

In response to a question regarding the definition of a "Whole of Government accounts pack", the District Auditor explained that a summary of the District Council's accounts were returned to government and the Whole of Government accounts pack was produced from these summaries.

The Chairman noted that the District Auditors would be attending Audit Committee meetings throughout the year. At the start of the September meeting Members would be meeting with the District Auditors without Officers present.

A Member reported that she would welcome hearing more about planning for the impact of 2013/14 changes to the Local Government Pensions scheme (LGPS). The Chairman agreed that this should be added to the work plan for a future meeting.

*Action 1: The Group Manager – Financial Services to investigate whether planning for the impact of 2013/14 changes to the Local Government Pensions scheme (LGPS) should be added to the work plan for a future meeting or reported to the Finance & Resources Advisory Committee.*

Resolved: That the report be noted.

5. Housing and Council Tax Benefit Grant - External Audit

The Group Manager Financial Services introduced a report setting out the outcomes of an external audit of the Housing and Council Tax Benefit Grant. The audit of the Housing Benefits claim was amended and qualified and additional testing was required due to the errors found. The Benefits Service had received a 95% increase in the number of customer contacts between April 2011 and April 2013 largely due to the economic climate.

The Chairman noted that the audit fee had increased from £24,406 in 2010/11 to £51,662 in 2011/12 and questioned the reasons for the increase. In response, the Committee heard that the increase was a result of the additional testing that the District Auditor was required to conduct. The District Auditor explained that the Department for Work and Pensions (DWP) stipulated a high degree of accuracy and this meant that claims that were incorrect by a little as 1p were classified as errors and additional testing was required on a larger sample. The error rate found when completing the 2011/12 audit was higher than in previous years and this resulted in extra work and a higher audit fee. This year testing had started earlier and issues were being identified at an earlier stage and referred back to the Service for resolution. Other actions being taken included extra training and quality assurance measures.

The Chairman noted that the Benefits Service was a new joint venture with Dartford Borough Council and that there were likely to be teething difficulties in any new venture. The District Auditor reported that Grant Thornton were also the external auditors for Dartford Borough Council and they now ran an integrated audit approach for the Benefit Service between Dartford Borough Council and Sevenoaks District Council. As a result of the actions that had been taken the Auditors expected to see some improvement but did not expect the service to be completely error free within a year.

The Chairman also noted that the costs of the joint Benefits Service was under review. The Group Manager Financial Services reported that Sevenoaks District Council had been in negotiation with Dartford Borough Council and as Dartford's share of benefit claims had increased they had agreed to increase their level of funding. The funding shares would continue to be negotiated in the future.

Resolved: that the report be noted.

6. <u>Investigations Team Annual Report</u>

The Anti-Fraud Team Manager introduced the report which set out details of the activities of the Anti-Fraud Team during 2012/13 and the Team's work plan for 2013/14. The report also contained the Anti-Fraud Sanctions and Prosecutions Policy which had been updated to take account of changes resulting from welfare reforms.

The Anti-Fraud Team Manager outlined the five key areas of the report:

- Benefit Fraud;
- Council Tax Single Person Discount Awards;
- Single Fraud Investigative Service;
- Priorities for 2013/14; and
- Anti-Fraud, Sanctions and Prosecutions Policy.

A Member noted that there were no targets for money recovered from identifying benefit fraud and questioned whether a cost/benefit analysis had ever been undertaken. In response, the Anti-Fraud Manager reported that jurisdiction for recovering overpayments fell within the Revenue Service. This meant that the Anti-Fraud Team investigated instances of suspected fraud and once action had been taken the case was handed back to the Revenues Service for recovery of the overpayment. There were in fact two different issues, the criminal issue of the fraud and the civil debt issue surrounding recover of any overpayments.

The Chairman also noted that recovery of overpayments was a slow process as there were limits on how quickly overpayments could be recovered.

Members noted that one of the benefits of pursuing prosecutions for any fraud was that the publicity could act as a deterrent.

Resolved: that

(a) The content of the report and the work of the Anti-Fraud Team carried out in 2012/13 and that proposed for 2013/14 be noted; and
(b) The updated Anti-Fraud Sanctions and Prosecution Policy be agreed.

7. New Public Sector Internal Audit Standards

The Audit, Risk and Anti-Fraud Manager introduced a report which provided a summary of the new Public Sector Internal Audit Standards which came into effect on 1 April 2013. The report sets out the key changes which would affect the arrangements for Internal Audit going forward. The new standards had been developed by the standards setters from the mandatory elements of Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The standards are intended to promote further improvement in the professionalism, quality, consistency, and effectiveness of internal audit across the public sector. The standards setters are the Chartered Institute of Public Finance and Accountancy (CIPFA), HM Treasury, the Chartered Institute of Internal Auditors, The NHS, amongst other bodies.

The key objectives of the standards are as follows: :

- To define the nature of internal auditing within the UK public sector;
- To set basic principles for carrying out internal audit in the UK public sector;
- To establish a framework for providing internal audit services which add value to the organisation, leading to improved organisational processes and openness; and
- To establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The report sets out the key mandatory elements of the standards. These impacts on:

- Development of an Internal Audit Charter
- Quality Assurance, in the form of annual internal quality assessments and external quality assessments every five years
- Effective communication between the "Chief Audit Executive" and the audit committee, in particular, with the Chair of the Audit Committee.

Relevant guidance for implementing the new standards is being produced by the relevant professional body CIPFA, in consultation with others. Once this guidance is available, it would be used to inform proposals by management for taking forward the requirements of the standards. Committee members would be informed and consulted regarding these proposals in due course.
The Chairman encouraged Members of the Committee to read the Public Sector Internal Audit Standards as this set the standards that would guide the Committee in its work.

Resolved: That the Public Sector Internal Audit Standards be noted.

8. Annual Review on the Effectiveness of Internal Audit 2012/13

The Audit, Risk and Anti-Fraud Manager introduced a report setting out the outcome of the annual self-assessment of the Council's internal audit function. Regulation 6.3 of the Accounts and Audit Regulations 2011 required the Council to carry out an annual review of the effectiveness of its internal audit function. The review was conducted using the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and standard template. The outcome of the review would feed into the Annual Governance Statement process which would be reported to the September meeting of the Audit Committee and also informed the Audit Manager's Annual Internal Audit Report.

The Audit, Risk and Anti-Fraud Manager explained that the template matrix is set out in three sections; the left hand side sets out the Code Standard in compliance with the CIPFA standard, the middle section sets out the evidence available to meet the standards and the left hand side sets out any areas for further development by the team. The conclusion following the self-assessment is that the Internal Audit Team substantially meets the CIPFA Code Standards and therefore was effective during the period.

The self-assessment by the Audit, Risk and Anti-Fraud Manager was reviewed by Management Team on 29 May 2013; and is required to be signed by the Chair of the Audit Committee after the committee's consideration of this report.

In response to a question from the Chairman, the Audit, Risk and Anti-Fraud Manager reported that many areas for further development addressed the new standards and work was currently underway on other areas of further development.

> Resolved: That the Annual Self-Assessment Review of the Effectiveness of Internal Audit Service 2012/13 be approved.

9. <u>Internal Audit Annual Report 2012/13</u>

The Audit, Risk and Anti-Fraud Manager introduced the Annual Internal Audit report which sets out the achievements of the Internal Audit Team in delivering the assurance requirements for the period April 2012 to March 2013. The report was prepared in compliance with the Accounts and Audit Regulations 2011, and professional guidance from CIPFA, as well as taking account of the outcome of the review of the effectiveness of the Internal Audit function.

Members noted that the definitions of the audit opinions were outlined at the end of the report.

The Chairman suggested that where an audit opinion was 'adequate', the Committee should review the full audit report in greater depth. In light of this Members agreed that the Committee should review the Procurement and IT Implementation reports in greater detail.

The Chairman also suggested that it may be helpful to establish small working groups to review specific issues in greater detail going forward.

A Member also suggested that the Committee should also review contract management.

*Action 2: That a review of audits with an opinion of adequate or below be scheduled in the work plan for a future meeting.*

It was agreed that outside the meeting the Chairman should liaise with Officers to discuss a timetable for conducting reviews and establishing working groups.

The Committee noted that the overall assurance opinion was that Sevenoaks District Council's system of internal control, risk management, governance and anti-fraud arrangements contributed effectively to the proper, economic, efficient and effective use of resources in achieving the Council's objectives. The Audit, Risk and Anti-Fraud Manager read the overall assurance opinion in full.

Resolved: That

(a) The work of the Internal Audit Team for 2012/13 be approved; and
(b) The Audit Manager's Annual Assurance Opinion that the Council had effective internal controls and governance arrangements in place for delivering its objectives and the management of its business risks be supported.

10. Risk Management Report

The Audit, Risk and Anti-Fraud Manager introduced a report setting out details of progress made in delivering the Council's risk management strategy and framework. The report indicated that the revised framework for operational risk is already in place and is being implemented. The framework for strategic risk is being finalised and is expect to be completed shortly. The Committee noted that a more detailed report would be presented to the Committee later in the year once the risk management strategy had been reviewed. The review of the existing arrangements would be undertaken against the new ALARM (Association of Local Authority Risk Management) Risk Management toolkit which the Council had recently acquired. Members noted that the "risk on a page" diagram set out the risk management framework in a summarised form.

The Chairman highlighted that one particular risk within the new officer structure was the absence of the new Chief Executive for an extended period as there was no defined deputy to provide cover which could leave the Council exposed to significant risk. The Group Manager Financial Services reported that this issue had been identified and assessed and a suitable solution would be implemented.

Resolved: That the report be noted.

11. Work Plan

Members noted the work plan for the year. The Chairman noted that the Statement of Accounts would be considered by the Committee in September. As the Statement of Accounts was very detailed, the Chairman suggested that a small working group should be established to review the draft during July.

It was agreed that the following Members would form the working group:

Cllr Grint, Cllr Fittock, Cllr Mrs Bayley, Cllr Mrs Cook and Cllr Ramsay.

The Committee agreed that the working group should have the authority to recommend changes to the Statement of Accounts, ensuring that they still adhere to the statutory regulations, and would report to the September Audit Committee.

Resolved: That a working group be established to review the draft Statement of Accounts in July 2013 and that the working group have authority to recommend changes to the statement of accounts, ensuring that they still adhere to the statutory regulations, and report to the September Audit Committee. The working group to be composed of the following members: Cllr Grint, Cllr Fittock, Cllr Mrs Bayley, Cllr Mrs Cook and Cllr Ramsay.

THE MEETING WAS CONCLUDED AT 8.55 PM

CHAIRMAN

## SURVEILLANCE POLICY – REPORT OF THE CHIEF SURVEILLANCE COMMISSIONER

**Audit Committee – 10 September 2013**

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| Report of | Chief Officer Legal and Governance |
| Status: | For consideration and recommendation to Council |
| Also considered by: | Council – 1 October 2013 |

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**Executive Summary:**

This report recommends the adoption of a revised surveillance policy, following a recent inspection by the Office of the Surveillance Commissioner and the approval of reporting arrangements to Elected Members.

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**This report supports the Key Aim of** effective management of Council resources.

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| **Portfolio Holder** | Cllr. Ramsay |
| **Contact Officer(s)** | Leslie Roberts – ext. 7475 |

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**Recommendation to Audit Committee:** That Council be RECOMMENDED

(a) to note the report of the Chief Surveillance Commissioner;

(b) to adopt the revised Surveillance Policy as set out at Appendix B; and

(c) to agree that an annual report with quarterly updates be made to Councillors through the Members Electronic Portal.

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**Reason for recommendation:** To have a policy that meets with the Office of Surveillance Commissioners' Approval and for the policy to be complied with in order for the Council to carry out lawful covert surveillance.

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### Introduction and Background

1 On the 19th June 1013 the Council was inspected by the Office of the Surveillance Commissioner (OSC). These inspections are carried out on a 3 yearly basis.

2 A copy of the report of the Chief Surveillance Commissioner is attached at Appendix A.

3 Contained within the report are a small number of recommendations, including some minor changes to the Council's surveillance policy. This report therefore seeks the approval of Members to make the required changes to policy as set out at Appendix B.

4 The Regulations of Investigatory Powers Act 2000 (RIPA) introduced a statutory framework for those carrying out a surveillance as part of an investigation. The Protection of Freedoms Act 2012 (2012 Act) amended RIPA to provide additional controls. The internal authorisation process is now followed by external authorisation from a Justice of the Peace.

5 Covert surveillance is surveillance that is carried out in a manner to ensure that persons subject to the surveillance are unaware it is taking place. Covert surveillance can be intrusive (e.g. hiding cameras and microphones in a person's home) or directed.

6 Intrusive surveillance cannot be authorised by a local authority.

7 Directed surveillance is covert but not intrusive and is undertaken

- For the purpose of a specific investigation or operation
- In such a manner as is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purpose of the investigation or operation) and
- Otherwise than by way of an immediate response to events or circumstances

8 For the Council, such activities are most likely to be carried out within the areas of benefit fraud & environmental health.

9 RIPA also regulates the use of Covert Human Intelligence Sources (CHIS). A CHIS is a person who establishes or maintains a relationship with someone in order to covertly obtain information, to provide another person with access to information or to disclose information as a result of that relationship. A common example of a CHIS would be a police informant.

10 The Act requires that specific authorisation be given by approved persons for any directed surveillance undertaken, and for the use of a CHIS. The Council's policy provides that three named Chief Officers may authorise surveillance. The 2012 Act introduced a further tier of authorisation, which requires that following internal authorisation the Council obtain external authorisation from a Justice of the Peace.

11 The Council can only authorise directed surveillance if it is necessary for the purpose of preventing or detecting crime that would be punishable on conviction with a sentence of at least six months imprisonment. This requirement was introduced by the 2012 Act and prevents surveillance being used for what might be considered minor criminal activity.

12 In practice, the District Council seeks to carry out enforcement activity by overt means. For example, when investigating complaints of noise nuisance through the use of monitoring device, officers will advise the alleged perpetrator of its intention to install noise monitoring equipment.

13 If the desired information can be obtained in this way, then it will not be necessary to undertake any covert surveillance and engage the provisions of RIPA. The

Council has granted very few authorisations for directed surveillance. No authorisations have been granted for the use of a CHIS.

14 Whilst this practice of carrying out overt enforcement activity will continue, it is important to keep the surveillance policy under review to ensure that, when covert surveillance or the use of a CHIS is necessary, the District Council can act in accordance with the Human Rights Act 1998.

**Recommendations of OSC**

15 Members will note that the report makes 3 recommendations-

- Elected members of a local authority should review the authority's use of the 2000 Act and set out the policy at least once a year. They should also consider internal reports on the use of the 2000 Act on at least a quarterly basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose. They should not however, be involved in making decisions on specific authorisations.

- The Council ensure that the extant recommendations of 2010 with regard to training is acted upon without delay.

- The future training encompasses the following issues:

  The applicant for directed surveillance understands that they not only have to set out the investigation objectives of the covert activity along with a narrative of the intelligence but an outline of the provenance of the intelligence.

  That the covert activity should be reviewed during the period of authorisation.

16. The above recommendations have been addressed in that it is recommended to Council to agree that an annual report with quarterly updates be made to Councillors through the Members' Electronic Portal.

17. The following training programme has been organised as follows:

Training has been organised for the 11th November 2013 for officers of this Council with Act Now Training which provides practical training sessions with an emphasis on allowing delegates to do their job whilst respecting the law. Delegates will work through a number of real life case studies and exercises in order to discuss issues that commonly arise.

18. An additional matter referred to by the OSC is that the Surveillance Policy would benefit from the addition of a narrative section outlining the process for seeking 'Judicial Approval', which is currently only shown in a flow chart at the end of the document. The Surveillance Policy has been revised accordingly to take into account this suggestion.

**Key Implications**

Financial

19 The operation of the policy has some financial impact upon the Council. The forms to request authorisation are feely available electronically, and links to these are on 'SIMON'. Training on the revised requirements and refresher training was required and incurs both a direct cost in the fees for the external trainer and the loss of productive staff time.

Legal Implications and Risk Assessment Statement.

20 It is important for the Council to have a policy that meets with OSC approval and for the policy to be complied with. Any failure may mean a breach of the Human Rights Act 1998.

Authorisations under RIPA provide lawful authority for the Council to carry out covert surveillance. Failure to comply with the requirements of the Act may render the enforcement activity unlawful, and lead to the exclusion of evidence obtained through surveillance. Any such failure caries both financial and reputational risks to the Council

The attached revised policy set out at Appendix B, training of relevant staff and regular oversight through reporting to Members will ensure that all officers comply with the requirements of RIPA when seeking authorisation under the Act.

Community Impact Outcomes

21 The Council has always sought to carry out surveillance in an overt manner, thus reducing the impact of our enforcement activities on the human rights of our residents. Nevertheless, the use of directed surveillance, where necessary and proportionate, remains an important tool in the prevention or detection of crime or the prevention of disorder.

Equality Impacts

| Consideration of impacts under the Public Sector Equality Duty: | | |
|---|---|---|
| Question | Answer | Explanation / Evidence |
| a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community? | No | Complies with the Human Rights Act 1998 |
| b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity? | Yes | |

| Consideration of impacts under the Public Sector Equality Duty: | | |
|---|---|---|
| Question | Answer | Explanation / Evidence |
| c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above? | | Not applicable |

**Conclusions**

Members are asked to agree the recommendations as set out at the start of this report.

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| **Appendices** | Appendix A – Report of the Chief Surveillance Commissioner<br><br>Appendix B – Council's Surveillance Police Revised |
| **Background Papers:** | Regulatory of Investigatory Powers Act 2000<br><br>Protection of Freedoms Act 2012 |

**Mrs Christine Nuttall**
**Chief Officer for Legal and Governance**

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Office of Surveillance Commissioners

OSC INSP/075

The Rt. Hon. Sir Christopher Rose
Chief Surveillance Commissioner
PO Box 29105
London SW1 1ZU

28th June 2013

**OSC INSPECTION REPORT– SEVENOAKS DISTRICT COUNCIL.**

The inspection took place on Wednesday 19th of June 2013.

**Inspector**

Mr Kevin Davis.

**General Description**

1. Sevenoaks District Council serves a population of approximately 114,000 and covers the western most part of Kent in England. To the North West the district borders with two Greater London Boroughs (Bromley and Bexley) in Swanley, as well as Surrey to the West near Westerham and East Sussex to the South near Edenbridge.

2. The Council provides a range of tier two services and employs in the region of 455 personnel.

3. The Chief Executive is Mr Robin Hales. He is supported by a Chief Executive Designate who has overall responsibility for all service provision.

4 The address for correspondence is Sevenoaks District Council, The Council Offices, Argyle Road , Sevenoaks , Kent TN13 1HG.

**Inspection Approach**

5 The purpose of the inspection was to examine policies, procedures, operations and administration in relation to directed surveillance and covert human intelligence sources (CHIS) under the Regulation of Investigatory Powers Act 2000 (RIPA).

6 During the inspection I had discussions with the following members of staff:

- Ms Christine Nuttall (Chief Officer Legal and Governance)
- Mr Leslie Roberts (Legal Services Manager)
- Mr Glen Moore (Audit)



PO Box 29105 London SW1V 1ZU Tel 020 7035 0074 Fax 020 7035 3114
Web: www.surveillancecommissioners.gov.uk email:oscmailbox@osc.gsi.gov.uk

- Mr Richard Wilson (Environmental and Operational Services)
- Mr Adrian Rowbotham (Finance Services)
- Mr David Whitmarsh (Community and Consultation Manager.

**Review of Progress**

7 His Honour Norman Jones in his inspection report in July 2010 made three recommendations:

*1) Reduce the number of authorising officers and identify them by rank and name.*

**Action**

The number has been reduced and documented in the 'Surveillance Policy' document.

**Discharged**

*2) Establish a structured training programme.*

**Action**

The Council has failed to comply with this recommendation.

**Extant**

*3) Amend the surveillance policy document*

**Action**

The Council has complied with this recommendation.

**Discharged**

**Policies and procedures**

8 The Chief Officer Legal and Governance Ms Christine Nuttall is the Senior Responsible Officer (SRO) in accordance with paragraph 3.28 of the revised Codes of Practice. In interview it was evident that she was keen to ensure compliance. The day-to-day administration of RIPA is managed by the Legal Services Manager Mr Leslie Roberts.

9 Policies and procedures relating to covert surveillance and CHIS are contained in a comprehensive and easy to understand policy document. Following the inspection by HH

Norman Jones in 2010 it was amended to address recommendation three. The document has been further updated (June 2013) in light of the Protection of Freedoms Act 2012, I would suggest that the new version would benefit from the addition of a narrative section outlining the process for seeking 'Judicial Approval', which is currently only shown in a flow chart at the at the end of the document.

10 Paragraph 3.30 of the Covert Surveillance and Property Interference states the following;

*'In addition, elected members of a local authority should review the authority's use of the 2000 Act and set out the policy at least once a year. They should also consider internal reports on the use of the 2000Act on at least a quarterly basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose. They should not however, be involved in making decisions on specific authorisations.*

**In discussions with Mr Roberts it would appear that the above requirement has not been complied with since 2010, I was assured that the matter would be dealt with as a matter of urgency**

11 In addition to the Chief Executive there are three authorising officers who are named in RIPA policy document. The number has been reduced in light of recommendation one of the 2010 inspection report.

**Training**

12 **Mr Roberts has been in post for a period of seven months and has recognised that since 2007 there has not been any formal training delivered within the Council. In light of the Protection of Freedoms Act he has identified a private company to deliver training as a matter of urgency. It is envisaged that this will be undertaken in conjunction with a neighbouring authority.**

**Significant issues**

Council ethos

13 The Council is not a regular user of the powers vested under RIPA. I was informed that the ethos of Council, notwithstanding its legal responsibilities is that it is not afraid to undertake covert activity/enforcement and subsequent prosecution where necessary, but would prefer to secure compliance through education and raising awareness. In light of paragraph ten above, I was unable to find any record of formal discussions within the elected members on the matter.

Central Record of Authorisations

14 The Central Record of Authorisation is compliant with paragraph 8.1 of the revised Code of Practice for Covert Surveillance and Property Interference.

Directed Surveillance

15 Directed surveillance has been authorised on one occasion since the last inspection in September 2012. The authorisation related to an investigation into alleged housing benefit fraud. I examined the paperwork and make the following observations.

16 The applicant set out the investigative objectives of the covert activity along with a narrative of the intelligence **but failed to outline of the provenance of the intelligence. The OSC guidance at note 109 states the following:**

*'To assist an authorising officer to reach a proper judgement, the provenance of the data, information or intelligence on which the application has been made should be clear. It is considered best practice foe law enforcement agencies to utilise standard evaluation nomenclature which grades both the source and the information. While it is not necessary or desirable in the application to spell out in detail the content of intelligence logs, cross referencing to these enables an authorising officer to check detail. Particular care should be taken when using data or information obtained from open or unevaluated sources'.*

17 The issues of proportionality, necessity and collateral intrusion were argued cogently. I was pleased to note that, in order to reduce the collateral intrusion of the proposed surveillance in a residential area, the applicant had suggested a limit of 30 minutes each morning and evening. The applicant was of the opinion that during these two key periods the required intelligence could be obtained.

18 The authorisation was of a good standard and followed the OSC guidance at note 117 i.e. who, what, where, when and how. My only observation is that the authorising officer detailed that the surveillance should be undertaken for a period of one month. The Code of Practice states at paragraph 5.10 states the following;

*'A written authorisation granted by an authorising officer will cease to have effect ( unless renewed or cancelled) at the end of a period of three months beginning with the time at which it took effect'.*

19 The covert activity was not reviewed during the period of authorisation but the cancellation was timely and complied with OSC guidance.

CHIS

20 There have been no authorisations for CHIS since the last inspection. This is an area of covert activity that Council does not believe they have the experience or desire to embark upon.

Focus group

21 I interviewed a focus group of both practitioners and an authorising officer. Despite the lack of recent formal training all had a good knowledge of the legislation and were familiar with the new requirements introduced in the Protection of Freedoms Act 2012. The group supported the ethos of the Council of seeking compliance through education and awareness.

22 There was an interesting discussion with regard to social network sites. Some members of the group utilised SNS as an intelligence gathering tool on a regular basis. Although those interviewed were not familiar with the OSC guidance on the matter I found nothing to indicate any activity that was not compliant with the legislation.

**Observations**

23 Sevenoaks District Council is not a significant user of RIPA but it was evident from the inspection that they are keen to discharge their legal responsibilities appropriately. Though their use may be infrequent there is a need to ensure the correct processes are in place in accordance with the legislation.

Finally, I would to thank all of those who participated so positively in the inspection process, and in particular Mr Leslie Roberts for making all the necessary arrangements.

**Recommendations**

24 The Council ensure that the Code of Practice paragraph 3.30 is complied with as a matter of urgency (see paragraph ten of this report).

25 The Council ensure that the extant recommendation of 2010 with regard to training is acted upon without delay (see paragraph 12 of this report and recommendation two of the 2010 inspection report).

26 That future training encompasses the issues identified in paragraphs 16 and 18 of this report.

Kevin Davis

Surveillance Inspector.

Agenda Item 3

The Rt Hon. Sir Christopher Rose

Office of Surveillance Commissioners

CORPORATE RESOURCES
2 6 JUL 2013
SECRETARIAT

Chief Surveillance Commissioner

25th July 2013

**Restricted**

Dear Mr. Hales,

**Covert Surveillance**

On 19 June 2013, one of my Inspectors, Mr Kevin Davis, visited your Council on my behalf to review your management of covert activities. I am grateful to you for the facilities afforded for the inspection.

I enclose a copy of Mr Davis's report which I endorse. Your Council is not a significant user of RIPA but the officials seen by Mr Davis are keen to discharged their legal responsibilities properly.

The recommendations are that, as a matter of urgency, para 3030 of the Covert Surveillance and Property Interference Code of Practice be complied with, that the 2010 recommendation on training be acted upon without delay and that the future training address the issues indentified in paras 16 and 18 of the report.

I shall be glad to learn that your Council accepts the recommendations and will see that they are implemented.

One of the main functions of review is to enable public authorities to improve their understanding and conduct of covert activities. I hope your Council finds this process constructive.

Please let this Office know if it can help at any time.

Yours sincerely,
Christopher Rose

Mr Robin Hales
Chief Executive
Sevenoaks District Council
Council Offices
Argyle Road
Kent
TN13 1HG

PO Box 29105 London SW1V 1ZU Tel 020 7035 0074 Fax 020 7035 3114
Web: www.surveillancecommissioners.gov.uk
email:oscmailbox@osc.gsi.gov.uk

Office of Surveillance Commissioners

# OFFICE OF SURVEILLANCE COMMISSIONERS

# INSPECTION REPORT

## Sevenoaks District Council

**19th June 2013**

**Assistant Surveillance Inspector:**
**Mr Kevin Davis**

**RESTRICTED covering CONFIDENTIAL**

DISCLAIMER

This report contains the observations and recommendations identified by an individual surveillance inspector, or team of surveillance inspectors, during an inspection of the specified public authority conducted on behalf of the Chief Surveillance Commissioner.

The inspection was limited by time and could only sample a small proportion of covert activity in order to make a subjective assessment of compliance. Failure to raise issues in this report should not automatically be construed as endorsement of the unreported practices.

The advice and guidance provided by the inspector(s) during the inspection could only reflect the inspectors' subjective opinion and does not constitute an endorsed judicial interpretation of the legislation. Fundamental changes to practices or procedures should not be implemented unless and until the recommendations in this report are endorsed by the Chief Surveillance Commissioner.

The report is sent only to the recipient of the Chief Surveillance Commissioner's letter (normally the Chief Officer of the authority inspected). Copies of the report, or extracts of it, may be distributed at the recipient's discretion but the version received under the covering letter should remain intact as the master version.

The Office of Surveillance Commissioners is not a public body listed under the Freedom of Information Act 2000, however, requests for the disclosure of the report, or any part of it, or any distribution of the report beyond the recipients own authority is permissible at the discretion of the Chief Officer of the relevant public authority without the permission of the Chief Surveillance Commissioner. Any references to the report, or extracts from it, must be placed in the correct context.

**RESTRICTED**

# SEVENOAKS DISTRICT COUNCIL

# SURVEILLANCE POLICY

# The Regulation of Investigatory Powers Act 2000

## INTRODUCTION

1. The Regulation of Investigatory Powers Act 2000 (RIPA) is in force to ensure that relevant investigatory powers are used in accordance with the Human Rights Act 1998 (HRA) and The Data Protection Act 1998 (DPA). RIPA sets out a statutory framework for the granting of authority to carry out surveillance. Authority to carry out surveillance must be granted internally by a senior officer and since 01 November 2012 the authorisation must be confirmed by a Justice of the Peace ( Magistrate ).

2. Covert surveillance is surveillance that is carried out in a manner to ensure that the persons subject to the surveillance are unaware that it is taking place. Covert surveillance can be either:

   - Intrusive Surveillance
   - Directed Surveillance

3. Intrusive Surveillance is carried out in relation to anything taking place on any residential premises or in any private vehicle by an individual on the premises or in the vehicle or is carried out by means of a surveillance device. Although a surveillance device not on or in the premises/vehicle will only be intrusive if it consistently provides information of the same quality and detail as might be expected to be obtained from a device actually on or in the premises or vehicle.

4. Directed Surveillance is covert but not intrusive and is undertaken

   - for the purposes of a specific investigation or operation;
   - in such a manner as is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purpose of the investigation or operation);and
   - otherwise than by way of an immediate response to events or circumstances, the nature of which is such that it would not be reasonably practicable for an authorisation to be sought for the carrying out of surveillance.

5. The main area that the Council is concerned with is Directed Surveillance and the Act identifies an authorisation process prior to the commencement of any investigation.

6. Local authorities are not authorised to conduct Intrusive Surveillance.

7. The use of covert human intelligence sources (CHIS) is also regulated by RIPA. A CHIS is a person who establishes or maintains a relationship with someone in order to covertly obtain information, to provide another person with access to information or to disclose information as a result of that relationship.

8. This Policy document sets out the circumstances in which Council Officers will be permitted to undertake a covert surveillance operation and the requirements that will need to be observed in order that the Council does not contravene relevant legislation or the national Codes of Practice issued by the Home Office and the Office of the Information Commissioner.

The Legislation

9. The DPA provides that personal data, which includes personal data obtained from covert surveillance techniques must:

- be fairly and lawfully obtained and processed;
- be processed for specified purposes and not in any manner incompatible with those purposes;
- be adequate, relevant and not excessive;
- be accurate
- not be kept for longer than is necessary;
- be processed in accordance with individuals' rights;
- be secure;
- not be transferred to non-European Economic Area countries without adequate protection

10. Article 8 of the European Convention on Human Rights is relevant in respect of covert surveillance as everyone has the right to respect for his/her private and family life, home and correspondence. In addition, Article 6 is of relevance in relation to covert surveillance as everyone has the right to a fair trial, including internal procedures or hearings and this principle of fairness extends to the way evidence is obtained.

11. RIPA ensures that the individual rights and freedom are protected when carrying out effective law enforcement.

12. Directed Covert Surveillance, including a situation where a CHIS is used, that is likely to result in obtaining private information about a person is permitted by RIPA and associated regulations if such surveillance has been authorised in the manner provided by the Act. Authorisation for Covert Surveillance can be granted by the Authorising Officer of a local authority and a Justice of the Peace if it is for the purposes of preventing or detecting crime or preventing disorder:

Management Structure

13. The Senior Responsible Officer for RIPA compliance is Christine Nuttall, Chief Officer Legal and Governance. This officer is responsible for

- the integrity of the process in place within Sevenoaks District Council to authorise directed surveillance and the use of a CHIS
- compliance with RIPA
- engagement with the Office of the Surveillance Commissioner and inspectors when they conduct their inspections, and
- where necessary, overseeing the implementation of any post-inspection action plans recommended or approved by a Commissioner.
- ensuring all authorising officers are of an appropriate standard in light of any recommendations in the inspection reports prepared by the Office of Surveillance Commissioners.

Day to day responsibility for RIPA compliance will fall to Leslie Roberts, Legal Services Manager & RIPA Monitoring Officer. He will be responsible for

- maintenance of the Central Record of Authorisations
- collation of RIPA authorisations, reviews, renewals and cancellations
- oversight of the RIPA process/ RIPA training
- raising RIPA awareness within the Council

<u>Authorisation</u>

14. This is a two stage process requiring both Internal and external authorisation. Internal Authorising Officers are designated as follows:-

- Richard Morris, Chief Planning Officer;
- Richard Wilson, Chief Officer Environmental & Operational Services;
- Adrian Rowbotham Chief Finance Officer,
- Note that Dr Pav Ramewal the Chief Executive Officer is required to consider some particular types of authorisation but the initial request should be made to one of the above officers.

Ideally, Internal Authorising Officers should not be responsible for authorising their own activities, i.e. those operations/investigations in which they are directly involved. However, it is recognised that this may sometimes be unavoidable especially where it is necessary to act urgently.

All Internal Authorising Officers must have received training on RIPA before being permitted to agree directed surveillance or use of a CHIS.

External authorisation will be required from a Justice of the Peace in all cases following internal authorisation. The completed and signed off form requesting authorisation should be passed to the Legal Services Manager who will contact the Magistrates Court to arrange a date and time for the external authorisation application.

15. Local authorities can only be authorised to use directed surveillance under RIPA to prevent or detect criminal offences that are either punishable, whether on summary conviction or indictment, by a maximum term of at least 6 months' imprisonment or are related to the underage sale of alcohol and tobacco. Applications for authority for directed surveillance or the use of a CHIS must be made in writing to an Internal Authorising Officer using the appropriate application form.

Content

16. The completed application for authorisation for directed surveillance must make the case for its approval hence it shall record:

- the purpose of the specific operation or investigation
- the grounds on which the directed surveillance is necessary e.g. for the prevention or detection of crime, and why the surveillance is necessary on the identified grounds;
- why the directed surveillance is considered to be proportionate to what it seeks to achieve (here, it should be explained what suspicions and/or existing evidence merit continued investigation, what other means of gathering sufficient information have been tried or considered, and therefore why directed surveillance is now the required course of action);*
- the identities, where known, of those to be the subject of directed surveillance (this may include descriptions of physical appearance);
- a detailed description of the surveillance proposed to be undertaken (this should include, for example, the location(s) (including any premises, equipment or vehicles involved) times, method(s), personnel involved);
- an explanation of the information which it is desired to obtain as a result of the authorisation;
- an assessment of the risk of any collateral intrusion or interference affecting any person(s) other than the subject(s) of the directed surveillance, and an explanation of how this will be minimised;**
- suggested dates for the regular review of the authorisation;
- whether it is likely that knowledge of confidential information will be acquired. Confidential information consists of matters subject to legal privilege, confidential personal information or confidential journalistic material. In such a situation a higher level of internal authorisation is

needed being the Chief Executive Officer the internal authorising officer should spell out the ‘5 Ws’ i.e. who, what, where, when, why and how. In particular, they should state why they believe the directed surveillance is necessary, and why they believe it is proportionate to what is sought to be achieved by carrying it out

- for “urgent” cases, a subsequent explanation of why the case was considered to be so urgent that an oral instead of written authorisation was given and/ or why it was not reasonably practicable to seek prior authorisation from the authorising officer;

- details of the applying officer and of the Internal Authorising Officer;

- Each authorisation must be uniquely numbered using the number sequence from the Council’s central record. The officer applying for authorisation must ensure they have obtained the next available sequential number from the RIPA Monitoring Officer before submitting the form for authorisation.

* There is a need to balance the intrusiveness of the activity on the targets and others who might be affected by it against the need for the activity in operational terms. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by less intrusive means. All such activity should be carefully managed to meet the objectives and must not be arbitrary or unfair.

** Those carrying out covert surveillance should inform the Internal Authorising Officer if the investigation/operation unexpectedly interferes with the privacy of individuals who are not the original subjects of the investigation/operation or covered by the authorisation in some other way. In some cases the original authorisation may not be sufficient and consideration should be given to whether a separate authorisation is required.

*** Internal Authorising Officers must pay particular attention to the risks of collateral intrusion or obtaining confidential material in order to ensure that proportionality is observed and the product is protected.

17 The application for authorisation of the conduct or use of a Covert Human Intelligence Source (CHIS) shall record

- How will the source be referred to i.e. pseudonym or reference number;

- Details of the person within the authority (‘the controller’), who will have general oversight of the use made of the source;

- Details of the person responsible for retaining (in secure, strictly controlled conditions, with need to know access), the source’s true identity, a record of the use made of the source and the particulars required under the RIP (Source Records) Regulations 2000;

- The purpose of the specific operation or investigation;

- The purpose for which the source will be tasked or used;

- Details of the proposed covert conduct of the source or how the source is to be used;

- The grounds upon which the use of the source is necessary, and why the use of the source is necessary on the identified grounds;

- Details of any potential collateral intrusion and why this is unavoidable, together with details of any precautions to be taken to minimise this intrusion;

- Details of any particular sensitivities in the local community where the source is to be used; Any other similar activities being undertaken by public authorities that could impact on the use of the source;

- An assessment of the risk to the source in carrying out the proposed conduct;

- Why the conduct or use of the source is proportionate to what it seeks to achieve;

- Whether it is likely that knowledge of confidential information will be acquired. Confidential information consists of matters subject to legal privilege, confidential personal information or confidential journalistic material. In such a situation a higher level of authorisation is needed being the Head of Paid Service or in his/ her absence a Director; **

- The Internal Authorising Officer should spell out the '5 Ws' i.e. who, what, where, when, why and how. In particular, they should state why they believe the conduct or use of the source is necessary, and why they believe such conduct or use is proportionate to what is sought to be achieved by the engagement of the source

- Suggested dates for the regular review of the authorisation;

- For "urgent" cases, a subsequent explanation of why the case was considered to be so urgent that an oral instead of written authorisation was given and/ or why it was not reasonably practicable to seek prior authorisation from the authorising officer;

- Details of the applying officer and of the Internal Authorising Officer;

- .

- Each authorisation must be uniquely numbered using the number sequence from the Council's central record. The officer applying for authorisation must ensure they have obtained the next available sequential number from the RIPA Monitoring Officer before submitting the form for internal authorisation.

** Internal Authorising Officers must pay particular attention to the risks of collateral intrusion or obtaining confidential material in order to ensure that proportionality is observed and the product is protected.

Review

18. Internal Authorising Officers are also responsible for carrying out regular reviews of applications which they have authorised including the review of a CHIS. Such reviews should take place as frequently as is considered necessary and practical. The appropriate form(s) shown at Appendix 1 should be completed.

It is recommended that the Internal Authorising Officer will require reviews to be conducted at intervals of not longer than one month for Directed Surveillance and three months for a CHIS.

Grant Duration and Renewals

19. Following internal authorisation the Legal Services Manager will contact the Magistrates Court to arrange a date and time for the external authorisation application to be made to a Justice of the Peace. The Justice of the Peace will consider the application and either grant or refuse authorisation. An written authorisation will cease to have effect (unless renewed) at the end of a period of three months beginning with the day on which it took effect. In the case of a CHIS the written authorisation will cease to have effect (unless renewed) at the end of a period of twelve months beginning on the day on which it took effect (1 month in the case of Juveniles – see paragraph 27 below).

Urgent oral authorisations will need to be presented to a Justice of the Peace and the authorisation should be recorded in writing by the applicant (and ideally also by the internal authorising officer) as soon as reasonably practicable, and in any event within 72 hours. Unless renewed, urgent oral authorisations will cease to have effect after 72 hours, beginning with the time when the authorisation was granted or renewed.

20. If at any time before an authorisation would cease to have effect, the Internal Authorising Officer agrees it is necessary for the authorisation to continue for the purpose for which it was given, he/she may agree to apply to a Justice of the Peace to renew it in writing for a further period of three months, beginning with the day when the authorisation would have expired but for the renewal. In the case of a CHIS this may be renewed in writing for a further period of twelve months. Applications for the renewal of an authorisation for directed surveillance, or renewal of a CHIS must be made on the appropriate renewal request form(s) shown at Appendix 1.

21. All applications for the renewal of an authorisation for directed surveillance should record:

- whether this is the first renewal or every occasion on which the authorisation has been renewed previously;

- the information as appropriate at 15 above, as it applies at the time of the renewal;
- any significant changes to the information in the previous authorisation;
- the reasons why it is necessary to continue the surveillance;
- the content and value to the investigation or operation of the information so far obtained by the surveillance;
- the results of regular reviews of the investigation or operation

Cancellations

22. An Internal Authorising Officer must cancel an authorisation if he/she becomes satisfied that the surveillance is no longer required or appropriate.

23. Cancellations for directed surveillance or a CHIS must be made using the appropriate cancellation form(s) shown at Appendix 1

Registration

24. The Council's RIPA Monitoring Officer will be responsible for monitoring authorisations and carrying out an annual review of authorisations, reviews, renewals, refusals and cancellations.

25. Authorising Officers will retain copies of all authorisation documents and maintain a register of all requests and authorisations for covert surveillance together with the reasons for any request being denied. All new authorisations will be reported to the Council's Data Protection Officer for consideration as to whether they amount to new uses requiring registration under the DPA.

26. All original authorisations, reviews, renewals, refusals and cancellations must be promptly sent to the RIPA Monitoring Officer along with reasons for refusals, who will maintain a central register of all cases of covert surveillance undertaken by investigation sections of Sevenoaks District Council. These documents will form part of the central register.

    RIPA authorisation forms and any information collected by means of covert surveillance should be retained securely for a period of five years after which time the Authorising Officer must review whether the information should be disposed of or retained for a further length of time. The Authorising Officer should take into consideration the status of any legal proceedings connected to the operation and the likelihood of any future legal action (including action taken by the subject(s) of the surveillance). The reasons for any decision to keep the information for longer than 5 years must be documented and retained with the file. Authorising Officers must not grant authorisation for covert surveillance unless the following have been documented

    - The officer who will be responsible for retaining the information and disposing of the same in a secure manner;

- The physical, technical and organisational measures that have been put in place to prevent unauthorised access to and use of the information obtained by the surveillance exercise;
- The physical, technical and organisational measures that have been put in place to prevent accidental or unauthorised loss of the information obtained by the surveillance exercise;

<u>Matters to be considered by the Internal Authorising Officers</u>

26. Authorisation will only be granted where covert surveillance or use of a CHIS is believed by the Internal Authorising Officer to be necessary and proportionate. The use of overt means should always be considered. If this is not feasible the reason should be given.

28. The Council's requirements for covert surveillance will normally be carefully planned so that the necessary consultancy regarding work assessment, insurance and health and safety can be carried out and the required priorities put in place before surveillance commences.

29. The use of Vulnerable individuals, such as the mentally impaired, for a CHIS purpose should only be authorised in the most exceptional cases (see the Regulation of Investigatory Powers (Juveniles) order 2000 SI No. 2793), and such authorisation can only be given by the Chief Executive. The duration for such an authorisation is one month instead of 12 months. Authorising Officers should also abide by the Home Office Code of Conduct relating to Juveniles.

30. Prior to the authorising of a CHIS, the Internal Authorising Officer shall have regard to the safety and welfare of the CHIS and shall continue to have such a regard throughout the use of the CHIS.

31. Where the use of a CHIS is deployed, a "Handler" (who can be an officer of the Council) should be designated to have the day to day responsibility for dealing with the CHIS and the security and welfare of the CHIS. Further, a "Controller" should be designated to have the general oversight of the use made of the CHIS.

32. Covert surveillance equipment will only be installed with the necessary authorisation of the Council's Authorising Officer. It will only be installed in residential premises if a member of the public has requested help or referred a complaint to the Council and such matter can only be investigated with the aid of covert surveillance techniques. Any permission to locate surveillance equipment on residential premises must be obtained in writing from the householder or tenant. The authorising officer must evaluate whether the use of covert surveillance equipment does not become intrusive surveillance which the Council is not authorised to conduct (see paragraph 3).

    Any request by a Council Officer to a resident to keep a video/audio/written diary as part of a covert evidence gathering exercise will not be regarded as a covert surveillance exercise conducted on behalf of the Council.

33. If a CCTV camera or video camera is to be used, the Authorising Officer must make himself familiar with the product of the surveillance so that he can see if any sensitive material has been captured in order to avoid its publication.

34. The Council may be asked to act on behalf of another, such as a national body in a covert surveillance operation. In addition, the Council itself may use an outside contractor to carry out covert surveillance on its behalf. In either case, it is the principal which issues the authorisation and ensures that the Agent is aware of the scope of the operation, its detailed methodology and its ultimate cancellation. It is the Authorising Officer's responsibility to ensure that this is communicated to the Agent and that the Agent reports back to the Authorising Officer as and when necessary as prescribed by the Authorising Officer.

Examples of when an Authorisation is needed for Directed Surveillance or CHIS

35. Examples of areas of work in which officers may require authorisation are as follows:-

- Revenues and Benefits – benefit fraud
- Planning and Building Control – breach of Enforcement Notices, Breach of Condition Notices, other planning offences
- Highways
- Environmental Services – breach of Abatement Notices, health and safety breaches, hackney carriage offences, public entertainment licensing, fly tipping.

36. If an investigation is being considered, then an authorisation should be obtained if it is the intention not to advise the suspect that his/her activities will be observed.

37. Overt surveillance does not require any RIPA authorisation. Therefore if verbal notification or a letter is sent to the subject of the surveillance notifying them of the kind of surveillance that is proposed, then RIPA authorisation is not required. Registered Post should be used in such circumstances and all letters and other communications should only last for a maximum of 3 months.

38. CCTV systems are normally not within the scope of RIPA since they are overt and not being used for a specific operation or investigation. However where CCTV is used as part of a pre-planned operation of surveillance then authorisation should be obtained, setting out what is authorised, how it will be carried out, that is which cameras are to be used, and what activity is to be caught and held on the tape or disc that results. Control room staff should ensure that they understand the terms of the authorisation and Authorising Officers must notify them of changes. (see paragraphs 30, 31 and 32)

39. Certain levels of surveillance amounting to general observation in the course of law enforcement can be regarded as "low level" surveillance and are consequently outside the RIPA provisions. An example of low level

surveillance is where a Planning Enforcement Officer merely drives past a site to check whether or not planning restrictions are being complied with. However, if Officers revisit the site this would be regarded as systematic and RIPA authority will be required. In addition, Directed Surveillance does not include covert surveillance carried out by way of an immediate response to events which by their nature could not have been foreseen. Therefore emergency call outs to the Duty Liaison Officers are not included.

Complaints

40. RIPA establishes an independent Tribunal. The Tribunal has full powers to investigate and decide any case within its jurisdiction.

Details of the relevant complaint procedure can be obtained from the following address:

Investigatory Powers Tribunal

PO Box 33220

London

SW1H 9ZQ

Policy Availability

41. This policy will be published in accordance with the Council's publication scheme under the Freedom of Information Act 2000.

LOCAL AUTHORITY PROCEDURE: APPLICATION TO A JUSTICE OF THE PEACE SEEKING AN ORDER TO APPROVE THE GRANT OF A RIPA AUTHORISATION OR NOTICE

Local authority investigator wants to use a RIPA technique (directed surveillance, CHIS (covert human intelligence source) or communications data).

Does investigator intend to use directed surveillance?

Yes | No

Is the local authority investigating an offence and does that offence attract a maximum custodial sentence of 6 month or more?

No | Yes

Is the offence being investigated either:
-Section 146/147/147A of the Licensing Act 2003, or
-Section 7 of the Children and Young Persons Act 1993.

No | Yes

Investigator may **not** use directed surveillance. The case should be investigated by other means. Continue to assess if threshold is met **if** further offences come to light as the case progresses.

- Complete RIPA authorisation/ notice form, and seek approval of authorising officer/designated person as per current arrangements.
- Complete application part of the judicial application/order form for JP.

**Within Office Hours**
Local authority investigator to contact Her Majesty's Courts & Tribunals Service (HMCTS) administration at the magistrates' court to arrange a hearing.

Attend court with:
- counter-signed RIPA authorisation/ or notice (for CD authorisations/ notices the signatures may be electronic signatures).
- the accompanying judicial application/order form.
- any other relevant reference or supporting material.

**Outside usual office hours:**

A JP may consider an authorisation out of hours in **exceptional** circumstances. If the authorisation is urgent and cannot be handled the next working day then you should:
- Phone the court's out of hours HMCTS legal staff contact. You will be asked about the basic facts and urgency of the authorisation. If the police are involved in the investigation you will need to address why they cannot make a RIPA authorisation.
- If urgency is agreed, then arrangements will be made for a suitable JP to consider the application. You will be told where to attend and give evidence.
- Attend hearing as directed with two copies of both the counter-signed RIPA authorisation form or notice and the accompanying judicial application/order form.

Outcome

Refuse to approve the grant or renewal and quash the authorisation or notice.

This may be appropriate if the JP considers that an application is fundamentally flawed. The local authority must be given at least 2 business days in which to make representations before the authorisation is quashed. In these circumstances a local authority cannot use the technique and will need to seek fresh authorisation internally before reapplying.

Refuse to approve the grant or re-newal of an authorisation or notice.

The grant or renewal of the RIPA authorisation or notice will not take effect and the local authority may **not** use the covert technique. Local authority may wish to address, for example, a technical error and reapply.

Approve the grant or re-newal of an authorisation or notice.

Technique may be used in this case. Investigator to resubmit to the JP any renewal or authorisation for the use of a different technique in this case.

Obtain signed order and retain original RIPA authorisation/notice.
For CD authorisations or notices, local authority investigator to provide additional copy of judicial order to the SPoC.
If out of hours, a copy of the signed order to be provided to the court the next working day.

# APPENDIX 1

## Forms

- Application for Authorisation to Carry Out Directed Surveillance
- Application for Authorisation of the use or Conduct of a Covert Human Intelligence Source (CHIS)
- Review of a Directed Surveillance Authorisation
- Review of a Covert Human Intelligence Source (CHIS) Authorisation
- Application for Renewal of a Directed Surveillance Authorisation
- Application for Renewal of a Covert Human Intelligence Source (CHIS) Authorisation
- Cancellation of a Directed Surveillance Authorisation
- Cancellations of an Authorisation For the Use or Conduct of a Covert Human Intelligence Source

The forms are available via the Home Office website

http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/

# STATEMENT OF ACCOUNTS 2012/13 – OUTCOME OF EXTERNAL AUDIT

**Audit Committee – 10 September 2013**

| | |
|---|---|
| Report of | Chief Officer – Finance |
| Status: | For Decision |
| Key Decision: | No |

**Executive Summary:** This report sets out the external audit findings of the 2012/13 accounts

**This report supports the Key Aim of** effective management of Council resources.

**Portfolio Holder** Cllr. Ramsey

**Contact Officer(s)** Helen Martin Ext.7483

**Recommendation to Audit Committee:** It be RESOLVED that the Statement of Accounts 2012/13 be approved

**Introduction and Background**

1 A draft statement of accounts was reviewed by a working group from the Audit Committee on 15 July 2013.

2 The external audit of the accounts began on 15 July and the Audit Findings Report in Appendix A sets out the findings and the changes to the accounts agreed as part of the process. The report also sets out the auditor's Value for Money (VfM) conclusion for 2012/13.

3 The external auditor, Andy Mack from Grant Thornton, will attend the meeting to discuss their report on the 2012/13 audit. The accounts are required to be signed off by the end of September.

4 The Audited Statement of Accounts 2012/13 is attached as Appendix B.

5 The format of the statement remains the same as 2011/12 and has been compiled in line with International Financial Reporting Standards (IFRS).

<u>Review by Working Group</u>

6 At the meeting of the working group on 15 August, the Head of Finance explained the most important items in the statement and provided answers to detailed questions raised by Members.

7 Following the working group, the Foreword has been amended to include details of the Councils property assets, and the layout of comparison between budget and outturn has been amended to reflect a commercial account layout. An additional note has been included within the foreword explaining the net assets position if the pension liability figure of £52million had been excluded.

8 In response to Member requests, presentational changes were made to highlight the figures for 2012/13, and to facilitate comparison of information between years.

**Commentary on the Auditor's Report**

Accounting Policies, estimates and judgements

9 There are comments against two accounting areas:

a. Revenue recognition – in the draft statement we had treated the Disabled Facilities grant from central government as Taxation and Non-specific grant income (as previous years). Following interpretation from Grant Thornton this income is now treated as service income. (Grant Note No. 29 refers)

b. Judgements and Estimates - Valuations - We have properties in Swanley that are let at peppercorn rents for charitable purposes and we have included then in our operational assets. The appropriate valuation for operational assets should have been existing use value rather than market value. The initial valuations from our valuers used market values, however following external auditor observations on this point, the valuers have confirmed that the valuation would be the same under both methods and have provided revised valuations on existing use basis.

Audit Findings

10 Grant Thornton have stated that the accounts give a true and fair view of the Council's financial position, and have been properly prepared in accordance with the Code of Practice.

11 The changes made to the statement of accounts following the audit are explained below:

a. Sevenoaks Environmental Park was erroneously included as a Community Asset at the end of March with a 'carrying value' of £171,000. The lease of this park expired in September and was not renewed. The balance sheet has been adjusted. This adjustment did not impact on the amount transferred to the earmarked reserves.

b. The service analysis within the Comprehensive Income and Expenditure statement had merged the costs of 'Central Services to the public' and 'Corporate and Democratic core' which did not meet the disclosure requirements; the expenditure and income lines have now been disaggregated.

c. Grant Income - this relates to the accounting treatment of grant income received from central government and used to fund projects such as Disabled Facilites. In previous years we have treated this as non-specific grant income, however Grant Thornton have advised that this should be treated as service income. (Grant note 29 refers)

d. Housing Benefit Subsidy – Grant note 29 now discloses the housing benefit subsidy (£34.2m in 2012/13) as a grant item.

Value for Money

12 Grant Thornton have issued an unqualified conclusion to our arrangements for Value for Money. They examined our arrangements for securing economy, efficiency and effectiveness in our use of resources and confirm that we have proper arrangements in place. The 'traffic light' indicators for value for money indicators for value for money are all assessed as green.

13 They have noted that our key financial indicators are demonstrating strong performance and a healthy financial position.

14 The Council's track record of good financial performance is considered indicative of robust financial planning arrangements. The 10-year financial plan is considered to reflect best practice, and they observe that we have a strong track record on delivering budgets and savings plans.

15 The high level review undertaken by Grant Thornton examined Council meeting minutes and found these demonstrated a good level of member challenge and engagement, and that the establishment of this Committee has strengthened the governance arrangements.

Summary

16 We would like to express our thanks to Grant Thornton for their efforts in completing the required audit work in time for reporting to this Committee. The Finance Team will be working with Grant Thornton to review the 12/13 Account process to identify any improvements that can be made for future years.

**Key Implications**

Financial

There are no financial implications

Legal Implications and Risk Assessment Statement.

Under section 151 of the Local Government Act 1972 the section 151 officer has statutory duties in relation to the financial administration and stewardship of the authority.

Equality Impacts

| Consideration of impacts under the Public Sector Equality Duty: | | |
|---|---|---|
| Question | Answer | Explanation / Evidence |
| a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community? | No | The recommendation is concerned with sound control of the Councils finances and does not directly impact on services provided to the community |
| b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity? | No | |
| c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above? | | No mitigating steps are required |

**Conclusions**

Members will note that there are no material issues to be brought to the attention of the Committee and that the external auditor expects to issue an unqualified opinion on the financial statements and value for money conclusion.

**Appendices**

Appendix A – Audit Findings 2012/13

Appendix B – Audited Statement of Accounts 2012/13

**Adrian Rowbotham**
**Chief Officer Finance**

Grant Thornton

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

# The Audit Findings for Sevenoaks District Council

**Year ended 31 March 2013**

27 August 2013

**Andy Mack**
**Engagement Lead**
**T 07880 456 187**
**E Andy.L.Mack@uk.gt.com**

**Geoffrey Banister**
**Audit Manager**
**T 07880 456 177**
**E Geoffrey.C.Banister@uk.gt.com**

**Lauren Massoud**
**Executive**
**T 020 7728 3307**
**E Lauren.A.Massoud@uk.gt.com**

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Contents

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Sevenoaks District Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- Collection fund, Journal and housing benefit testing
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of  the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

**Financial statements opinion**

We anticipate providing an unqualified opinion on the financial statements.

We have identified adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The main changes relates to a piece of land no longer owned by the Council, following the surrender of the lease.  We have also made a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are that the financial statements were prepare on time, except for the Annual Governance Statement. However there is scope to improve the quality review of the financial statements to reduce the number of presentational and typographical errors. The finance team have been fully cooperative throughout the audit, providing information on a timely basis.

Further details are set out in section 2 of this report.

**Value for money conclusion**
We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

**Whole of Government Accounts (WGA)**
We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

## Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.
Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.
Our work has not identified any control weaknesses which we wish to highlight for your attention.

## The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Group Manager-financial services and the Finance Manager.

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We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Group Manager-financial services and the Finance Manager.

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## Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**
**August 2013**



 

# Section 2: Audit findings

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 11 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

## Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 11 June 2013.

## Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.



 

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|---|
| 1. | **Improper revenue recognition**<br>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition | • review and testing of revenue recognition policies<br>• testing of material revenue streams<br>• review of unusual significant transactions | Our audit work has not identified any issues in respect of revenue recognition. |
| 2. | **Management override of controls**<br>Under ISA 240 there is a presumed risk of management over-ride of controls | • review of accounting estimates, judgements and decisions made by management<br>• testing of journals entries (this is work in progress)<br>• review of unusual significant transactions | Our audit work to date has not identified any evidence of management override of controls<br>We set out later in this section of the report our work and findings on key accounting estimates and judgments. |



 

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# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Operating expenses** | Operating expenses understated<br><br>Creditors understated or not recorded in the correct period | We have undertaken the following work in relation to this risk:<br>• documented our understanding of processes and key controls over the transaction cycle<br>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively<br>• tested payments for completeness, classification and occurrence | Our audit work has not identified any significant issues in relation to the risk identified |
| **Employee remuneration** | Remuneration expenses not correct<br><br>Payroll tax understated | We have undertaken the following work in relation to this risk:<br>• documented our understanding of processes and key controls over the transaction cycle<br>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively<br>• tested salary payments to ensure they were made to bona fide employees. | Our audit work has not identified any significant issues in relation to the risk identified. |
| **Welfare expenditure** | Welfare benefits improperly computed | We have undertaken the following work in relation to this risk:<br>• documented our understanding of processes and key controls over the transaction cycle<br>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively<br>• tested individual housing benefit cases to ensure that they are correct (this work is in progress) | Our audit work to date has not identified any significant issues in relation to the risk identified. |

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# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Revenue recognition** | • Revenue from the sale of goods and provision of services is recognised when the Council transfers the goods or completes delivery of a service.<br>• Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:<br>- the Council will comply with the conditions attached to the payments; and<br>- the grants or contributions will be received. | The accounting policy is adequately disclosed in line with the requirements of the Code.<br>Following the audit work there is a change in disclosure of grant contribution however the revenue was confirmed to be correctly recognised in 2012/13.<br>Confirmation through testing of compliance with conditions attached to grant payments. | ● |
| **Judgements and estimates** | • Key estimates and judgements include:<br>– useful life of capital equipment<br>– Revaluations / impairments<br>– Provisions<br>– Pensions liability<br>– Impairment of Icelandic investments<br>– Recoverability of debtors | The Council has reached an agreement with Kent County Council over the Edenbridge relief road, clearing the provision.<br>The recoverability of the Icelandic investment appears reasonable based upon information provided to us<br>The Council should ensure that the Valuer consistently values assets as four assets were incorrectly valued at market value rather than existing use at the year end | ● |
| **Other accounting policies** | • We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. | Our review of accounting policies has not highlighted any issues which we wish to bring to your attention | ● |

**Assessment**
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

| | Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on total net expenditure £000 |
|---|---|---|---|---|
| 1 | The Council incorrectly included a asset (Sevenoaks Environment Park) in the balance sheet that was no longer owned. | 171 | (171) | 171 |
| 2 | No separate disclosure in the income and expenditure account for service line 'corporate and democratic core | The amount to be disclosed would be gross expenditure £2,429k and the gross income is £22k | | |
| 3 | The classification of grant income that is used to fund external capital projects under CIPFA's code is required to be included in the service line rather than taxation and non specific grant income | 588<br>(588) | | |
| 4 | The Council should be disclosing  the housing benefit subsidy grant within the grant income Note. Currently missing the disclosure of value | The amount to be disclosed would be £34,220k | | |

# Misclassifications & disclosure changes

The audit identified misclassifications and disclosure notes which required amendments. Management have chosen to amend these and and add the additional disclosures where required.

Examples include:

- Post balance sheet events note not included in the accounts
- Financial instruments note not disclosing assets and liabilities
- Cash flow brackets amended
- Casting errors /spelling mistakes
- Capital expenditure and capital financing (note 31) including incorrect figures
- Note 35 not disclosing the expected long term expected rate of return on assets (not amended)

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# Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

| | Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Reason for not adjusting |
|---|---|---|---|---|
| 1 | **None identified** | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| | | | | |

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

No significant internal control weaknesses identified

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# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| | Issue | Commentary |
|---|---|---|
| 1. | **Matters in relation to fraud** | • We have previously discussed the risk of fraud with the Audit Committee and been made aware of a number of Housing Benefit frauds. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2. | **Matters in relation to laws and regulations** | • We are not aware of any significant incidences of non-compliance with relevant laws and regulations. |
| 3. | **Written representations** | • A standard letter of representation has been requested from the Council. |
| 4. | **Disclosures** | • Our review found no material omissions in the financial statements |
| 5. | **Matters in relation to related parties** | • We are not aware of any related party transactions which have not been disclosed |
| 6. | **Going concern** | • Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis. |

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# Section 3: Value for Money

# Value for Money

## Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

**Securing financial resilience**

Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2013-14 and beyond, its current arrangements for achieving financial resilience are adequate.

We have undertaken a high level review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

In addition, we examined the Council's financial performance on selected financial key performance indicators in comparison to other similar councils. This focused on liquidity ratio, reserve levels borrowing, sickness absence and performance against budget.

We have summarised our assessment against these four areas overleaf.

# Value for Money (Continued)

| Risk Area | Summary Observations | High Level Risk Assessment |
|---|---|---|
| Key Indicators of Performance | The Council's key financial indicators demonstrate a track record of strong performance and a healthy financial position. The working capital ration is high, borrowing is minimised, useable reserve levels are healthy, budgetary control is strong and workforce ratios are favourable. | ● Green |
| Financial Planning | The Council's track record of good financial performance is indicative of robust financial planning arrangements. The 10 year financial plan reflects best practice and has helped to mitigate projected funding shortfalls using risk reserves. This allows the council to take a longer term view in regard to addressing funding shortfalls through service development. | ● Green |
| Financial Governance | We found that significant risks were mitigated by the effectiveness of management processes and review. Council meeting minutes demonstrate a good level of member challenge and engagement and the recent establishment of a discrete Audit Committee has strengthened the governance arrangements. | ● Green |
| Financial Control | The Council has a strong recent track record on delivering budgets and savings plans, which is indicative of a robust financial control framework. Internal audit have given a positive opinion on controls for 2012/13 and this has been reflected in the positive results of the external audit of accounts. | ● Green |

**Challenging economy, efficiency and effectiveness**

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and found this to be satisfactory.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

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# Section 4: Fees, non audit services and independence

# Fees, non audit services and independence

We confirm below our final fees charged for the audit

### Fees

| | Per Audit plan £ | Actual fees £ |
|---|---|---|
| Council audit | 56,641 | estimate 58,641 |
| Grant certification estimate | 30,300 | Work in progress |

**Additional time has been incurred dealing with the misclassification and disclosure changes**

### Fees for other services

| Service | Fees £ |
|---|---|
| None | Nil |

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Section 5: Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

**Respective responsibilities**

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Compliance with laws and regulations | | ✓ |
| Expected auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

# Appendices

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# Appendix A: Action plan

**Priority**
**High** - Significant effect on control system
**Medium** - Effect on control system
**Low** - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---|---|---|---|---|
| 1 | The council should consider building into the financial statements preparation process a comprehensive quality assurance review to identify errors. | medium | It is intended to build in an extra review phase into the timetable next year to reduce the number of quality assurance issues | Group Manager – Financial Services |
| 2 | The Annual Governance Statement should be prepared at the same time as the financial statements ie 30 June | medium | The Council is fully aware of the significance, relevance and importance of the AGS and the processes that supports it. Since the inception of the AGS several years ago, the Council has always prepared and reported the AGS to the relevant committee in early June. This is the first time that it is reported in September. During the second half of 2012/13, the Council underwent significant changes within its senior management structure and governance arrangements. During the prevailing transition, the AGS process was under constant review and could have been finalised in June, as it had been substantially prepared. Some of the key aspects affecting the AGS, i.e. The Internal Audit Manager's Annual Report and the Review of the Effectiveness of IA were reported to committee in June. However it was decided in consultation with management, that for practical reasons, arising out of the transition, it would be preferable for the process to be finalised in time for the publication of the Accounts. This also presented the Council with the opportunity to address key aspects affecting forward governance arising from the transition, which could not have been addressed had the AGS been published in June. Going forward, we intend to finalise the AGS in June of next year. | Group Manager – Financial Services |
| 3 | The Council should ensure that the correct basis of valuation (market value/ existing use) is used by the Valuer | high | Additional details will be provided to the valuer in future to ensure that the correct valuation basis is used. | Group Manager – Financial Services |

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# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVENOAKS DISTRICT COUNCIL**

**Opinion on the Authority financial statements**

We have audited the financial statements of Sevenoaks District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Sevenoaks District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Chief Executive and auditor**

As explained more fully in the Statement of the Chief Executive Responsibilities, the Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Executive; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:
give a true and fair view of the financial position of Sevenoaks District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

**Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we report by exception**

We report to you if:
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

***Respective responsibilities of the Authority and the auditor***

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:
securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Sevenoaks District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

**Certificate**

We certify that we have completed the audit of the financial statements of Sevenoaks District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Andy Mack**
**Director**
**for and on behalf of Grant Thornton UK LLP, Appointed Auditor**

**Grant Thornton House**
**Melton Street**
**Euston Square**
**London**
**NW1 2EP**

**x September 2013**

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# STATEMENT OF ACCOUNTS

# 2012/2013

Sevenoaks
DISTRICT COUNCIL

# CONTENTS

## EXPLANATORY FOREWORD

The explanatory foreword relates to the Statement of Accounts.

### 1. Layout of the Statement of Accounts

The Statement of Accounts consists of the following:

- **The Statement of Responsibilities**, setting out the general responsibilities of both the District Council, and of the Chief Executive Designate, in making proper financial arrangements and in maintaining financial records.

- **The Independent Auditor's report.** The Council's external auditors provide an independent opinion on whether the financial statements present a "true and fair view" of the financial position of the Council at the Balance Sheet date and its income and expenditure for the year. They also report on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources

- The core financial statements:

    i. **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income & Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for tax setting purposes. The line entitled 'Net Increase / Decrease before Transfers to Earmarked Reserves' shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the authority.

    ii. **The Comprehensive Income and Expenditure Statement** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations, and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

    iii. **The Balance Sheet** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.'

iv. **The Cash Flow Statement** shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying Cash flows as Operating, Investing and Financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

v. **Notes to the core financial statements** provide further detailed information.

vi. **The Collection Fund Statement**, together with notes to this account.

## 2. Accounting Practice

The authority has always adopted best practice in the presentation of its accounts as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

These accounts also reflect the CIPFA Service Reporting Code of Practice and, in particular, the service spend analysis shown within the Comprehensive Income and Expenditure Statement is based on this code.

## 3. Comparison of Outturn to Budget

The original budget approved by Council on 21 February 2012 was a balanced budget with no planned contribution to or from the General Fund Reserve. During 2012/13 a supplementary estimate of £15,000 was approved for Christmas car parking.

The final outturn position is a surplus of £256,000.. As approved by Cabinet, this balance was transferred to the Budget Stabilisation Reserve to support future budgets, leaving a nil movement on the General Fund.

The table below shows a comparison of budget and outturn figures in 2012/13

| | Original budget | Revised Budget | Revised Outturn |
|---|---|---|---|
| Council Tax * | ( 9,251 ) | ( 9,251 ) | ( 9,207 ) |
| Governmentt Support | ( 4,646 ) | ( 4,646 ) | ( 5,240 ) |
| Interest Receipts | ( 173 ) | ( 173 ) | ( 358 ) |
| Total Income | ( 14,070 ) | ( 14,070 ) | ( 14,805 ) |
| Planned Contributions to Reserves | 627 | 612 | 612 |
| Contributions to Reserves - New Homes Bonus | - | - | 594 |
| Landesbanki impairment | - | - | 10 |
| Total Expenditure on services | 13,443 | 13,458 | 13,333 |
| Excess of Income over Expenditure | - | - | ( 256 ) |
| Contribution to Budget Stabilisation Reserve | | | 256 |
| (Fav)/Adv variance | - | - | - |

*The Council Tax figure is the Demand on the Collection Fund in the Income and Expenditure Account less Parish Council Precepts.

The main areas of variance in the year were as follows:-

- Pay costs (£186,000 underspent): Almost all services showed an underspend; in some cases these are offset by agency costs (particularly Direct Services).

- Income from fees and charges (£164,000 unfavourable): For the major income sources, Car Parking, Building Control and Planning, the position was very difficult during 2012/13.

- Direct Service Trading Accounts had a year end surplus of £73,000 (including capital charges of £54,000), which was an improvement on the original budget. (See also Note 25)

- Interest and Investment Income was £117,000 better than budget. This was due to the Council holding higher balances than budgeted, which has increased investment income.

- The operators of the Swanley and Sevenoaks market went into voluntary liquidation in August leaving two months rent unpaid. The market operation was re-tendered and new operators started in April 2013.

- The change in impairment of the Landsbanki investment (£9,700) has been charged to the General Fund. Further details are included in Note 12 to the accounts.

- Government grant income for New Homes Bonus of £594,000 was transferred to an earmarked reserve.

4. Assets

Expenditure on non current assets during the year centred on Police Co-location works and commercial vehicle replacements.

Fixed assets owned by the Council include the following:

| Operational Land & Buildings | Non-Operational Assets |
|---|---|
| Central Offices Argyle Road | The Red Deer, Lullingstone Park |
| Swimming Pool/Leisure Centres | 12 Knowle Way, Sevenoaks |
| - Sevenoaks | Land, Inglewood, Sevenoaks |
| - White Oak, Swanley | Shoreham Woods/Timberden Farm |
| - Edenbridge | Glen Dunlop House, Sevenoaks |
| Lullingstone Clubhouse and Pro shop | Stag Theatre, Sevenoaks |
| Dunbrik Depot | 27-37 High Street, Swanley |
| Pavilion/Toilets Holly Bush Rec | Black Boy Public House, Sevenoaks |
| Indoor Bowls Centres | Bus Station Café, Sevenoaks |
| - Sevenoaks | |
| - Swanley | Community Assets |
| Public Conveniences – 7 | Bishops Palace, Otford |
| Bus Facility, Sevenoaks | Bradbourne Lakes, Sevenoaks |
| Surface Car Parks* – 15 | The Shambles, High St, Sevenoaks |
| Stangrove Park Edenbridge | Bartholemew Way Town Park |
| Oxenhill Meadow, Otford | |

* Included Pembroke Road Car Park at March 2013

The lease on Sevenoaks Environmental Park, previously a Community asset, expired in 2012/13 and was not renewed.

5. Pension Fund

The accounts fully comply with IAS 19 (formerly FRS 17) including appropriate adjustments to the Comprehensive Income and Expenditure Statement and Balance Sheet. The pension liability based on IAS 19 is estimated at £52.5m at 31 March 2013, compared to £49.6m at 31 March 2012.

IAS 19 does not have any impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The last actuarial valuation of the pension fund was at March 2010. At that time the District Council's share of the overall deficit was £23m.

The inclusion of the pension liability in the Balance Sheet gives rise to a net Liability of £8,012m; if the Pensions Liability were excluded, the total Net Assets would be £44.515m.

## 6. Internal and External Sources of Finance Available / Borrowing Requirements

At the end of the year, the Council held some £1.7m of capital receipts which could be used to finance future capital spending. The Council is debt-free.

During the year there were net transfers of £1.5m in to the Earmarked reserves. At the end of the year the total of earmarked reserves was £17.6m. of which £4.0m was in the Budget Stabilisation Reserve.

## 7. Other Significant Items

In October 2008 a number of Icelandic banks went into administration. At that time, Sevenoaks District Council had £1m invested with Landsbanki Islands hf. Following the successful outcome of legal test cases in the Icelandic Supreme Court in late 2011, the deposits made by local authorities will rank as priority claims. The administrators have now commenced the process of dividend payments and three such payments have been received amounting to approximately 50% of our claim. The latest assumption is that 100% of the Council's investment (and interest up to 22 April 2009) will be recovered.

## 8. Impact of Current Economic Climate

Economic downturn has had a major impact on financial performance and financial planning. Several income streams have experienced reduced returns, such as from Development Services and Interest from Investments, whilst there is higher demand for housing benefits for example.

Future spending plans have taken into account the likely impact of a continued period of low economic growth, combined with the anticipated scale of grant reduction for local authorities. Large scale budgetary savings are essential in these circumstances and Sevenoaks District Council planned to make £4million of savings over four years starting in 2011/12. Operational efficiency and joint working are a major part of this financial strategy, which aims to ensure that the council can maintain services in the face of cuts and set sustainable budgets in future years.

In trying to ensure the Council has adequate reserves to withstand future financial pressures in the shorter term, a budget stabilisation reserve was created with surplus funds in 2009/10. This is required to manage the impact of significant reductions in grant support in future years.

9. Material Events After the Reporting Date

In April 2013, the Council completed property transactions with Reef Investments for the sale of Pembroke Road car park and lease of 66 London Road and London Road car park. The total consideration was £2.150m. Accounting standards require these properties to be held in the balance sheet at the lower of their sale or carrying values. Note 10 presents the value of these properties at their carrying values of £995,000.

Up to 31 March 2013 the Council collected non-domestic rates on an agency basis for central government and the total amount collected was redistributed to councils as part of overall grant funding arrangements. As from 1 April 2013, under the Business Rates Retention Scheme, the Council has 40% of its Government start-up funding linked to business rates, while the amount distributed centrally is reduced.

With the new arrangements, the Council will assume liability for refunding ratepayers who have successfully appealed against the rateable value of their properties in respect of 2012/13 and earlier years, even though the original amounts were paid over to central government. Hence, when authorities assume these liabilities on 1 April 2013, a provision will need to be recognised. CIPFA guidance recommends that, despite the fact that these amounts relate to 2012/13 and earlier years, authorities should only recognise their respective share on 1 April 2013, as until then no liability rests with the authority. Regulations and an accounting direction to allow this provision to be spread over the five financial years commencing with 2013/14 are awaited. The Council has estimated that a provision of £208,800 be set aside on 1 April 2013 in relation to non-domestic rates appeals based on historical information on appeals and using a prudent calculation of 1.43% of the non-domestic rates yield that is under appeal.

## STATEMENT OF RESPONSIBILITIES FOR THE

## STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Executive Designate.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Chief Executive Designate's' Responsibilities

The Chief Executive Designate is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Executive Designate has:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Chief Executive Designate has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Executive Designate's  Certificate

I hereby certify that the Statement of Accounts for the year ended 31st March 2013 required by the Accounts and Audit (England) Regulations 2012 gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year.

DR PAV RAMEWAL
Chief Executive Designate
28 June 2013

## MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income & Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purpose of setting council tax. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

| | General Fund Balance | Earmarked Reserves Balance | Capital Grants Unapplied | Capital Receipts Reserve | **Total Usable Reserves** | Total Unusable Reserves | **Total Authority Reserves** |
|---|---|---|---|---|---|---|---|
| Notes | | 9 | | | | 20 | |
| | £000 | £000 | £000 | £000 | **£000** | £000 | **£000** |
| **Balance at 31 March 2011** | 3,713 | 13,998 | - | 763 | **18,474** | (14,666) | **3,808** |
| Movement in reserves during 2011/12 | | | | | | | |
| Surplus or (deficit) on the provision of services | 1,942 | | | | 1,942 | | 1,942 |
| Other Comprehensive Income and Expenditure | | | | 13 | 13 | (14,839) | (14,826) |
| **Total Comprehensive Income and Expenditure** | **1,942** | | | **13** | **1,954** | **(14,839)** | **(12,884)** |
| Adjustments between accounting basis & funding basis under regulations (note 8) | 157 | | | (68) | **89** | (89) | - |
| **Net Increase/(Decrease) before Transfers to Earmarked Reserves** | **2,099** | | | **(55)** | **2,044** | **(14,928)** | **(12,884)** |
| Year end balance transferred (to)/ from Budget Stabilisation Reserve | (518) | | | | | | |
| Other transfers to/from Earmarked Reserves | (1,581) | | | | | | |
| Total transfers (to)/from Earmarked Reserves (note 9) | (2,099) | 2,099 | | | - | | - |
| **Increase/(Decrease) in 2011/12** | - | **2,099** | | **(55)** | **2,044** | **(14,929)** | **(12,884)** |
| **Balance at 31 March 2012** | **3,713** | **16,097** | - | **708** | **20,518** | **(29,594)** | **(9,076)** |

| | General Fund Balance | Earmarked Reserves Balance | Capital Grants Unapplied | Capital Receipts Reserve | **Total Usable Reserves** | Total Unusable Reserves | **Total Authority Reserves** |
|---|---|---|---|---|---|---|---|
| Notes | | 9 | | | | 20 | |
| | £000 | £000 | £000 | £000 | **£000** | £000 | **£000** |
| **Balance at 31 March 2012** | 3,713 | 16,097 | - | 708 | **20,518** | (29,594) | **(9,076)** |
| <u>Movement in reserves during 2012/13</u> | | | | | | | |
| Surplus or (deficit) on the provision of services | 853 | | | | 853 | | 853 |
| Other Comprehensive Income and Expenditure | | | | 7 | 7 | 32 | 39 |
| **Total Comprehensive Income and Expenditure** | **853** | | | **7** | **860** | **32** | **(892)** |
| Adjustments between accounting basis & funding basis under regulations (note 8) | 509 | | | 978 | **1,487** | (1,658) | - |
| **Net Increase/(Decrease) before Transfers to Earmarked Reserves** | **1,534** | | | **985** | **2,519** | **(1,626)** | **1,064** |
| Year end balance transferred (to)/ from Budget Stabilisation Reserve | (256) | | | | | | |
| Other transfers to/from Earmarked Reserves | (1,277) | | | | | | |
| Total transfers (to)/from Earmarked Reserves (note 9) | (1,533) | 1,533 | | | - | | - |
| **Increase/(Decrease) in 2012/13** | **-** | **1,533** | | **985** | **2,519** | **(1,626)** | **1,064** |
| **Balance at 31 March 2013** | **3,713** | **17,630** | **-** | **1,693** | **23,037** | **(31,220)** | **(8,184)** |

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

| 2011/12 | | | Note | | 2012/13 | | |
|---|---|---|---|---|---|---|---|
| Gross Exp Restated | Gross Income Restated | Net Exp Restated | | | Gross Exp | Gross Income | Net Exp |
| £000 | £000 | £000 | | | £000 | £000 | £000 |
| 8,839 | (8,163) | 676 | | Central services to the public | 9,390 | (8,041) | 1,349 |
| 1,261 | (27) | 1,234 | | Cultural and related services | 1,019 | (57) | 962 |
| 6,157 | (1,408) | 4,749 | | Environmental and regulatory services | 6,800 | (1,371) | 5,429 |
| 23 | (575) | (552) | 6 | Exceptional item – VAT Refund | - | - | - |
| 5,216 | (1,960) | 3,256 | | Planning services | 3,681 | (1,955) | 1,726 |
| 1,001 | (2,718) | (1,717) | | Highways and transport services | 1,233 | (2,690) | (1,457) |
| 29,089 | (27,460) | 1,629 | | Housing services | 32,001 | (29,155) | 2,845 |
| 2,501 | (12) | 2,489 | | Corporate and Democratic Core | 2,494 | (22) | 2,472 |
| 178 | - | 178 | | Non Distributed Costs | - | - | - |
| 211 | 0 | 211 | | Exceptional Item: Provision for MMI costs | - | - | - |
| 54,476 | (42,323) | 12,153 | 24 | **Net Cost of Services** | 56,618 | (43,291) | 13,326 |
| | | 40 | | Loss/(Gain) on Disposal of Fixed Assets | | | (687) |
| | | (26) | 25 | Net (Surplus)/Deficit from Trading Operations | | | (126) |
| | | 3,366 | | Parish Council Precepts | | | 3,402 |
| | | 6 | | Contributions of housing capital receipts into Government Pool | | | 4 |
| | | 3,386 | | **Other Operating Expenditure** | | | 2,593 |
| | | 207 | 11 | Movement in Fair Value of Investment Property | | | (22) |
| | | (128) | | Interest Payable and similar charges | | | 10 |
| | | 1,091 | 35 | Pensions Interest Cost and expected return on pensions assets | | | 1,554 |
| | | (416) | | Interest and Investment Income | | | (435) |
| | | 754 | | **Financing and Investment Income and Expenditure** | | | 1,107 |

Continued overleaf

| 2011/12 Gross Exp Restated | 2011/12 Gross Income Restated | 2011/12 Net Exp Restated | Note | | 2012/13 Gross Exp | 2012/13 Gross Income | 2012/13 Net Exp |
|---|---|---|---|---|---|---|---|
| | | (247) | 29 | Capital Grants and Contributions | | | (28) |
| | | (12,511) | | Council Tax | | | (12,609) |
| | | (3,752) | 29 | National Non Domestic Rates Redistribution | | | (4,332) |
| | | (1,725) | 29 | Non Service Related Government Grants | | | (909) |
| | | **(18,235)** | | **Taxation and Non Specific Grant Income** | | | **(17,878)** |
| | | **(1,942)** | | **(Surplus) or Deficit on the Provision of Services** | | | **(853)** |
| | | (181) | 10 | (Surplus) or deficit on the revaluation of property, plant & equipment assets | | | (2,073) |
| | | 15,007 | 35 | Actuarial (gains)/losses on pension assets/liabilities | | | 2,034 |
| | | **12,884** | | **Total Comprehensive Income and Expenditure** | | | **(892)** |

## BALANCE SHEET

| 31 March 2012 £000 | Note | | 31 March 2013 £000 |
|---|---|---|---|
| | | **Long Term Assets** | |
| 17,083 | 10,31 | Property, Plant and Equipment | 17,501 |
| - | 38 | Heritage Assets | - |
| 2,835 | 11 | Investment Property | 2,735 |
| - | | Intangible Assets | - |
| - | 16 | Assets held for sale | 995 |
| 404 | 12 | Long Term Investments | 350 |
| 520 | 14 | Long Term Debtors | 504 |
| 20,842 | | **Total Long Term Assets** | 22,086 |
| | | **Current Assets** | |
| 15,277 | 12 | Short Term Investments | 17,203 |
| 8,772 | 15 | Cash and Cash Equivalents | 9,982 |
| 55 | 13 | Inventories | 30 |
| 1,965 | | Short Term Debtors | 1,957 |
| 139 | | Payments in Advance | 128 |
| 26,208 | | **Total Current Assets** | 29,300 |
| | | **Current Liabilities** | |
| (789) | 17 | Receipts in Advance | (2,459) |
| (3,219) | 17 | Short Term Creditors | (3,677) |
| (187) | 18 | Short Term Provisions | (187) |
| (4,195) | | **Total Current Liabilities** | (6,322) |
| 22,013 | | **Net Current Assets** | 22,978 |
| | | **Long Term Liabilities** | |
| (368) | 17 | Long Term Creditors | (367) |
| (1,757) | 18 | Long Term Provisions | (305) |
| (49,641) | 35 | Net Pensions Liability | (52,527) |
| (164) | 29 | Capital Grants Receipts in Advance | (48) |
| (51,930) | | **Total Long Term Liabilities** | (53,247) |
| (9,075) | | **Total Net Assets/(Liabilities)** | (8,184) |

continued overleaf

| 31 March 2012 £000 | Note | continued from previous page | 31 March 2013 £000 |
|---|---|---|---|
| | 19 | **Usable Reserves** | |
| 708 | | Usable Capital Receipts Reserve | 1,693 |
| 16,098 | 9 | Earmarked Reserves | 17,631 |
| 3,713 | | General Fund | 3,713 |
| | 20 | **Unusable Reserves** | |
| 15,702 | | Capital Adjustment Account | 14,991 |
| 4,322 | | Revaluation Reserve | 6,347 |
| (152) | | Accumulated Absences Account | (152) |
| (54) | | Collection Fund | (97) |
| (49,641) | 35 | Pensions Reserve | (52,527) |
| 229 | | Deferred Capital Receipts | 217 |
| (9,075) | | **Total Reserves** | (8,184) |

These financial statements replace the unaudited financial statements authorised at the meeting of the Audit Committee on 10 September 2013.

Dr Pav Ramewal
Chief Executive
10 September 2013

<u>COUNCIL APPROVAL</u>
The Audit Committee, at its meeting on 10 September 2013, approved the Statement of Accounts for year ended 31 March 2013 in accordance with the Accounts and Audit (England) Regulations 2011.

Councillor J Grint
Chairman of the Audit Committee
10 September 2013

## THE CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as Operating, Investing and Financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

| 2011/12 £000 | Note | | 2012/13 £000 |
|---|---|---|---|
| 1,942 | | Net (surplus) or deficit on the provision of services | 853 |
| 1,951 | 21 | Adjustments to net surplus or deficit on the provision of services for non-cash movements | 1,958 |
| (279) | 21 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (772) |
| 3,614 | | Net Cash flows from Operating Activities | 2,039 |
| (674) | 22 | Investing Activities | (834) |
| 4 | 23 | Financing Activities | 5 |
| 2,944 | | Net (increase) or decrease in cash and cash equivalents | 1,210 |
| 5,828 | | Cash and Cash Equivalents at the beginning of the reporting period | 8,772 |
| **8,772** | 15 | **Cash and Cash Equivalents at the end of the reporting period** | **9,982** |

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# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2012, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### b. Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Practice. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. Exceptions to this are payments of regular quarterly accounts (e.g., telephones, electricity) and Penalty Charge Notice income. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

### c. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. The officer responsible for Treasury Management has categorised items on the balance sheet as cash equivalents on this basis.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### d. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

e. Charges to Revenue for Non-Current Assets

Service revenue accounts, central support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisation.

f. Employee Benefits

Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers.

When termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amount payable but unpaid at the year-end.

**Post-employment Benefits**
Employees of the Authority are members of the Local Government Pension Scheme, administered by Kent County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Kent County Council Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are valued using a discount rate based on corporate bond yields. In previous years the Fund used an annualised yield on the iBoxx AA rating over 15 year corporate bond index. At 31 March the Fund will use the Merrill Lynch AA rate corporate bond curve with consideration of the employer's liabilities.

- The assets of the Kent County Council Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

- The change in the net pensions liability is analysed into seven components:

  - current service cost – the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed costs.

  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

  - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- actuarial gains or losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.

- contributions paid to the Kent County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### g. Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

h. Financial Instruments

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. This includes trade creditors and loans.

Financial assets are classified as loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market. This includes investments, trade debtors and loans.

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing, and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Investments are carried at cost. If the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Income and Expenditure Account if this is unlikely to be a temporary fall.

### i. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### j. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

The Council writes off the entire cost to the Comprehensive Income and Expenditure Statement in the year the cost is incurred.

### k. Inventories

Stocks are valued at cost. This is a departure from the requirements of the Code which require inventories to be shown at cost or net realisable value if lower; the effect of the different treatment is immaterial.

l. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually, except when the net book value is under £100,000, to ensure that the carrying value reflects market/fair value. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

m. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

n. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

o. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

## Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. A de-minimis level of £15,000 has been applied.

## Measurement

Assets are initially measured at cost, comprising:

- the purchase price

- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are then carried in the Balance Sheet using the following measurement basis:

- infrastructure, community assets and assets under construction – depreciated historical costs.

- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)

- all other assets – fair value determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains.
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to the material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains),

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### p. Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

The specific purposes of the Council's provisions are explained in a note to the Core Financial Statements.

#### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probably that there will be an inflow of economic benefits or service potential.

### q. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

### r. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset (for example, Disabled Facilities Grants) has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

### s. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

t. Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies for Property, Plant and Equipment as set out in policy 1.o.

At present the Council has no material heritage assets.

2. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

International Accounting Standard 19 has been revised and the new standard will take effect from accounting period starting after 1 January 2013. This standard relates to Pensions and details of the impact of this are recorded in Note 35.

3. Critical Judgements in Applying Accounting Policies

There are no significant critical judgements included in these accounts.

4. Prior Period Adjustment

There are no prior period adjustments.

5. Assumption Made About the Future and Other Major Sources of Estimation Uncertainty

In October 2008 a number of Icelandic banks went into administration. At that time, Sevenoaks District Council had £1m invested in Landsbanki Islands hf at an interest rate of 6.32% and a maturity date of 25 June 2009. Action in the Icelandic courts resulted in a decision that the deposits made by local authorities (including interest up to the bankruptcy reference date of 22 April 2009) rank as priority claims. The latest information from the bank's Winding Up Committee is that the investment and interest will be returned in full by 2019.

6. Material Items of Income and Expense

There were no material items of income or expense during 2012/13.

A VAT refund of £552,000 was received in respect of overpaid VAT relating to a period prior to 1996 for trade refuse. That payment was a one-off opportunity and included statutory interest payable in cases of official error.

7. Events After the Balance Sheet Date

The Statement of Accounts were authorised for issue by the Chief Executive on 10 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## 8. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

### General Fund Balance

The General Fund is the statutory fund which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

### Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

### Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2012/13

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure statement: | | | | |
| Charges for depreciation and impairment of non-current assets | 876 | | | (876) |
| Movements in the market value of Investment Properties | (23) | | | 23 |
| Capital grants and contributions applied | (616) | | | 616 |
| Non Specific Capital Grants | - | | | - |
| Revenue expenditure funded from capital under statute | 883 | | | (883) |
| Amount of non-current assets written off on disposal or sale as part of the (gain) /loss on disposal to Comprehensive Income and Expenditure Statement | (859) | 1,046 | | (187) |
| Amount by which finance cost calculated in accordance with the Code are different from the amount of Finance Costs calculated in accordance with statutory requirements. | - | | | - |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:** | | | | |
| Capital expenditure charged against the General Fund Balance | (657) | | | 657 |
| Capital Grants and Contributions unapplied credited to the Comprehensive Income and Expenditure Statement | - | | - | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | - | - |
| Finance Lease SI454 Income | 5 | | | (5) |

c

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Movement in UnUsable Reserves |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | (64) | | 64 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | 4 | (4) | | |
| **Adjustments primarily involving the Pensions Reserve:** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 3,680 | | | (3,680) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (2,828) | | | 2,828 |
| **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 44 | | | (44) |
| **Adjustments primarily involving the Accumulated Absences Account:** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements | - | | | - |
| **Total Adjustments** | 509 | 978 | - | 1,487 |



16

2011/12 Comparative figures

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure statement: | | | | |
| Charges for depreciation and impairment of non-current assets | 920 | | | (920) |
| Movements in the market value of Investment Properties | 207 | | | (207) |
| Capital grants and contributions applied | (1,069) | | | 1,069 |
| Non Specific Capital Grants | - | | | - |
| Revenue expenditure funded from capital under statute | 1,018 | | | (1,018) |
| Amount of non-current assets written off on disposal or sale as part of the (gain) /loss on disposal to Comprehensive Income and Expenditure Statement | 40 | 57 | | (97) |
| Amount by which finance cost calculated in accordance with the Code are different from the amount of Finance Costs calculated in accordance with statutory requirements. | - | | | - |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:** | | | | |
| Capital expenditure charged against the General Fund Balance | (1,144) | | | 1,144 |
| Capital Grants and Contributions unapplied credited to the Comprehensive Income and Expenditure Statement | - | | - | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | - | - |
| Finance Lease SI454 Income | 4 | | | (4) |

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Movement in UnUsable Reserves |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | (119) | | 119 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | 6 | (6) | | |
| **Adjustments primarily involving the Pensions Reserve:** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 3,021 | | | (3,021) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (2,899) | | | 2,899 |
| **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 53 | | | (53) |
| **Adjustments primarily involving the Accumulated Absences Account:** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements | - | | | - |
| **Total Adjustments** | 157 | (68) | - | 89 |

## 9. Transfers To/From Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12 and 2012/13.

| | Balance at 31Mar 2011 £000 | Transfers Out 2011/12 £000 | Transfers In 2011/12 £000 | Balance at 31Mar 2012 £000 | Transfers Out 2012/13 £000 | Transfers In 2012/13 £000 | **Balance at 31Mar 2013 £000** |
|---|---|---|---|---|---|---|---|
| **General Fund:** | | | | | | | |
| Financial Plan | - | - | 5,812 | 5,812 | (588) | - | **5,224** |
| Budget Stabilisation | 2,265 | (362) | 863 | 2,766 | (120) | 1,405 | **4,051** |
| Housing Benefit Subsidy | 1,192 | | 159 | 1,351 | (488) | 158 | **1,021** |
| Asset Maintenance | 4,315 | (3,387) | 72 | 1,000 | - | - | **1,000** |
| First Time Sewage | - | - | 915 | 915 | - | - | **915** |
| Pension Fund Valuation | - | - | 349 | 349 | - | 460 | **809** |
| New Homes Bonus | - | (120) | 335 | 215 | (215) | 594 | **594** |
| Local Plan/ LDF | 574 | (71) | 62 | 565 | (45) | - | **520** |
| Vehicle Renewal | 564 | (803) | 531 | 292 | (273) | 489 | **508** |
| Community Development | 418 | (6) | 58 | 470 | (64) | 54 | **460** |
| Action & Development | 314 | (19) | - | 295 | - | 100 | **395** |
| Re-organisation | 358 | (21) | 141 | 478 | (192) | 100 | **386** |
| IT Asset Maintenance | - | - | 121 | 121 | - | 193 | **314** |
| Vehicle Insurance | 264 | - | 23 | 287 | (10) | - | **277** |
| Homelessness | 60 | (7) | 81 | 134 | (31) | 94 | **197** |
| Carry forward Items | 341 | (224) | 105 | 222 | (113) | 35 | **144** |
| Rent Deposit / Guarantee | 179 | (15) | 18 | 182 | (85) | 15 | **112** |
| Big Community | - | (17) | 120 | 103 | (63) | 70 | **110** |
| Housing Benefit | 89 | (23) | - | 66 | (5) | 25 | **86** |
| Local Strategic Partnership | 111 | (29) | - | 82 | (6) | - | **76** |
| District Elections | 82 | (45) | 16 | 53 | - | 17 | **70** |
| Repayable Housing Grant Assistance | 14 | - | 3 | 17 | - | 45 | **62** |
| Economic Dev. | - | - | 60 | 60 | - | - | **60** |
| Transportation | 80 | (80) | - | - | - | - | - |
| Pension Fund Deficit | 2,569 | (2,569) | - | - | - | - | - |
| Other Reserves (under £50,000) | 209 | (9) | 62 | 262 | (36) | 13 | **239** |
| **Total** | 13,998 | (7,807) | 9,906 | 16,097 | (2,333) | 3,867 | 17,631 |

The purpose of these earmarked reserves are shown below:

- Financial Plan – Funds moved from the Asset Maintenance Reserve and Pension Fund Deficit Reserve to support the 10-year budget strategy.
- Budget Stabilisation - To support decisions required to continue to produce a balanced budget in future years in spite of expected funding reductions.
- Housing Benefit Subsidy - Provides a cushion against large movements in reclaimable sums in any year.
- Asset Maintenance – To fund emergency asset maintenance works.
- First Time Sewerage – Transferred from a provision for potential liabilities relating to earlier sewerage installations.
- Pension Fund Valuation - To contribute towards the expected downturn at the next pension fund actuarial valuation.
- New Homes Bonus - Due to the uncertainty of future Government funding an element of the New Homes Bonus is being kept separate until further information is received
- Local Plan / LDF - To help support the Local Plan and LDF.
- Vehicle Renewal - Funding for future commercial vehicle replacements.
- Community Development - To fund ongoing and future projects.
- Action and Development - To fund ad hoc expenditure e.g. resulting from an emergency.
- Re-organisation - To fund actions taken to achieve annual budget savings.
- IT Asset Maintenance – To fund future IT asset maintenance costs.
- Vehicle Insurance - Provides own damage cover on the council's commercial vehicle fleet.
- Homelessness Prevention – For preventing homelessness.
- Carry Forward Items - For specific items agreed by cabinet.
- Rent Deposit / Guarantee - To support the homeless etc, by providing their initial deposit and guarantee for a property.
- Big Community – To fund to local projects.
- Housing Benefit Section – To meet the varying demand of administering Housing Benefits.
- Local Strategic Partnership - Grant received for the Local Area Agreement to be passed on to Local Strategic Partnerships.
- District Elections - To finance local elections.
- Repayable Housing Assistance – Part of the grant may be repayable when the conditions are no longer met e.g. house sold
- Economic Development - To support economic development
- Transportation - For uncertainty relating to concessionary fares transfer to KCC.
- Pension Fund Deficit - To meet some of the back funding element. The remaining balance has been moved into the Financial Plan Reserve.
- Other - Other small reserves set aside.

## 10. Property, Plant and Equipment

Movements on Balances
Movements in 2012/13:

| | Land and Buildings | Vehicles, Plant & Equipment | Community Assets | Operational Property for sale | Total Property, Plant Equipment |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | |
| At 1 April 2012 | 20,838 | 7,771 | 383 | - | 28,992 |
| Additions | 173 | 281 | - | - | 454 |
| Revaluation increases/ (decreases) recognised in: | | | | | |
| - Revaluation Reserve | 1,692 | - | - | - | 1,692 |
| - Surplus or Deficit | - | - | - | - | - |
| Derecognition – Disposals | (37) | (32) | (172) | - | (241) |
| Derecognition – Other | - | 68 | - | - | 68 |
| Reclassifications | (1,036) | - | - | 1,036 | - |
| At 31 March 2013 | 21,630 | 8,088 | 211 | 1,036 | 30,965 |
| | | | | | |
| Accumulated Depreciation and Impairment | | | | | |
| At 1 April 2012 | (6,372) | (5,536) | - | - | (11,909) |
| Depreciation Charge | (170) | (687) | - | (21) | (878) |
| Depreciation written out to the | | | | | |
| - Revaluation Reserve | 381 | - | - | - | 381 |
| - Surplus/ Deficit on the Provision of Services | - | - | - | - | - |
| Derecognition – Disposals | 5 | - | - | - | 5 |
| Derecognition Other | - | (68) | - | | (68) |
| Reclassifications | 20 | | | (20) | - |
| At 31 March 2013 | (6,136) | (6,291) | - | (41) | (12,468) |
| | | | | | |
| Net Book Value | | | | | |
| As at 31 March 2012 | 14,464 | 2,236 | 383 | - | 17,083 |
| As at 31 March 2013 | 15,494 | 1,797 | 211 | 995 | 18,497 |

Comparative Movements in 2011/12:

| | Land and Buildings | Vehicles, Plant & Equipment | Community Assets | Assets under Construction | Total Property, Plant Equipment |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | |
| At 1 April 2011 | 19,321 | 7,465 | 383 | 949 | 28,118 |
| Additions | 451 | 879 | - | - | 1,330 |
| Revaluation increases/ (decreases) recognised in: | | | | | |
| - Revaluation Reserve | 118 | - | - | - | 118 |
| - Surplus or Deficit | - | - | - | - | - |
| Derecognition – Disposals | - | (574) | - | - | (574) |
| Derecognition - Other | - | - | - | - | - |
| Reclassifications | 949 | - | - | (949) | - |
| At 31 March 2012 | 20,839 | 7,770 | 383 | - | 28,992 |
| Accumulated Depreciation and Impairment | | | | | |
| At 1 April 2011 | (6,241) | (5,294) | - | - | (11,535) |
| Depreciation Charge | (197) | (723) | - | - | (920) |
| Depreciation written out to the | | | | | |
| - Revaluation Reserve | 63 | - | - | - | 63 |
| - Surplus/ Deficit on the Provision of Service | - | - | - | - | - |
| Derecognition – Disposals | - | 483 | - | - | 483 |
| Derecognition - Other | - | - | - | - | - |
| At 31 March 2012 | (6,375) | (5,534) | - | - | (11,909) |
| Net Book Value | | | | | |
| As at 31 March 2011 | 13,080 | 2,171 | 383 | 949 | 16,583 |
| As at 31 March 2012 | 14,464 | 2,236 | 383 | - | 17,083 |

:

**Depreciation**

The following useful lives have been used in the calculation of depreciation:

- Buildings - up to 60 years
- Vehicles - up to 7 years
- Equipment - up to 5 years

**Capital Commitments**

At 31 March 2013, there were no significant sums outstanding on capital contracts.

**Revaluations**

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years.

The freehold and leasehold properties which comprise the Authority's property portfolio have been valued as at 31st March 2013, by external independent valuers, I. Dewar FRICS IRRV MCIArb, R. Messenger BSc FRICS IRRV MCIArb, S. Layfield FRICS IRRV and A. Williams Dip BSc (Hons) MRICS IRRV of Wilks, Head and Eve, Chartered Surveyors. Valuations have been made on the undermentioned bases in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors, except that not all the properties were inspected. This was neither practicable nor considered by the valuer to be necessary for the purpose of the valuation.

Plant and machinery that forms part of a building is included in the valuation.

Properties regarded by the Authority as operational were valued on the basis of Existing Use Value or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost. Useful economic lives for these properties are generally 35 years.

Properties regarded by the Authority as investment properties have been valued on the basis of market value, again with useful economic lives of generally 35 years.

Vehicles, plant and equipment in the balance sheet relate to the Council's commercial vehicle fleet, computer equipment, fitness equipment in the leisure centres, air quality monitoring equipment, CCTV equipment and playground equipment. Most equipment is depreciated over 5 years, with some larger commercial vehicles over 7 years.

The following statement shows the progress on the Council's rolling programme for the revaluation of Property, Plant and Equipment:

| | Land & Buildings £000 | Vehicles, Plant & Equipment £000 | Community Assets £000 | Land and Buildings for sale £000 | TOTAL £000 |
|---|---|---|---|---|---|
| Carried at historical cost | | 8,086 | 211 | - | 8,297 |
| Valued at current value in: | | | | | |
| 2012/13 | 5,908 | - | - | - | 5,908 |
| 2011/12 | 1,335 | | | 940 | 2,275 |
| 2010/11 | 1,226 | - | - | - | 1,226 |
| 2009/10 | 9,401 | - | - | - | 9,401 |
| 2008/09 | 3,764 | - | - | 95 | 3,859 |
| Total | 21,634 | 8,086 | 211 | 1,035 | 30,966 |

**Events after 31st March 2013**

In April 2013, the Council completed property transactions with Reef Investments for the sale of Pembroke Road car park and lease of 66 London Road and London Road car park. The total consideration was £2.150m. Accounting standards require these properties to be held in the balance sheet at the lower of their sale or carrying values. This note presents the value of these properties at their carrying values.

## 11. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Rental income from investment property | 55 | 81 |
| Direct operating expenses from investment property | - | - |
| Net gain/(loss) | 55 | 81 |

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Balance at start of the year | 2,835 | 3,047 |
| Disposals | (122) | (5) |

| | | |
|---|---|---|
| Net Gains/ (losses) from fair value adj | 22 | (207) |
| Transfers from Property, Plant & Equipment | - | - |
| Other Changes | - | - |
| Balance at end of the year | 2,735 | 2,835 |

12. <u>Financial Instruments</u>

The investment figures are made up mainly of surplus capital and revenue reserve balances. The investments are placed with recognised financial institutions. These are classified in the loans and receivables category of financial instruments, having fixed or determinate payments and not quoted in an active market.

Balances due to our trade creditors and from our trade debtors are also included here.

The balances, which include the principal and the interest accrued, at the year end can be analysed as follows:

| | 2012/13<br>£000 | 2011/12<br>£000 |
|---|---|---|
| Long-term Investments: | | |
| Financial Institutions | 350 | 404 |
| Building Societies | - | - |
| Other Local Authorities | - | - |
| | 350 | 404 |
| Short-term Investments: | | |
| Financial Institutions | 11,196 | 8,266 |
| Building Societies | 4,004 | - |
| Other Local Authorities | 2,002 | 7,011 |
| | 17,202 | 15,277 |
| **Total Investments** | 17,552 | 15,681 |
| Debtors | | |
| - loans and receivables long term | 504 | 520 |
| - loans and receivables short term | 859 | 381 |
| **Total Receivables** | 1,363 | 901 |
| Creditors | | |
| - Creditors – long term | (367) | (368) |
| - Creditors – short term | (1,042) | (704) |
| **Total Creditors** | (1,409) | (1,072) |

Short-term investments are those that were placed for a period in excess of three months and fall to be repaid within one year of the balance sheet date. Long-term investments were placed for over one year. Investments placed for less than three months are treated as cash or cash equivalents.

## Fair value of assets carried at amortised cost

Financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Market rates at 31 March 2013 for comparable instruments with the same duration,
- An impairment has been recognised for the investment with Landsbanki Islands hf.

| | 31 March 2013 | | 31 March 2012 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £000 | £000 | £000 | £000 |
| Loans and receivables | 26,575 | 26,756 | 23,692 | 23,807 |

The fair value is greater than the carrying amount because the Authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

## Disclosure of nature and extent of risks arising from financial instruments

The Authority’s activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have the funds available to meet its commitments to make payments.
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

The Council’s overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. Risk management is carried out by the Council in the following ways:

- Formal adoption of the requirements of the CIPFA Treasury Management Code of Practice and Treasury Policy Statement.
- Approving annually in advance prudential and treasury indicators for the following three years and an Annual Treasury Management Strategy.

These policies are implemented by treasury management officers and the Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

## Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy. The Council uses the creditworthiness service provided by its treasury management consultant. Deposits are not made with banks and financial institutions unless they comply with the sophisticated modelling approach that combines credit ratings as the core element with other subjective overlays. In addition, the Council has the following policies:

- Minimum long term credit rating, as assessed by Fitch, of A.
- Maximum investment period of one year.
- Investments are limited to 25% of the total fund to any single institution or institutions within a group of companies
- Total investments in any one EU country outside of the UK is limited to 15% of the total fund.
- Investment in other foreign countries is no longer permitted.
- No more than £5m (or £6m including call accounts) per counterparty.

The Strategy also permits investment with other local authorities and the UK Government's Debt Management Office for periods up to 1 year and six months respectively. Money Market Funds are also utilised with a maximum deposit of £5m in each.

There was only one small breach of the Council's counterparty criteria during the reporting period. This occurred over a weekend in September 2012, when the total held with Barclays Bank plc amounted to £6.4m, compared with the limit of £6m. This was corrected immediately after the weekend.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £19.4m at 31 March 2013 cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each institution. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2013 that this was likely to crystallise.

The only historical experience of default relates to the Landsbanki Islands hf investment detailed below. Currently, investments are only being made with UK institutions. In all cases to date, the Government and/or another building society or bank has stepped in to rescue a failing institution, leading to no defaults by UK institutions.

<u>Icelandic Bank Defaults</u>

In October 2008 a number of Icelandic banks went into administration. At that time, the Council had £1m invested with Landsbanki Islands hf as follows:

| | Date invested | Maturity date | Amount invested £000 | Interest rate % | Carrying amount £000 | Impairment £000 | Principal default % |
|---|---|---|---|---|---|---|---|
| Landsbanki | 25/6/07 | 25/6/09 | 1,000 | 6.32 | 425 | 165 | 0 |

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Council will be determined by the administrators/receivers. The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest available information, the Council considers it appropriate to make an impairment adjustment for the deposit and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of future payments to be made by the administrators/receivers, it is likely that further adjustments will be made to the accounts in future years.

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008, its domestic assets were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Following the decision of the Icelandic Supreme Court to grant Priority status to UK local authorities, the winding up board has made a series of distributions to creditors in a basket of currencies.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is currently earning interest at a rate of 4.17%. This element of the distribution has been retained in Iceland due to currency controls operating there and, as a result, is subject to exchange rate risk, over which the Council has no control. The value of the escrow account, together with accrued interest, has been estimated to be just over £8,000 as at the balance sheet date.

The current position on estimated future payouts is as shown in the following table and the Council has used these estimates to calculate a likely impairment based on recovering 100p in the £.

| Date | Repayment |
|---|---|
| Received in 2011-12 | 30.00% |
| Received in May 2012 | 12.20% |
| Received in October 2012 | 6.20% |
| December 2013 | 7.00% |
| December 2014 | 7.00% |
| December 2015 | 7.00% |
| December 2016 | 7.00% |
| December 2017 | 7.00% |
| December 2018 | 7.00% |
| December 2019 | 9.60% |

Recovery is subject to the following uncertainties and risks:

- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and the settlement of the Council's claim, which may be denominated wholly or partly in currencies other than sterling.

Recoveries are expressed as a percentage of the Council's claim in administration, which validly includes interest accrued up to the bankruptcy date of 22 April 2009.

The total impairment (principal plus interest not received) in the financial years up to and including 2012/13 has been recognised in the Income and Expenditure Account. As at 31 March 2012 the impairment was £156k and at 31 March 2013 this had increased by £9k to a total of £165k. This impairment has been calculated by discounting the assumed cash flows at the effective rate of interest of the original deposit in order to recognise the anticipated loss of interest to the Council until monies are recovered. Adjustments to the assumptions will be made in future years' accounts as more information becomes available.

## Liquidity Risk

The Council ensures that it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft and standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its service objectives.

The Council is also required to provide a balanced budget by the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Thus, there is no significant risk that it will be unable to raise finance to meet its commitments.

The treasury management team monitors cash flow on a daily basis and takes into account known future spending patterns.

The maturity analysis of financial assets (excluding the Icelandic investment) is as follows:

| | 31 March 2013 | 31 March 2012 |
|---|---|---|
| | £000 | £000 |
| Less than 1 year | 22,856 | 24,231 |
| Between 1 and 2 years | 4,000 | - |

## Refinancing and Maturity Risk

This risk relates to the maturing of both longer term financial liabilities and longer term financial assets. As the Council does not currently have any debt and does not lend for periods in excess of one year, this risk is not considered significant.

## Market Risk

### Interest Rate Risk

Upwards or downwards movements in interest rates may have a complex impact on the Council. For instance, a rise in variable and fixed interest rates would have the following effects:

- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- Investments at fixed rates – the fair value of the assets will fall (but no impact on revenue balances).

The treasury management team has an active strategy for assessing interest risk exposure that feeds into the setting of the annual budget.

By way of example, if interest rates on fixed deposits had been 1% higher during 2012/13 (with all other variables held constant), the financial effect would have been to increase investment income by £354,000.

Price Risk

The Council does not invest in equity shares or marketable bonds and is not, therefore, exposed to losses arising from movements in prices.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and, therefore, no exposure to loss arising from movements in exchange rates, except in the following instance.

Foreign Exchange Risk in relation to Icelandic Deposits

The Council has foreign exchange exposure resulting from an element of the settlement received from Landsbanki Islands hf. This is being held in Icelandic Kroner in an escrow account due to the imposition of currency controls in Iceland.

The value of the deposit plus interest at 31 March 2013 was £8,084.89 and includes an exchange rate gain of £535.14.

## 13. Inventories

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Balance outstanding at start of the year | 55 | 36 |
| Purchases | 460 | 502 |
| Recognised as an expense in the year | (485) | (483) |
| Balance outstanding at end of the year | 30 | 55 |

## 14. Debtors

| | 31/03/13 £000 | 31/03/12 £000 |
|---|---|---|
| **Long Term Debtors** | | |
| Employee Car Loans | 118 | 100 |
| Loan to Sencio | 131 | 156 |
| Finance lease | 196 | 201 |
| Other | 58 | 63 |
| Total Long Term Debtors | 504 | 520 |
| **Short Term Debtors** | | |
| Collection Fund (CF) | | |
| Central Government (NNDR) | - | - |
| Council Tax Payers | 605 | 1,060 |
| Bad Debt provision | (419) | (381) |
| General Fund | | |
| DWP – Housing Benefit Grant | 267 | - |
| Housing Benefit Overpayments | 1,307 | 1,194 |
| Partnership working | 250 | 477 |
| NNDR Discretionary Rate Relief | 100 | 91 |
| VAT | 51 | 91 |
| Other | 859 | 381 |
| Bad Debt provision | (1,063) | (948) |
| Total Short term debtors | 1,957 | 1,965 |

The carrying amount is also deemed to be the fair value (being the amount that the market is willing to exchange assets).

## 15. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

| | 31/03/13 | 31/03/12 |
|---|---|---|
| | £000 | £000 |
| Cash held by the Authority | 1 | 1 |
| Bank current accounts | 958 | 761 |
| Short-term deposits with: | | |
| • Banks | 2,019 | 3,008 |
| • Building Societies | 1,001 | - |
| • Other Local Authorities | 2,001 | 5,002 |
| • Money Market Funds | 4,002 | - |
| Total Cash and Cash Equivalents | 9,982 | 8,772 |

## 16. Assets Held for Sale

| | 31/03/13 | 31/03/12 |
|---|---|---|
| | £000 | £000 |
| Assets newly classified as held for sale | | |
| Operational Property | 1,036 | - |
| Balance outstanding at year end | 1,036 | 1,036 |

At 31 March 2013 the following operational properties were held for sale

- 27 Pembroke Road (car park)
- 66 London Road inc car parking area – leasehold interests

17. Creditors and Receipts in Advance.

| | 31/03/13 £000 | 31/3/12 £000 |
|---|---|---|
| Receipts in Advance | | |
| Tax Payers | (214) | (170) |
| s.106 receipts | (2,022) | (384) |
| Other Receipts in advance | (223) | (235) |
| Total Receipts in Advance | (2,459) | (789) |
| | | |
| Short Term Creditors | | |
| DWP – Housing Benefit Grant | - | (83) |
| Central Government (NNDR) | (1,649) | (1,100) |
| Council Taxpayers | (54) | (45) |
| Capital | (81) | (139) |
| Insurance | (173) | (168) |
| HMRC | (527) | (674) |
| Kent County Council | (405) | (613) |
| Other General Fund | (788) | (397) |
| Total Short Term Creditors | (3,677) | (3,219) |
| | | |
| Long Term Creditors | | |
| Long Term Creditor (Quakers Hall Allotments | (367) | (368) |

The carrying amount is also deemed to be the fair value (being the amount that the market is willing to settle liabilities).

18. Provisions

The following provisions have been made by the Council:

| | Long Term | | | Short Term | |
|---|---|---|---|---|---|
| | Edenbridge Relief Road | MMI | Accumulated Absences | Other Provisions | Total |
| | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2012 | 1,546 | 211 | 152 | 34 | 1,943 |
| Additional Provisions made during year | 5 | 94 | - | - | 99 |
| Amounts | (1,551) | - | - | - | (1,551) |

| | | | | | |
|---|---|---|---|---|---|
| Used during the year | | | | | |
| Balance at 31 March 2013 | - | 305 | 152 | 34 | 491 |

Edenbridge Relief Road – During 2004/05 the construction of the Edenbrdige Relief Road, a council funded scheme, was completed. Significant land and disturbance compensation costs became payable as part of the scheme. A settlement was reached with Kent County council during 2012/13 and a final payment made.

Municipal Mutual Insurance Limited (MMI) – MMI was the main local authority insurer for many years up until 1992 when the company failed and went into "run off". A Scheme of Arrangement was approved in 1994 with the aim of meeting all claims and achieving a solvent run-off. For a number of years the Administration and Creditors Committee reported that a solvent run-off was likely to be achieved and sought to sell the business to another insurer to bring the arrangement to a conclusion.

Unfortunately a sale has never been achieved and more recently claims have emerged where courts have ruled in favour of others rather than MMI. This increased the risk that a solvent run-off would not be achieved which would result in councils (and others, such as housing associations) being liable to clawback of monies paid out to settle claims. Due to this uncertainty, the Council has shown this risk as a Contingent Liability in the Statement of Accounts in recent years.

Since March 2012, more information has become available following the outcome of a Supreme Court Judgement which has made it more likely that this council will incur additional expenditure. Therefore, a Provision has now been included in the accounts rather than a Contingent Liability.

The Accumulated Absences Provision is the opposite of the Accumulated Absences Account included in Unusable Reserves. This absorbs the difference that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March.

The Personal Search Provision is in respect of potential restitutionary claims in relating to personal search fees of the land register.

## 19. Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and note 8.

## 20. Unusable Reserves

| | 31/03/13 | 31/03/12 |
|---|---|---|
| | £000 | £000 |
| Capital Adjustment Account | 15,163 | 15,702 |
| Revaluation Reserve | 6,347 | 4,322 |
| Accumulated Absences Account | (152) | (152) |
| Collection Fund Adjustment Account | (97) | (54) |
| Pensions Reserve | (52,527) | (49,641) |
| Deferred Capital Receipts Reserve | 217 | 229 |
| Total Unusable Reserves | (31,049) | (29,594) |

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2011/12 | | 2012/13 | |
|---|---|---|---|
| £000 | | £000 | £000 |
| 15,592 | Balance at 1 April | | 15,702 |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | - |
| (920) | Charges for depreciation and impairment of non current assets | (876) | |
| - | Revaluation Losses on Property, Plant and Equipment | - | |
| (1,018) | Revenue expenditure funded from capital under statute | (883) | |
| - | Deferred Capital Receipts movement | - | |
| (97) | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (351) | |
| (2,035) | | | (2,110) |
| 20 | Adjusting Amounts written out of the Revaluation Reserve | | 40 |
| (2,015) | Net Written out amount of the cost of non current assets consumed in the year | | (2,070) |

| | | | |
|---|---|---|---|
| | Capital Financing applied in the year: | | |
| 119 | Use of the Capital Receipts Reserve to finance new capital expenditure | 64 | |
| | Capital Grants and contributions credited | | |
| 1,069 | to the Comprehensive Income and expenditure statement that have been applied to capital financing | 616 | |
| - | Non-specific capital grant | - | |
| - | Application of Grants to capital financing from the Capital Grants Unapplied Account | - | |
| 1,145 | Capital Expenditure charged against the General Fund | 657 | |
| 2,333 | | | 1,337 |
| (207) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement | | 22 |
| 15,702 | Balance at 31 March | | 14,991 |

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost.
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2011/12 | | 2012/13 | |
|---|---|---|---|
| £000 | | £000 | £000 |
| 4,161 | Balance at 1 April | | 4,322 |
| 181 | Upward Revaluation of Assets | 2,065 | |
| | Downward Revaluation of Assets and impairment losses not charged to Surplus Deficit on the Provision of Services | | |
| 4,342 | Surplus/(Deficit) on revaluation of non- current assets not posted to the Surplus or Deficit on Provision of Services | | 2,065 |
| (20) | Difference between fair value depreciation and historical cost depreciation | (40) | |
| - | Accumulated gains on assets sold or scrapped | - | |
| (20) | Amount written off to the Capital Adjustment Account | | (40) |
| 4,322 | Balance at 31 March | | 6,347 |

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2011/12 | | 2012/13 | |
|---|---|---|---|
| £000 | | £000 | £000 |
| (152) | Balance at 1 April | | (152) |
| | Settlement or cancellation of accrual made at the end | | |
| - | Amounts accrued at the current year end | - | |
| - | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | | - |
| (152) | Balance at 31 March | | (152) |

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2011/12 | | 2012/13 |
|---|---|---|
| £000 | | £000 |
| - | Balance at 1 April | (54) |
| (54) | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (43) |
| (54) | Balance at 31 March | (97) |

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements or accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2011/12 | | 2012/13 |
|---|---|---|
| £000 | | £000 |
| (34,512) | Balance at 1 April | (49,641) |
| (15,007) | Actuarial Gains/(Losses) on pensions assets and liabilities | (2,034) |
| (3,021) | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (3,680) |
| 2,899 | Employer's pensions contributions and direct payments to pensioners payable in the year | 2,828 |
| (49,641) | Balance at 31 March | (52,527) |

Deferred Capital Receipts Reserve

The deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2011/12 | | 2012/13 |
|---|---|---|
| £000 | | £000 |
| 245 | Balance at 1 April | 229 |
| (4) | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement | (5) |
| (12) | Transfer to the Capital receipts reserve upon receipt of cash | (7) |
| 229 | Balance at 31 March | 217 |

## 21. Cash Flow Statement – Operating Activities

Adjustments to net surplus or deficit on the provision of services for non-cash movements:

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 920 | Depreciation | 876 |
| 354 | Impairment and downward valuations | 51 |
| - | Amortisation | - |
| - | Increase in impairment provision for bad debts | - |
| 2096 | (Increase)/Decrease in creditors | 2,869 |
| (255) | Increase/(Decrease) in debtors | (723) |
| (19) | Increase/(Decrease) in stock | 25 |
| 1,876 | Pension liability | 852 |
| (97) | Carrying amount of non-current assets sold | (351) |
| (2,924) | Other non-cash items charged to the net surplus or deficit on the provision of services | (1,642) |
| 1,951 | | 1,957 |

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| - | Purchase of short-term and long-term investments | - |
| (416) | Proceeds from short-term and long-term investments | (435) |
| 137 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (337) |
| (279) | | (772) |

The cash flows for operating activities include the following items:

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| (308) | Interest received | (353) |
| - | Interest paid | - |
| - | Dividends received | - |

## 22. Cash Flow Statement – Investing Activities

| 2011/12 £000 | Investing Activities | 2012/13 £000 |
|---:|---|---:|
| (1,330) | Purchase of property, plant & equipment, investment property and intangible assets | (454) |
| 136 | Purchase of short term and long term investments | (1,871) |
| - | Other payments for investing activities | - |
| 70 | Proceeds from the sale of property, plant & equipment, investment property and intangible assets | 1,053 |
| 416 | Proceeds from sale of short-term and long-term investments | 435 |
| 34 | Other receipts from investing activities | 3 |
| (674) | Net Cash Flow from investing activities | (834) |

## 23. Cash Flow Statement – Financing Activities

| 2011/12 £000 | Financing Activities | 2012/13 £000 |
|---:|---|---:|
| - | Net increase / (decrease) in short- and long term deposits | - |
| - | Other receipts from financing activities | - |
| 4 | Cash payments for finance leases | 5 |
| - | Other payments for financing activities | - |
| 4 | Net Cash Flow from Financing activities | 5 |

## 24. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across Heads of Service. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on support services is budgeted for centrally and not charged to Heads of Service.

The income and expenditure of the Authority's services recorded in the budget reports for the year is as follows:

| Heads of Service Income and Expenditure 2012/13 | Community Development | Development Services | Environmental and Operations | Housing & Communications | Finance & Human Resources | IT & Facilities Management | Legal & Democratic Services | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, Charges & Service Income | (288) | (678) | (4,729) | (212) | (1,834) | (321) | (363) | (8,424) |
| Government Grants | (38) | - | - | (92) | (34,949) | - | (13) | (35,093) |
| Total Income | (326) | (678) | (4,729) | (304) | (36,783) | (321) | (377) | (43,517) |
| Employee Expenses | 503 | 1,806 | 2,202 | 775 | 2,658 | 814 | 1,280 | 10,038 |
| Other Service Expenses | 789 | 133 | 5,591 | 387 | 38,711 | 989 | 458 | 47,058 |
| Total Expenditure | 1,292 | 1,939 | 7,793 | 1,162 | 41,369 | 1,803 | 1,738 | 57,096 |
| Net Expenditure | 966 | 1,261 | 3,064 | 858 | 4,586 | 1,482 | 1,361 | 13,579 |

| Heads of Service Income and Expenditure 2011/12 | Community Development | Development Services | Environmental and Operations | Housing & Communications | Finance & Human Resources | IT & Facilities Management | Legal & Democratic Services | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, Charges & Service Income | (308) | (525) | (4,879) | (279) | (1,692) | (359) | (354) | (8,396) |
| Government Grants | (76) | - | - | (99) | (33,212) | - | - | (33,386) |
| Total Income | (385) | (525) | (4,879) | (378) | (34,903) | (359) | (354) | (41,783) |
| Employee Expenses | 555 | 1,750 | 2,373 | 717 | 2,700 | 824 | 1,249 | 10,167 |
| Other Service Expenses | 970 | 188 | 5,034 | 605 | 36,931 | 1,129 | 468 | 45,324 |
| Total Expenditure | 1,525 | 1,938 | 7,406 | 1,321 | 39,630 | 1,954 | 1,717 | 55,491 |
| Net Expenditure | 1,140 | 1,413 | 2,528 | 944 | 4,727 | 1,595 | 1,363 | 13,709 |

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

The reconciliation shows how the figures in the analysis of income and expenditure related to the amounts included in the Comprehensive Income and Expenditure Statement.

| | 2012/13 | 2011/12 |
|---|---|---|
| | £000 | £000 |
| Net Expenditure in Directorate Analysis | 13,579 | 13,709 |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | (252) | (1,556) |
| Amounts included in the analysis not included ir the Comprehensive Income and Expenditure Statement. | - | - |
| Cost of Services in Comprehensive Income and Expenditure Statement | 13,327 | 12,153 |

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Heads of Service income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

| 2012/13 | Heads of Service Analysis | Amounts not reported management | Amounts not included in I&E | Cost of Services | Corporate Amounts | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, Charges & Othe Service Income | (8,424) | | | (8,424) | | (8,424) |
| Interest and Investment Income | | | | | (435) | (435) |
| Income from Council Tax and NNDR | | | | | (16,941) | (16,941) |
| Government Grants and Contributions | (35,093) | | | (35,093) | (1,525) | (36,618) |
| Total Income | (43,517) | - | - | (43,517) | (18,901) | (62,418) |
| Employee Expenses | 10,038 | - | | 10,038 | | 10,038 |
| Other Service Expenses | 47,058 | 335 | | 47,393 | 1,428 | 48,821 |
| Support service recharges | | | | | | - |
| Depreciation, amortisation and Impairment | | | | | (22) | (22) |
| Interest Payments & similar payments | | | | | 10 | 10 |
| Precepts & Levies | | | | | 3,402 | 3,402 |
| Payments to Housing Capital Receipts Pool | | | | | 4 | 4 |
| Gain or loss on disposal of non-currer assets | | | | | (859) | (859) |
| Total Expenditure | 57,096 | 335 | - | 57,431 | 3,963 | 61,394 |
| (Surplus) or deficit on the provision of services | 13,579 | 335 | - | 13,914 | (14,938) | (1,024) |

| 2011/12 | Heads of Service Analysis | Amounts not reported management | Amounts not included in I&E | Cost of Servic | Corporate Amounts | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, Charges & Othe Service Income | (8,396) | | | (8,396) | | (8,396) |
| Interest and Investment Income | | | | | (416) | (416) |
| Income from Council Tax and NNDR | | | | | (16,263) | (16,263) |
| Government Grants and Contributions | (33,386) | | | (33,386) | (2,794) | (36,180) |
| Total Income | (41,782) | - | - | (41,782) | (19,473) | (61,255) |
| Employee Expenses | 10,167 | - | | 10,167 | | 10,167 |
| Other Service Expenses | 45,324 | (734) | | 44,590 | 1,105 | 45,695 |
| Support service recharges | | | | | | - |
| Depreciation, amortisation and Impairment | | | | | 207 | 207 |
| Interest Payments | | | | | (128) | (128) |
| Precepts & Levies | | | | | 3,366 | 3,366 |
| Payments to Housing Capital Receipts Pool | | | | | 6 | 6 |
| Gain or loss on disposal of non-currer assets | | | | | | - |
| Total Expenditure | 55,491 | (734) | - | 54,757 | 4,556 | 59,313 |
| (Surplus) or deficit on the provision of services | 13,709 | (734) | - | 12,975 | (14,917) | (1,942) |

## 25. Trading Operations

Trading Accounts are operated for Direct Services, which includes two major services, Refuse Collection and Street Cleaning.

The following table sets out the financial trading accounts for 2012/13:

| | Income | Expenditure | (Surplus)/Deficit 2012/13 | 2011/12 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Direct Services | | | | |
| Refuse Collection | (2,117) | 2,091 | (26) | 26 |
| Street Cleansing | (1,118) | 1,185 | 67 | 52 |
| Other Operational Accts | (1,906) | 1,766 | (140) | (71) |
| Overhead Accounts | (1,116) | 1,089 | (27) | (33) |
| | (6,257) | 6,131 | (126) | (26) |

Other Operational Accounts include vehicle workshop and premises cleaning. Overhead Accounts include transport fleet and depot.

For management accounting purposes, recharges for internal work completed by the trading accounts have been priced to include a capital financing charge. The Code of Practice does not permit charges for cost of capital to be debited to trading accounts. The following table sets out the position if capital charges had been made:

| | Income £000 | Expenditure £000 | (Surplus)/Deficit £000 | 2011/12 £000 |
|---|---|---|---|---|
| Direct Services | | | | |
| Refuse Collection | (2,117) | 2,121 | 4 | 51 |
| Street Cleansing | (1,118) | 1,185 | 67 | 66 |
| Other Operational Acts | (1,906) | 1,789 | (117) | (63) |
| Overhead Accounts | (1,116) | 1,089 | (27) | (33) |
| | (6,257) | 6,184 | (73) | 21 |

## 26. Members' Allowances

The authority paid the following amounts to Members of the Council during the year:

| | 2012/13 | 2011/12 |
|---|---|---|
| | £000 | £000 |
| Allowances | 328 | 273 |
| Expenses | 18 | 16 |
| Total | 346 | 289 |

## 27. Officers' Remuneration

The remuneration paid to the Authority's senior employees was as follows:

| | Salary | Bonuses | Expenses | Pension Contribution | Other Benefits/ Payments | Total |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Chief Executive (Hales, R) | | | | | | |
| 2012/13 | 133,683 | 3,192 | 203 | 16,866 | (4,575) | 149,369 |
| 2011/12 | 133,683 | | 372 | 19,222 | 12,626 | 165,903 |
| Director of Community & Planning Services | | | | | | |
| 2012/13 | 112,300 | 2,680 | 376 | 14,686 | | 130,042 |
| 2011/12 | 112,300 | | 286 | 14,686 | | 127,272 |
| Director of Corp Resources | | | | | | |
| 2012/13 | 112,300 | 2,680 | 188 | 14,686 | | 129,854 |
| 2011/12 | 112,300 | | 265 | 14,686 | | 127,251 |
| Monitoring Officer | | | | | | |
| 2012/13 | 70,494 | 1,664 | 66 | 9,347 | | 81,571 |
| 2011/12 | 66,564 | 1,664 | 13 | 9,397 | | 77,638 |

The Chief Executive receives other payments for being the Deputy Returning Officer at elections.

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

| Remuneration Band | Number of Employees 2012/13 | 2011/12 |
|---|---|---|
| £50,000 - £54,999 | 5 | 9 |
| £55,000 - £59,999 | 6 | 4 |
| £60,000 - £64,999 | 3 | 2 |
| £65,000 - £69,999 | - | - |
| £70,000 - £74,999 | 1 | 3 |

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| | 2011/12 | 2012/13 | 2011/12 | 2012/13 | 2011/12 | 2012/13 | 2011/12 | **2012/13** |
| | | | | | | | £000 | **£000** |
| £0 - £20,000 | 2 | 1 | 4 | 1 | 6 | 2 | 32 | **18** |
| £20,001 - £40,000 | 4 | - | - | - | 4 | - | 108 | - |
| £40,001 - £60,000 | - | - | - | - | - | - | - | - |
| £60,001 - £80,000 | - | - | - | - | - | - | - | - |
| £80,001 - £100,000 | 1 | - | - | - | 1 | - | 82 | - |
| Over £100,000 | - | - | | 1 | | 1 | | **180** |
| Total | 7 | 1 | 4 | 2 | 11 | 3 | 222 | **198** |

28. <u>External Audit Fees</u>

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors.

| | 2012/13 | 2011/12 |
|---|---|---|
| | £000 | £000 |
| Fees payable to external auditors with regard to external audit services carried out by the appointed auditor | 52 | 87 |
| Fees Payable to external auditors in respect of statutory inspections | - | - |
| Fees payable to external auditors for the certification of grant claims and returns | 51 | 32 |
| Fees payable in respect of other services provided by external auditors during the year | - | - |
| Total | 103 | 119 |

## 29. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Credited to Taxation and Non Specific Grant Income | | |
| Non-Domestic Business Rates (CLG) | (4,332) | (3,752) |
| Revenue Support Grant (CLG) | (84) | (1,160) |
| New Homes Bonus (CLG) | (594) | (335) |
| Council Tax Freeze (CLG) | (231) | (230) |
| Community Facility Improvements | - | (247) |
| Total | (5,241) | (5,724) |

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Credited to Services | | |
| Benefit Subsidy | (34,220) | (32,541) |
| Housing Benefit Administration (DWP) | (593) | (632) |
| Choosing Health PCT (West Kent PCT) | (122) | (129) |
| Communities against Drugs (KCC) | (61) | (108) |
| Disabled Facilities (CLG) * | (588) | (373) |
| Travellers Site (CLG)* | - | (386) |
| Regional Housing Pot (CLG)* | - | (63) |
| Homelessness (CLG) | (92) | (92) |
| New Burdens Council Tax Reform (CLG) | (84) | - |
| Housing Option – HERO (CLG) | - | (55) |
| Youth Support (KCC) | (36) | (36) |
| Other | (50) | (57) |
| Total | (35,846) | (34,472) |

* These items were included as Taxation and Non Specific Grant Income in the 11/12 Statement of accounts.

The authority receives grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year-end are as follows:

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Capital Grants Receipts in Advance | | |
| Regional Housing Pot (CLG) | (48) | (48) |
| Disabled Facilities (CLG) | - | (116) |
| Total | (48) | (164) |

30. <u>Related Party Transactions</u>

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 24 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2013 are shown in note 29.

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in note 26. During 2012/13 the Council paid grants totalling £2,000 to voluntary organisations in which 4 members had an interest. The grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. The Register of Members' Interests is open to public inspection.

Kent County Council pension fund – see note 35.

Assisted organisations – the Council provided material financial assistance to the following organisations:

- Sevenoaks Leisure Limited – management fee of £80,950. Two members are Sevenoaks District Council appointed directors of Sevenoaks Leisure Limited. A loan of £250,000 was given to Sevenoaks Leisure Limited to improve the fitness centre at Sevenoaks Leisure Complex. The term of the loan is 10 years, with a redemption date of 31 March 2018 and interest of 7% per year.

- Sevenoaks Town Council – management and service fees of £100,000 for the Stag Theatre. These fees are for the operation of the building and related services, community provision and youth outreach. Five SDC members are also members of Sevenoaks Town Council, and four members are trustees of Sevenoaks Community Arts Centre Limited which operates the lease of the Stag theatre. The grant was made with proper consideration of declarations of interest and the relevant members did not take part in decisions relating to that grant.

31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the authority that has yet to be financed. The Capital Financing Requirement is analysed in the second part of this note.

| | 2012/13 | 2011/12 |
|---|---|---|
| | £000 | £000 |
| Opening Capital Financing Requirement | - | - |
| Capital Investment: | | |
| Property, Plant & Equipment | 454 | 1,330 |
| Intangible Assets | - | - |
| Revenue Expenditure Funded from Capital under Statute | 883 | 1,018 |
| | 1,337 | 2,348 |
| Sources of Finance: | | |
| Capital Receipts | (64) | (119) |
| Government Grants and other contributions | (670) | (1,085) |
| Sums set aside from revenue | (603) | (1,144) |
| | (1,337) | (2,348) |
| Closing Capital Financing Requirement | - | - |

32. Leases

Authority as Lessee

Payments under operating leases during the year amounted to £46,000 (£72,000 in 2011/12), relating to company cars and multi-functional printing devices.

Commitments under operating leases for company cars payable in 2013/14 amount to £3,000, all of which expires in that year.

A three year operating lease for multi-functional printing devices commenced in March 2010. Lease payments were £32,000 per annum.

| | Minimum Lease Payments | |
|---|---|---|
| | 31/03/13 | 31/03/12 |
| | £000 | £000 |
| Not later than one year | 4 | 49 |
| Later than one year and not later than five years | - | - |
| Later than five years | - | - |
| | 4 | 49 |

The authority does not hold any finance leases as a lessee.

Authority as Lessor

The Authority has classified one lease it has granted, as a finance lease. This is due to the length of the lease agreement in relation to the asset's useful life at the inception of the lease, and the value of lease payments to asset value.
The Authority recognises a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts.

| | 31/03/12 | 31/03/12 |
|---|---|---|
| | £000 | £000 |
| Gross Investment in the Lease | 354 | 379 |
| Estimated Residual value | 31 | 31 |
| Net Investment in the lease (Gross Investment discounted by implicit rate) | 190 | 195 |
| Unearned Finance Income | 164 | 185 |

The gross investment in the lease will be received over the following periods.

| | 31/03/13 | 31/03/12 |
|---|---|---|
| | £000 | £000 |
| Not later than one year | 24 | 24 |
| Later than one year and not later than 5 years | 120 | 120 |
| Later than 5 years | 210 | 235 |
| Total | 354 | 379 |

33. Impairment Losses

During 2012/13, the Authority has not recognised any impairment losses to its operational property, plant and equipment or Investment property.

34. Termination Benefits

The Authority terminated the contracts of a number of employees in 2012/13, incurring liabilities of £198,000 (£222,000 in 2011/12) – see note 27 for the number of exit packages and total cost per band. The majority of these were as a result of the budget savings agreed by Council on 16 December 2010.

35. Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The authority participates in the Local Government Pension Scheme, administered by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

**Transactions Relating to Post-employment Benefits**

The authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| | Local Government Pension Scheme | |
|---|---|---|
| | 2012/13 | 2011/12 |
| | £000 | £000 |
| **Comprehensive Income & Expenditure Statement** | | |
| Cost of Services: | | |
| • Current Service Cost | 2,126 | 1,752 |
| • Past Service Cost | - | - |
| • Settlement and Curtailments | - | 178 |
| Financing and Investment Income & Expenditure | | |
| • Interest Cost | 4,867 | 4,996 |
| • Expected return on scheme assets | (3,313) | (3,905) |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 3,680 | 3,021 |
| Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement | | |
| • Actuarial (Gains)/Losses | 2,034 | 15,007 |
| Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | 5,714 | 18,028 |
| **Movement in Reserves Statement** | | |
| • Reversal of net charges made to the surplus or Deficit for Provision of Services for post employment benefits in accordance with the Code | (3,680) | (3,021) |
| Actual Amount Charged against the General Fund Balance for pensions in the year: | | |
| • Employer's Contributions payable to scheme | 2,828 | 2,899 |

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pensions assets and liabilities line was at 31 March 2013 a loss of £37.212m and at 31 March 2012 was a loss of £35.178m.

Revision to Accounting Standard

Accounting standard IAS19 has been revised and the new standard will take effect from accounting period starting after 1 January 2013.

This new standard will affect the charge made to the Profit and Loss statement in the following ways:

- Removal of the expected return on assets and replacing it with a net interest cost
- 'Service cost' will include current and past service cost plus curtailments
- Administrative costs will be accounted for in the Profit and Loss charge when previously they were a deduction to the return on assets

The amounts recognised in the Profit and Loss figures if this new standard had applied for 2012/13 would be as follows:

| | 2012/13 |
|---|---|
| | £000 |
| Service Cost | 2,126 |
| Net interest on the defined liability (asset) | 2,219 |
| Administration expenses | 51 |
| Total | 4,396 |
| | |
| Actual return on scheme assets | 8,340 |

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligations):

| | Funded Liabilities: Local Government Pension Scheme | |
|---|---|---|
| | 2012/13 | 2011/12 |
| | £000 | £000 |
| Opening Balance | (107,488) | (91,686) |
| Current service cost | (2,126) | (1,752) |
| Interest cost | (4,867) | (4,996) |
| Contributions by scheme participants | (579) | (614) |
| Actuarial (gains)/losses | (7,010) | (12,506) |
| Benefits paid | 3,792 | 4,041 |
| Past service costs | - | - |
| Losses on curtailments | - | (178) |
| Unfunded benefits paid | 203 | 203 |
| Closing Balance | (118,075) | (107,488) |

Reconciliation of fair value of the scheme (plan) assets:

| | Local Government Pension Scheme | |
|---|---|---|
| | 2012/13 | 2011/12 |
| | £000 | £000 |
| Opening Balance | 57,847 | 57,174 |
| Expected rate of return on assets | 3,313 | 3,905 |
| Actuarial Gains and losses | 4,976 | (2,501) |
| Employer Contributions | 2,828 | 2,899 |
| Contributions by scheme participants | 579 | 614 |
| Benefits paid | (3,995) | (4,244) |
| Closing Balance | 65,548 | 57,847 |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £8.289m (2011/12 £1.404m).

Scheme History

| | 2008/9 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Present Value Liabilities | (71,940) | (109,566) | (91,686) | (107,488) | (118,075) |
| Fair Value of Assets | 37,370 | 50,662 | 57,174 | 57,847 | 65,548 |
| Surplus/(deficit) in the scheme | (34,570) | (58,904) | (34,512) | (49,641) | (52,527) |

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £52.527m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £8.012m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit of the scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the scheme by the Council in the year to 31 March 2014 is £2.686m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Kent County Council Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

| | 2012/13 | 2011/12 |
|---|---|---|
| Long-Term expected rate of return on assets in the | | |
| Equity Investments | n/a | 6.3% |
| Gilts | n/a | 3.3% |
| Bonds | n/a | 4.6% |
| Property | n/a | 4.3% |
| Cash | n/a | 3.0% |
| Expected return for year (see note below) | 5.8% | |
| Mortality Assumptions: | | |
| Longevity at 65 for current pensioners | | |
| Men | 20.1 | 20.0 |
| Women | 24.1 | 24.0 |
| Longevity at 65 for future pensioners | | |
| Men | 22.1 | 22.0 |
| Women | 26.0 | 25.9 |
| Rate of Inflation (CPI) | 2.5% | 2.5% |
| Rate of increase in salaries | 4.7% | 4.7% |
| Rate of increase in pensions | 2.5% | 2.5% |
| Rate for discounting scheme liabilities | 4.3% | 4.6% |
| Take-up of option to convert annual pension into retirement lump sum | 50% | 50% |

Expected Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate. Therefore, the actuaries were not required to disclose expected return assumptions for the year to 31 March 2014.

Scheme Assets

The scheme's assets consist of the following categories, by proportion of the total assets held:

| | 31/03/13<br>% | 31/03/12<br>% |
|---|---|---|
| Equity investments | 71 | 74 |
| Gilts | 0 | 1 |
| Bonds | 13 | 10 |
| Property | 8 | 9 |
| Cash | 4 | 4 |
| Target return portfolio | 4 | 2 |
| Total | 100 | 100 |

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | **2012/13** |
|---|---|---|---|---|---|
| | % | % | % | % | **%** |
| Differences between the expected and actual return on assets | (32.8) | 21 | 4.6 | (4.3) | **7.6** |
| Experienced gains and losses on liabilities | 0 | 0.4 | 1.4 | (0.1) | **(0.1)** |

36. Contingent Liabilities

Sevenoaks District Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of £104k. plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is not expected to exceed £10k plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

37. Contingent Assets

The Council transferred the remaining part of its housing stock to Moat Housing Association in 1993. When Shared Ownership Lessees purchase further equitable shares in their property the Council receives the proceeds of purchasing the further share, less certain costs. This contingent asset applies for a period of 30 years commencing in 1993.

38. Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies for Property, Plant and Equipment as set out in Note 1o.

At present the Council has no material heritage assets and these are valued for insurance purposes only.

## THE COLLECTION FUND
## INCOME AND EXPENDITURE ACCOUNT 2012/13

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. The costs of administering collection are accounted for in the General Fund.

| 2011/12 £000 | | Note | 2012/13 £000 | 2012/13 £000 |
|---|---|---|---|---|
| | Income | | | |
| 69,240 | Billed to Council Tax Payers | 1 | | 70,024 |
| 6,764 | Council Tax Benefits | | | 6,655 |
| 32,436 | Non-Domestic Rates | 2 | | 34,692 |
| 103 | Reduction in Bad and Doubtful Debts Provision | | | 176 |
| 108,543 | | | | 111,547 |
| | Expenditure | | | |
| | Precepts: | | | |
| 52,991 | Kent County Council | | 53,290 | |
| 7,014 | Kent Police Authority | | 7,053 | |
| 3,437 | Kent Fire and Rescue Service | | 3,456 | |
| 12,565 | Sevenoaks District Council (incl. Parishes) | | 12,653 | 76,452 |
| | Non Domestic Rates: | | | |
| 32,261 | Payment to National Pool | | 34,520 | |
| 175 | Cost of Collection Allowance | | 172 | 34,692 |
| 348 | Bad and Doubtful Debts Provision | | | 349 |
| 75 | Write Offs | | | 306 |
| - | Contribution towards previous year's Collection Fund surplus | 3 | | - |
| 108,866 | | | | 111,799 |
| (323) | (DEFICIT)/SURPLUS FOR YEAR | 3 | | (252) |
| | COLLECTION FUND BALANCE | | | |
| (1) | Balance at beginning of year | | | (324) |
| (323) | (Deficit)/Surplus for year | | | (252) |
| (324) | Balance at end of year | 4 | | (576) |

## Note 1 Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. A different ratio is applied to a small number of properties in band A that have been adapted for use by a disabled person. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, Kent Police Authority, Kent Fire and Rescue Service and the District Council for the forthcoming year and dividing this by the tax base (i.e. the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of band D dwellings). This gives rise to the basic amount of council tax for a band D property. Taxes for other bands are derived by applying the ratio in the following table to the band D tax.

The tax base for 2012/13 was calculated in January 2012 as follows:

| Band | Estimated no. of taxable properties after the effect of discounts | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| A* | 1.50 | 5/9ths | 0.83 |
| A | 1,305.95 | 6/9ths | 870.63 |
| B | 2,534.50 | 7/9ths | 1,971.28 |
| C | 9,241.75 | 8/9ths | 8,214.89 |
| D | 10,510.60 | 9/9ths | 10,510.60 |
| E | 6,565.85 | 11/9ths | 8,024.93 |
| F | 5,324.85 | 13/9ths | 7,691.45 |
| G | 6,885.05 | 15/9ths | 11,475.08 |
| H | 1,170.10 | 18/9ths | 2,340.20 |
| | 43,540.15 | | 51,099.89 |

| | |
|---|---|
| Less adjustment for collection rates and anticipated changes during the year for successful banding appeals etc., offset by contributions in lieu in respect of Crown property. | 239.86 |
| COUNCIL TAX BASE FOR 2012/13 | 50,860.03 |
| COUNCIL TAX BASE FOR 2011/12 | 50,574.57 |

The tax rate for a band D property was £1,436.30 excluding Parish Council taxes (2011/12 = £1,436.30).

## Note 2 National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies an amount (45.8p in 2012/13 and 43.3p in 2011/12) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population.

According to the rating list, the total non-domestic rateable value at 31 March 2013 was £90,350,904 (31 March 2012 = £90,317,429).

Note 3 Contributions to Collection Fund Surpluses and Deficits

In January each year the Council must estimate the Collection Fund balance for the coming 31 March.

In January 2012, the estimated balance at 31 March 2012 in respect of council tax transactions was zero. Had there been a surplus or deficit, it would have been shared between Kent County Council, Kent Police Authority, Kent Fire & Rescue Service and the District Council in proportion to their precepts on the Collection Fund in 2011/12 and taken into account by the respective authorities in the calculation of their council taxes for 2012/13.

The actual position at 31 March 2012 was a deficit of approximately £324,000.

Note 4 Reconciliation of Balance at the end of year to the Balance Sheet

Only the Sevenoaks District Council element of the Balance at end of year is included in the Balance Sheet.

| | 2011/12 | | 2012/13 | |
|---|---|---|---|---|
| Authority | % of Council Tax | Est. share of Balance £000 | % of Council Tax | Est. share of Balance £000 |
| Sevenoaks DC (incl. Parish and Town Councils) | 16.6 | (54) | 16.9 | (97) |
| Kent County Council | 69.7 | (226) | 69.2 | (399) |
| Kent Police Authority | 9.2 | (30) | 9.4 | (54) |
| Kent Fire and Rescue Service | 4.5 | (14) | 4.5 | (26) |
| Total | 100.0 | (324) | 100.0 | (576) |

Note 5 Events after the reporting date

Up to 31 March 2013 the Council collected non-domestic rates on an agency basis for central government and the total amount collected was redistributed to councils as part of overall grant funding arrangements. As from 1 April 2013, under the Business Rates Retention Scheme, the Council has 40% of its Government start-up funding linked to business rates, while the amount distributed centrally is reduced.

With the new arrangements, the Council will assume liability for refunding ratepayers who have successfully appealed against the rateable value of their properties in respect of 2012/13 and earlier years, even though the original amounts were paid over to central government. Hence, when authorities assume these liabilities on 1 April 2013, a provision will need to be recognised. CIPFA guidance recommends that, despite the fact that these amounts relate to 2012/13 and earlier years, authorities should only recognise their respective share on 1 April 2013, as until then no liability rests with the authority. Regulations and an accounting direction to allow this provision to be spread over the five financial years commencing with 2013/14 are awaited. The Council has estimated that a provision of £208,800 be set aside on 1 April 2013 in relation to non-domestic rates appeals based on historical information on appeals and using a prudent calculation of 1.43% of the non-domestic rates yield that is under appeal.

ANNUAL GOVERNANCE STATEMENT 2012/13

## 1. Background

1.1 Sevenoaks District Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law, proper standards, good governance and that public money is safeguarded from waste, extravagance or misappropriation. The Council seek to ensure that its expenditures and activities are transparent and properly accounted for. The Council also has a duty under the Local Government Act 1999 to make proper arrangements to secure continuous improvement in the way in which it carries out its functions, having regard to ensuring economy, efficiency, effectiveness and fairness in the exercise of its responsibilities. As part of that process, the Council is required to produce an Annual Governance Statement (to be published with its financial statements) which sets out its arrangements for delivering good governance within the framework of sound internal controls.

1.2 The Annual Governance Statement (AGS) is a corporate document involving a variety of people charged with developing and delivering good governance including:

- the Leader of the Council and the Chief Executive (Head of Paid Service) as signatories;
- directors and management assigned with the ownership of risks and the delivery of services;
- the Chief Executive Designate who is responsible for the administration of the Council’s financial affairs under Section 151 of the Local Government Act 1972;
- the Monitoring Officer in meeting her statutory responsibilities of ensuring the legality of Council business;
- the Council’s Internal Audit function;
- Members (for example, through the select committees and the Performance and Governance Committee); and
- others responsible for providing assurance, in particular the District Auditor of the external audit service of Grant Thornton, in his role as the Council’s External Auditor.

1.3 Thus the AGS, as a corporate document, is owned by all Senior Officers and Members of the Council. A shared approach was taken in compiling the AGS with the objective of engaging the whole authority within the process and encouraging a high degree of reflection and corporate learning. This increases the statement's significance and encourages people to objectively assess their responsibilities.

1.4 The system of corporate governance highlighted in the AGS, together with the system of internal control, is reviewed continually throughout the year as part of routine governance and managerial processes; prime examples being the authority's performance management and risk management framework.

1.5 Although corporately owned, the AGS requires internal control assessments/assurance statements from Heads of Service, the Internal Audit Manager, Directors, the Head of Paid Service, the Monitoring Officer and the Section 151 Officer, all of which were obtained as part of this process.

## 2. Scope of Responsibility

2.1 In discharging this overall responsibility, to ensure its business is conducted in accordance with the law, proper standards and delivering continuous improvements, Sevenoaks District Council is also responsible for ensuring that there is a system of corporate governance which facilitates the effective and principled exercise of the Council's functions and which includes arrangements for the effective management of risk. The Council seeks to conduct these responsibilities within the framework of, high quality service provision to enhance and facilitate community wellbeing and engagement.

2.2 The roles of the Chief Executive (as Head of paid Service), the Section 151 Officer, the Monitoring Officer are defined within Part 13 of the Council's Constitution. The Executive Role of Members is defined within Part 4 of the Council's Constitution.

2.3 Officers and Members are expected to conduct themselves in a proper manner in accordance with the Constitution and both are expected to declare interests that may impact on the objectivity of the Council's decision making process. These interests are held on a register and are reviewed on a regular basis by the Monitoring Officer.

2.4 Sevenoaks District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code can be obtained from our Audit, Risk and Anti-fraud Team, or via the Council's website. This statement explains how Sevenoaks District Council has implemented both the code and the requirements of regulation 4(3 & 4)) of the Accounts and Audit Regulations (England) 2011 in relation to the publication of an Annual Governance Statement.

## 3. The Purpose of the Governance Framework

3.1 The governance framework comprises the systems and processes, culture and values, by which the authority informs, directs, manages and monitors its operations, and its activities through which it accounts to, engages with and empowers the community. It enables the authority to evaluate the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. It also seeks to maximise available opportunities in achieving good value for money delivering its objectives and priorities.

3.3 The governance framework has been in place at Sevenoaks District Council for the year ended 31 March 2013. Since 14 May 2013, a new governance framework has been implemented. These changes will be subjected to review during the year and any further changes or areas for development which are identified will be considered and determined by full Council. This will be included in the Council's governance action plan.

## 4. The Governance Framework

4.1 The following represent the key elements of the governance framework within Sevenoaks District Council:

- The Council's objectives to March 2013 were established and set out in the Sevenoaks District Sustainable Community Action Plan 2010-13 and the Corporate Performance Plan. The Sustainable Community Plan 2010-13 was approved and adopted by Council in March 2010. Going forward, the Council's vision is set out in the Sevenoaks District Community Plan 2013 – 2018, which is available on the Council's website, via the following link:

  [http://documents.sevenoaks.gov.uk/community%20and%20living/community%20plan/Sevenoaks%20Community%20Plan%202013.pdf].

- Both of these plans were subjected to considerable Member review and challenge by Cabinet, the appropriate Select Committee or the Performance and Governance Committee, the Finance Advisory Group and ultimately by the full Council. Since 14 May 2013, new governance arrangements are now in place, incorporating an Audit Committee, whose terms of reference is consistent with CIPFA standards; Standards Committee, Governance Committee and a Scrutiny Committee in addition to five Cabinet Advisory Committees. Hence the plans will continue to be scrutinised and reviewed under the new arrangements and any changes will be considered and determined by full Council. These plans are also cascaded to individuals within the Council through Service Plans and individual action plans through the appraisal process.

- Policy and decision-making is facilitated through reports from Officers to Cabinet. Each Cabinet Member has responsibility for a specific portfolio and will take decisions on matters relevant to that portfolio. Select Committees have the opportunity to 'call-in' the decisions of Cabinet and recommend changes to decisions or policies. Under the new governance arrangements the new Scrutiny Committee will have this power.

- The Council's Constitution specifies the roles and responsibilities of Members and Officers; and the financial and procedural rules for the efficient and effective discharge of the Council's business.

- Implementation of established policies, procedures, laws and regulations and good practice is achieved through:

a) **Internal Audit**

During the period 2012-13, the Council's internal audit team worked to an approved annual audit plan and undertook the work in accordance with the CIPFA Code of Practice for Internal Audit in the United Kingdom (revised 2006). Since April 2013, new Public Sector Internal Audit Standards came into force. The Council is currently reviewing the mandatory elements of the new standards to determine how these could be implemented within the Council's governance and assurance framework. This is included within the governance action plan. Individual audit reports are produced for relevant management, with copies to the Chief Executive, Section 151 Officer and the relevant Director. Quarterly update reports and the Annual Audit report went to the Performance and Governance Committee. From May 2013 all internal audit reports will now go to the new Audit Committee. The quarterly reports highlight the results of individual risk-based audit reviews, while the annual report, which contains the Audit Manager's overall assurance opinion, evaluates the overall internal control environment as tested through audit work undertaken in the year. The review of the effectiveness of Internal Audit was assessed in May 2013 as 'satisfactory' in meeting the requirements of an adequate and effective internal audit service. This was endorsed by management team and the Audit Committee.

b) **External Audit**

External audit service is provided by Grant Thornton. The District Auditor's reports are sent to senior management and Members (via the Audit Committee, (previously, via the Performance and Committee). Recommendations and comments are considered and discussed with timely actions taken to address agreed recommendations. The Council's current practice was commended in all its recent audit and inspection reports, and unqualified opinions were issued in relation to both financial statements and value for money for 2011-12.

c) **Financial Management**

A robust budgetary control system is in place and regular monitoring reports are produced for Heads of Services, Management Team, Cabinet, the Performance and Governance Committee and the Finance Advisory Group. Senior accountants conduct monthly client liaison meetings with responsible budget holders. Under the new governance arrangements the Performance and Governance Committee and Finance Advisory Group no longer exist and the information will be presented to the Finance Resources Advisory Committee and could also be looked at by the Scrutiny Committee.

d) **Performance Management**

Monitoring of progress towards the achievement of the Council's promises and objectives is undertaken through the Council's performance management system. Performance is monitored monthly and enhanced with commentaries from senior managers where performance is behind target. Strategic information is regularly reported to Management Team, Cabinet Members and the Select Committees. Under the new governance arrangements future reports to Members will be sent to the Scrutiny Committee.

e) **Arrangements for Partnerships**

The Council believes that it can enhance value for money with service delivery through innovative and cost-effective partnership working. The Council engages in extensive discussion and planning to develop efficient working arrangements while protecting quality of services. The Council has developed a comprehensive partnership toolkit to ensure that partnerships incorporate the Council's culture and comprehensive approach to managing risk. Decisions to enter into partnership working are supported by business case and cost-benefit analysis, and are subject to scrutiny and approval by Members. Following on from the successful implementation of a Revenues and Benefits; and the Audit Risk and Anti-Fraud shared services in 2010-11, the Council has successfully implemented a further major shared service project with Dartford Borough Council for Environmental Health Services in 2012.

f) Risk Management

The Council's risk management framework underwent a comprehensive review during 2012 -13 which resulted in streamlining and simplification of the framework, whilst incorporating good practice Enterprise Risk Management (ERM) principles within the process. The process was informed by the requirements of ISO 31000 and facilitated by the ALARM toolkit. As a result of this review, relevant training was delivered to both Officers and Members. Service managers have assessed their operational risks for 2013-14, incorporating the new framework. The strategic aspects of the framework is currently being finalised and will take account of the new senior management structure which fully comes into effect on 2 September 2013. The new strategic framework would require endorsement of the new senior management team prior to full implementation. This has been included in the governance action plan. High level monitoring of risk management framework is now carried out by the new Audit Committee. Membership of the officers risk group has been reviewed and continues to have oversight of the Council's risk management process and delivery.

g) Relationships and Ethics

Good co-operative relationships exist between the Council and its external auditors and inspectors and between Officers and Members. Relationships between Officers and Members are guided by a protocol embedded in the Council's Constitution. A written communications protocol has also been established between the Leader and the Chief Executive. The Council has clear Codes of Conduct for Members and Officers embedded within its Constitution, underpinned by a culture of integrity and ethical behaviour. Member conduct is scrutinised by the Standards Committee.

h) Service Delivery by Trained and Experienced People

The Council has a robust recruitment policy and procedures in place. The Council holds Gold and "Champion" status in the Investors in People (IiP) New Choices scheme, conferred by an external inspection regime in December 2012. The Council was one of the first local authorities nationally to achieve this standard, in its previous inspection, in 2009. Staff appraisals take place annually, including an annual review of service and training plans, training evaluation and recruitment and selection procedures.

i) Monitoring Officer

The Council has appointed a Monitoring Officer to oversee its compliance with laws and statutory obligations. The Monitoring Officer reports to the Council's Standards Committee. Regular meetings between the three statutory Officers (Chief Executive, Corporate Resources Director and Head of Legal Services) form part of the Council's governance arrangements. The impact of changes regarding the Council's new senior management structure within this arrangement would form part of the assessment of the review of the new structure set out in Para 2.1 of the governance action plan.

j) **Anti-fraud and Corruption**

The Council has a fraud and corruption policy, including a whistle-blowing policy, published on its intranet site. The Council also has a dedicated Benefits Fraud Team and a well-publicised "fraud hotline", available to both staff and members of the public, which allows individuals to report anonymously any suspected cases of fraud and corruption. As part of fraud risk management, all staff and Members are required to complete annul declarations of interests. Appropriate briefings have been made to all staff regarding the Bribery Act 2010. The risks of fraud and corruption are assessed within the strategic risk register and appropriate measures put in place to mitigate these risks.

## 5. Role of the Chief Financial Officer (CFO)

5.1 Section 151 of the Local Government Act 1972 requires that the Council appoint an individual officer to be responsible and accountable for the administration of its financial affairs. The Scheme of Delegation held within Part 13 of Sevenoaks District Council's Constitution assigned this responsibility in paragraph 5.2 to the then Deputy Chief Executive & Director of Corporate Resources (Dr Pav Ramewal), who is now the Chief Executive designate and will be become Chief Executive from 1 September 2013. The impact of changes regarding the Council's new senior management structure within this arrangement will form part of the assessment of the review of the new structure set out in Para 2.1 of the governance action plan.

5.2 CIPFA has issued a Statement on the Role of the Chief Financial Officer in Local Government. This details the governance arrangements and delegated responsibilities considered necessary to facilitate an effective CFO. The Council has considered this Statement, and believes that, during the financial year 2012-13, it has complied fully with the governance requirements of this Statement. The Council's Financial Procedure Rules, codified within Appendices D and E of the Constitution, ensure that all the appropriate responsibilities are delegated and reserved to the CFO as the Statement recommends. Any relevant changes necessary in relation to these rules arising from the new senior management structure and new governance arrangement will form part of the impact assessment of the new structure set out in Paras 2.1 and 2.2 of the governance action plan.

## 6. Review of Effectiveness

6.1 Sevenoaks District Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the outcome of the work of the Council's internal auditors during the year and by Heads of Service who have responsibility for the development and maintenance of the internal control environment. It also considers comments made by the external auditors and other external review agencies and inspectorates. The Council is keen to allow itself to be the subject of external scrutiny and challenge, and to consider recommendations for improvement.

6.2 The External Auditor concluded that, for 2011-12, the Council had effective arrangements in place to ensure value for money was achieved. An unqualified opinion was issued in relation to the Council's financial statements. The Council is not aware of any issues arising in relation to value for money from the current work being undertaken by the External Auditor.

6.3 Internal audit reports were presented to the Performance and Governance Committee. The annual internal audit report was presented to the Council's new Audit Committee in June 2013. This sets out the Audit, Risk and Anti-Fraud Manager's opinion on the overall internal control and governance environment. Any internal audit review judged "unsatisfactory" or "unacceptable" is subject to a timely action plan and follow-up audit.

6.4 The opinion of the Audit, Risk and Anti-Fraud Manager in the Annual Audit Report to the Audit Committee for 2012/13 is that the overall control environment within Sevenoaks District Council is **effective.**

6.5 The Chief Financial (Section 151) Officer and the Monitoring Officer periodically review the Constitution, procedures for internal financial control and application of the various Codes of Conduct. The impact of the new senior management structure on these arrangements will form part of the impact assessment on section 2.1 of the governance action plan.

6.6 The Council continues to review and improve its governance arrangements on a continuous basis. Improvements during 2012/13 include the following:

- New governance arrangements came into force in May 2013. Relevant issues affecting this development are cited in Para 2.2 of the governance action plan
- New senior management structure, to be fully implemented from 2 September 2013. Relevant issues affecting this development are cited in Para 2.2 of the governance action plan
- Review and enhancement of the Council's Risk Management Framework. Relevant issues affecting this development are cited in Para 2.4 of the governance action plan
- Ongoing review of savings plans and budget adjustments made to protect services in the circumstances of government grant cuts;
- Extension of Shared Service arrangements to incorporate new areas to improve Value for Money;
- The development, testing and peer review of the Council's Business Continuity and Incident Management Plan, particularly in relation to the successful delivery of the Olympics and Paralympics; and Health and Safety arrangements.
- The Standards Committee, comprising of seven elected Members, ensures that Members adhere to the protocols of Conduct as set out in the Constitution.

7. Significant Governance Issues

7.1 **The Council notes the following significant governance issue - as previously reported, there is an on-going regulatory inquiry into the fatal road traffic accident on 13th September 2011 involving one of the Council's road sweeping vehicles. The Police investigation has been concluded with no further action to be taken, but the matter is still being examined by the HSE.**

7.2 In addition to the above, the following areas although not considered as "significant issues" of concerns have been identified as areas requiring close monitoring, or further development, within the scope of the Governance Statement and in view of the Council's commitment to continuous improvements:

1. The Council's new senior management structure fully comes into effect in September 2013. An impact assessment of the changes will be carried out within a reasonable timescale, to determine the effect of the recent changes in delivering the Council's vision and priorities.

2. The Council has adopted new governance arrangements from the beginning of the municipal year (2013-14). This will be subject to review during the year. Any changes will be considered and determined by full Council.

3. The Council is reviewing the implications of the mandatory elements within the new Public Sector Internal Audit Standards 2013 and how these could be effectively implemented within the Council's governance and assurance framework.

4. The Council's revised strategic risk management framework will require senior management endorsement prior to full implementation.

Certification

Signature: ..................................... Date:......................................

**Cllr. Peter Fleming** (Leader of the Council & Cllr for Sevenoaks Town & St. John's)

Signature:............................................... Date: .......................................

**Robin Hales** (Chief Executive and Head of Paid Service)

on behalf of Sevenoaks District Council

**Dr. Pav Ramewal**
Chief Executive Designate and sec 151 Officer
August 2013

GLOSSARY OF TERMS – Statement of Accounts

Most terms are explained within the "Explanatory Foreword" and "Statement of Accounting Policies" sections of the accounts

**Accounting Period.** The period of time covered by the accounts, normally 12 months starting on 1st April for Local Authority accounts.

**Accrual.** Item relating to, and accounted for in, one accounting period but actually paid in another.

**Actual.** The final amount of expenditure or income which is recorded in the Council's accounts.

**Agency and Contracted Services.** Services purchased from another public body or external organisation and subject to a contract. Includes the services provided by Direct Services.

**Budget.** A statement of the Council's plans for net revenue and capital expenditure over a specified period of time.

**Budget Requirement.** Broadly the authority's estimated net revenue expenditure after allowing for movement in reserves and the addition of parish precepts, to be met from revenue support grant, redistributed non-domestic rates and council tax income.

**Capital Expenditure.** The acquisition, construction, enhancement or replacement of tangible fixed assets (i.e. land, buildings, structures etc.), the acquisition of investments and the making of grants, advances or other financial assistance towards expenditure by other persons on tangible fixed assets or investments.

**Capital Financing Requirement.** The difference between Capital Expenditure and the resources available to finance such expenditure from grants/contributions, capital receipts or revenue funds. This indicates the fundamental requirement to borrow.

**Capital Programme.** The capital projects the Council proposes to undertake over a set period of time.

**Capital Receipts.** Money obtained on the sale of a capital asset.

**CLG.** Department for Communities and Local Government (formally Office of the Deputy Prime Minister ODPM).

**Collection Fund.** The fund into which council tax and non-domestic rates are paid, and from which we meet demands by preceptors and payments to the non-domestic rates pool.

**Contingent Liabilities.** Contingent liabilities are either:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control, or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that a transfer of economic benefits will be required to settle the obligation, or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

**Corporate and Democratic Core.** Costs involved in corporate policy making, representing local interests (including civic ceremonials), support to elected bodies and duties arising from public accountability.

**Cost Centre.** An individual unit to which items of income or expenditure are charged for managerial or control purposes.

**Council Tax.** A local tax set by Councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, some people with disabilities and some other special cases.

**Council Tax Base.** The measure of the taxable capacity of an area. It represents the estimated full year equivalent number of chargeable dwellings in an area, expressed as the equivalent number of band D dwellings, after allowing for disabled reduction (relief) and discounts, adjusted for an allowance for non-collection.

**Creditors.** People or organisations from whom we have received goods or services and as a consequence owe money.

**Debtors.** People or organisations who owe money to the Council.

**Deferred Capital Receipts.** Capital Receipts which will accrue in the future, such as mortgage repayments.

**Depreciation.** A charge to a revenue account to reflect the reduction in the useful economic life of a fixed asset.

**DfT.** Department for Transport.

**DWP.** Department for Work and Pensions.

**Employee Costs.** This includes the full costs of employees including salaries, employers contributions to national insurance and superannuation, and the costs of leased cars.

**Fees and Charges.** In addition to income from council tax payers, business ratepayers and the government, local authorities charge for some services, e.g. local land charge searches and car parking.

**General Fund.** The main revenue fund of the Council from which payments are made to provide services and into which receipts are paid, including the District Council's share of council tax income.

**Government Grants.** Payments by government towards either the revenue or capital cost of local authority services. These may be either in respect of particular services called specific grants, e.g. housing benefits, or in aid of local services generally, e.g. revenue support grant.

**Heritage Assets.** Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for their contribution to knowledge and culture.

**Impairment.** A downward revaluation of an asset.

**KCC.** Kent County Council.

**Leasing.** A method of financing the acquisition of equipment, vehicles etc. The items concerned do not belong to the user (or lessee) but are the property of the lessor to whom the lessee pays an annual rental for a specific period of time.

**MBC.** Maidstone Borough Council.

**National Non-Domestic Rate (NNDR).** Non-domestic rates are levied at a uniform rate in the pound set by the Government. The proceeds are pooled nationally and then redistributed to each Local Authority in proportion to residential population and other criteria determined by the Government.

**Precept.** The demand on the collection fund by one authority (e.g. Kent County Council) which is collected from the council tax payer by another (e.g. Sevenoaks). Precepts on Sevenoaks are also made by Kent Police Authority, Kent Fire & Rescue Service, Town and Parish Councils in the District.

**Premises Expenses.** Includes expenditure on repairs, buildings, grounds and plant maintenance, energy, rents, rates, water services and cleaning of council buildings.

**Provisions.** Funds to provide for liabilities or losses which are known obligations, but are uncertain as to amounts or dates.

**Recharges.** The transfer of costs from one account to another.

**Reserves.** The general capital and revenue balances of the Council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside, surpluses or delayed expenditure can be spent or earmarked at the discretion of the Council. The usable capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the reserves brought about by the new capital accounting system namely the capital adjustment account and the revaluation reserve.

**Revenue Expenditure.** Expenditure to meet the continuing cost of services including wages and salaries, purchase of materials and financing charges on capital expenditure.

**Revenue Support Grant (RSG).** The general Government grant to local authorities. It is payable to all local authorities in support of expenditure in their area.

**Revised Estimates.** The approved estimates for the current year as amended e.g. by supplementary estimates and virement.

**Specific Grant.** Government grant for specific purposes. The Authority does not have the power to apply such grants for other purposes

**Standard Spending Assessment (SSA).** The amount of revenue expenditure, net of Specific Grants, which it is appropriate for each authority to incur in providing a common level of service consistent with the aggregate figure of Total Standard Spending. The sum of all authorities' Standard Spending Assessments is equal to Total Standard Spending less the total of Specific Grants.

**Standard Spending Grant (SSG).** An informal alternative name for Revenue Support Grant, which helps to make it clear that the grant is paid in support of expenditure at the level of the Standard Spending Assessment.

**Supplies and Services.** Includes expenditure on equipment and materials.

**Support Services.** The charges made by central functions for the services they provide to other departments. These are services which support the provision of services to the public, other support services and the corporate and democratic core. This includes the provision of accommodation, IT, administrative items purchased centrally, (e.g. telephones, stationery and bank charges), central professional services (Human Resources, Legal and Property, and Financial Services support) and the cost of providing some centrally provided services e.g. post distribution and contact centre.

**Total Standard Spending (TSS).** The amount of revenue expenditure which the Secretary of State considers it is appropriate for all local authorities in England to incur in the provision of services and the financing of expenditure.

**Transfer Payments.** Payments to other bodies where no goods or services are received in return e.g. Housing Benefit grants.

**TWBC.** Tunbridge Wells Borough Council.

**Valuation Bands.** To calculate the relative value of dwellings for council tax purposes each dwelling is placed on a valuation list in one of eight bands ranging from A to H. Within a local area, the Council tax will vary between the different bands according to proportions laid down by law.

| Band | Value | | Proportion |
|---|---|---|---|
| A | Up to £40,000 | | 6/9 |
| B | Over £40,000 | and up to£52,000 | 7/9 |
| C | Over £52,000 | and up to£68,000 | 8/9 |
| D | Over £68,000 | and up to£88,000 | 9/9 |
| E | Over £88,000 | and up to£120,000 | 11/9 |
| F | Over£120,000 | and up to£160,000 | 13/9 |
| G | Over£160,000 | and up to£320,000 | 15/9 |
| H | Over£320,000 | | 18/9 |

**Virement** A transfer of budget provision from one budget to another.

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**ANNUAL GOVERNANCE STATEMENT REPORT 2013-14**

**Audit Committee - 10 September 2013**

| | |
|---|---|
| Report of the: | Chief Executive |
| Status: | For Consideration |
| Key Decision: | No |

**This report supports the Key Aim of** Effective Management of Council Resources

**Portfolio Holder** Cllr. Ramsay

**Contact Officer(s)** Bami Cole, ext.7236

**Recommendation to Audit Committee:** It be resolved that the Annual Governance Statement for 2012/13, which accompanies the Council's Accounts, be agreed.

**Reason for recommendation:** the committee is required to consider the Council's Annual Governance Statement as part of its terms of reference remit, in compliance with statutory requirements.

**Introduction and Background**

1 Sevenoaks District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards, good governance and that public money is safeguarded and properly accounted for. In discharging this overall responsibility, the Council has to ensure that it has sound systems of internal controls and good governance arrangements in place to facilitate the exercise of its duties. Additionally, the Council is required to continuously review these arrangements and to ensure that the arrangements are considered by an appropriate body of the Council annually. This report sets out the governance arrangement and the system of internal control which operated during 2012/13 and up to the time of the review. This is the first opportunity this Committee has to undertake this review since its inception in May 2013. Previously this report has been considered by the now defunct Performance and Governance Committee.

**Ownership of the Annual Governance Statement (AGS)**

2 The Annual Governance Statement is a corporate document which explains the Council's governance arrangements and the controls it employs to manage the risk of failure to achieve strategic objectives. It is owned by all Senior Officers and Members of the Council. The Council's remit in relation to the Annual Governance Statement process is informed by Regulation 4 of the Accounts and Audit Regulations 2011, of which regulation 4.1 requires that:

"The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's function and which includes arrangements for the management of risk"

3 The Council is also required to conduct a review, at least once a year; of the effectiveness of its system of internal control and that the statement accompanies the Council's annual accounts. The Council is further required to conduct this process and the preparation of its annual accounts in accordance with "proper practices", In this context, the Council complied with relevant professional codes and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the preparation of the AGS. The involvement of the Audit Committee in the process complies with Regulation 4.2, 4.3 and 4.4 (a) of the Accounts and Audit Regulations 2011.

**The Annual Governance Statement Process**

4 In compiling the Annual Governance Statement a shared approach was adopted, involving all Heads of Service, Directors, the Internal Audit Manager and the three Statutory Officers of the Council (Head of Paid Service, Sec 151 Officer and Monitoring Officer), prior to consideration and endorsement by Management Team on 7 August 2013. Additionally, the statement would be required to be certified by signatories of the Leader of the Council and the Head of Paid Service after approval by the Audit Committee.

**Outcome of the Process**

5 The process confirms that the Council has sound systems of internal control and good governance arrangements in place. The only significant governance issue identified is set out in Paragraph Seven of the Governance Statement. An action plan is attached as Appendix B to address this issue and other areas requiring close monitoring, or further improvements.

**Key Implications**

Financial

Not Applicable.

Legal Implications and Risk Assessment Statement.

No additional legal implication beyond the Council's duty to comply with the Accounts and Audit Regulations 2011 in regard to the AGS process.

The Council is required to produce an Annual Governance Statement to demonstrate that it has effective internal controls and sound governance arrangements in place through-out the financial year. There is a risk that failure to produce the Annual Governance Statement in accordance with statutory requirements would have negative consequences for the Council. The Statement accompanying this report meets statutory requirements and was produced in compliance with proper practices, giving regard to relevant professional guidance. Hence relevant risk is effectively being managed.

## Equality Impacts

| Consideration of impacts under the Public Sector Equality Duty: | | |
|---|---|---|
| Question | Answer | Explanation / Evidence |
| a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community? | No | |
| b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity? | Yes | Effective governance of the Council constitutes engagement with all sections of the community and therefore will promote fairness and the potential to promote equality and community wellbeing. |
| c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above? | | Impact assessment of community engagement will establish the degree of success and areas for further improvement of current arrangements |

**Conclusions**

The Annual Governance Statement (AGS) was prepared in accordance with relevant professional guidance. It demonstrates that the Council had sound governance arrangements in place during the municipal year 2012/13 and in the period leading up to the preparation of the AGS and the Council's Accounts. An action plan setting out an area of concern and other aspects requiring monitoring or improvements are set out in the action plan attached on Appendix B.

**Appendices**

Appendix A – The Annual Governance Statement 2012/13

Appendix B – Action Plan

Background Papers:

a) The Accounts and Audit Regulations 2011 [http://www.legislation.gov.uk/uksi/2011/817/contents/made]

b) Internal Audit Annual Report 2013/14

c) Sevenoaks District Council Community Plan 2013 – 2018 [http://documents.sevenoaks.gov.uk%20and%20living/commimity%20plan/Sevenoaks%20Community%Plan%202013.pdf]

d) Sevenoaks District Council's Constitution

e) Sevenoaks District Council Code of Corporate Governance (Performance and Governance Committee – 24 June 2008)

**Dr Pav Ramewal**

**Chief Executive Officer**

**Appendix: A**

# ANNUAL GOVERNANCE STATEMENT 2012/13

## 1. Background

1.1 Sevenoaks District Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law, proper standards, good governance and that public money is safeguarded from waste, extravagance or misappropriation. The Council seek to ensure that its expenditures and activities are transparent and properly accounted for. The Council also has a duty under the Local Government Act 1999 to make proper arrangements to secure continuous improvement in the way in which it carries out its functions, having regard to ensuring economy, efficiency, effectiveness and fairness in the exercise of its responsibilities. As part of that process, the Council is required to produce an Annual Governance Statement (to be published with its financial statements) which sets out its arrangements for delivering good governance within the framework of sound internal controls.

1.2 The Annual Governance Statement (AGS) is a corporate document involving a variety of people charged with developing and delivering good governance including:

- the Leader of the Council and the Chief Executive (Head of Paid Service) as signatories;
- directors and management assigned with the ownership of risks and the delivery of services;
- the Chief Executive Designate who is responsible for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972;
- the Monitoring Officer in meeting her statutory responsibilities of ensuring the legality of Council business;
- the Council's Internal Audit function;
- Members (for example, through the select committees and the Performance and Governance Committee); and
- others responsible for providing assurance, in particular the District Auditor of the external audit service of Grant Thornton, in his role as the Council's External Auditor.

1.3 Thus the AGS, as a corporate document, is owned by all Senior Officers and Members of the Council. A shared approach was taken in compiling the AGS with the objective of engaging the whole authority within the process and encouraging a high degree of reflection and corporate learning. This increases the statement's significance and encourages people to objectively assess their responsibilities.

1.4 The system of corporate governance highlighted in the AGS, together with the system of internal control, is reviewed continually throughout the year as part of routine governance and managerial processes; prime examples being the authority's performance management and risk management framework.

1.5 Although corporately owned, the AGS requires internal control assessments/assurance statements from Heads of Service, the Internal Audit Manager, Directors, the Head of Paid Service, the Monitoring Officer and the Section 151 Officer, all of which were obtained as part of this process.

## 2. Scope of Responsibility

2.1 In discharging this overall responsibility, to ensure its business is conducted in accordance with the law, proper standards and delivering continuous improvements, Sevenoaks District Council is also responsible for ensuring that there is a system of corporate governance which facilitates the effective and principled exercise of the Council's functions and which includes arrangements for the effective management of risk. The Council seeks to conduct these responsibilities within the framework of, high quality service provision to enhance and facilitate community wellbeing and engagement.

2.2 The roles of the Chief Executive (as Head of paid Service), the Section 151 Officer, the Monitoring Officer are defined within Part 13 of the Council's Constitution. The Executive Role of Members is defined within Part 4 of the Council's Constitution.

2.3 Officers and Members are expected to conduct themselves in a proper manner in accordance with the Constitution and both are expected to declare interests that may impact on the objectivity of the Council's decision making process. These interests are held on a register and are reviewed on a regular basis by the Monitoring Officer.

2.4 Sevenoaks District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code can be obtained from our Audit, Risk and Anti-fraud Team, or via the Council's website. This statement explains how Sevenoaks District Council has implemented both the code and the requirements of regulation 4(3 & 4)) of the Accounts and Audit Regulations (England) 2011 in relation to the publication of an Annual Governance Statement.

## 3. The Purpose of the Governance Framework

3.1 The governance framework comprises the systems and processes, culture and values, by which the authority informs, directs, manages and monitors its operations, and its activities through which it accounts to, engages with and empowers the community. It enables the authority to evaluate the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. It also seeks to maximise available opportunities in achieving good value for money delivering its objectives and priorities.

3.3 The governance framework has been in place at Sevenoaks District Council for the year ended 31 March 2013. Since 14 May 2013, a new governance framework has been implemented. These changes will be subjected to review during the year and any further changes or areas for development which are identified will be considered and determined by full Council. This will be included in the Council's governance action plan.

## 4. The Governance Framework

4.1 The following represent the key elements of the governance framework within Sevenoaks District Council:

- The Council's objectives to March 2013 were established and set out in the Sevenoaks District Sustainable Community Action Plan 2010-13 and the Corporate Performance Plan. The Sustainable Community Plan 2010-13 was approved and adopted by Council in March 2010. Going forward, the Council's vision is set out in the Sevenoaks District Community Plan 2013 – 2018, which is available on the Council's website, via the following link [http://documents.sevenoaks.gov.uk/community%20and%20living/community%20plan/Sevenoaks%20Community%20Plan%202013.pdf].

- Both of these plans were subjected to considerable Member review and challenge by Cabinet, the appropriate Select Committee or the Performance and Governance Committee, the Finance Advisory Group and ultimately by the full Council. Since 14 May 2013, new governance arrangements are now in place, incorporating an Audit Committee, whose terms of reference is consistent with CIPFA standards; Standards Committee, Governance Committee and a Scrutiny Committee in addition to five Cabinet Advisory Committees. Hence the plans will continue to be scrutinised and reviewed under the new arrangements and any changes will be considered and determined by full Council. These plans are also cascaded to individuals within the Council through Service Plans and individual action plans through the appraisal process.

- Policy and decision-making is facilitated through reports from Officers to Cabinet. Each Cabinet Member has responsibility for a specific portfolio and will take decisions on matters relevant to that portfolio. Select Committees have the opportunity to 'call-in' the decisions of Cabinet and recommend changes to decisions or policies. Under the new governance arrangements the new Scrutiny Committee will have this power.

- The Council's Constitution specifies the roles and responsibilities of Members and Officers; and the financial and procedural rules for the efficient and effective discharge of the Council's business.

- Implementation of established policies, procedures, laws and regulations and good practice is achieved through:

a) **Internal Audit**

During the period 2012-13, the Council's internal audit team worked to an approved annual audit plan and undertook the work in accordance with the CIPFA Code of Practice for Internal Audit in the United Kingdom (revised 2006). Since April 2013, new Public Sector Internal Audit Standards came into force. The Council is currently reviewing the mandatory elements of the new standards to determine how these could be implemented within the Council's governance and assurance framework. This is included within the governance action plan. Individual audit reports are produced for relevant management, with copies to the Chief Executive, Section 151 Officer and the relevant Director. Quarterly update reports and the Annual Audit report went to the Performance and Governance Committee. From May 2013 all internal audit reports will now go to the new Audit Committee. The quarterly reports highlight the results of individual risk-based audit reviews, while the annual report, which contains the Audit Manager's overall assurance opinion, evaluates the overall internal control environment as tested through audit work undertaken in the year. The review of the effectiveness of Internal Audit was assessed in May 2013 as 'satisfactory' in meeting the requirements of an adequate and effective internal audit service. This was endorsed by management team and the Audit Committee.

**b) External Audit**

External audit service is provided by Grant Thornton. The District Auditor's reports are sent to senior management and Members (via the Audit Committee, (previously, via the Performance and Committee). Recommendations and comments are considered and discussed with timely actions taken to address agreed recommendations. The Council's current practice was commended in all its recent audit and inspection reports, and unqualified opinions were issued in relation to both financial statements and value for money for 2011-12.

c) **Financial Management**

A robust budgetary control system is in place and regular monitoring reports are produced for Heads of Services, Management Team, Cabinet, the Performance and Governance Committee and the Finance Advisory Group. Senior accountants conduct monthly client liaison meetings with responsible budget holders. Under the new governance arrangements the Performance and Governance Committee and Finance Advisory Group no longer exist and the information will be presented to the Finance Resources Advisory Committee and could also be looked at by the Scrutiny Committee.

d) **Performance Management**

Monitoring of progress towards the achievement of the Council's promises and objectives is undertaken through the Council's performance management system. Performance is monitored monthly and enhanced with commentaries from senior managers where performance is behind target. Strategic information is regularly reported to Management Team, Cabinet Members and the Select Committees. Under the new governance arrangements future reports to Members will be sent to the Scrutiny Committee.

e) **Arrangements for Partnerships**

The Council believes that it can enhance value for money with service delivery through innovative and cost-effective partnership working. The Council engages in extensive discussion and planning to develop efficient working arrangements while protecting quality of services. The Council has developed a comprehensive partnership toolkit to ensure that partnerships incorporate the Council's culture and comprehensive approach to managing risk. Decisions to enter into partnership working are supported by business case and cost-benefit analysis, and are subject to scrutiny and approval by Members. Following on from the successful implementation of a Revenues and Benefits; and the Audit Risk and Anti-Fraud shared services in 2010-11, the Council has successfully implemented a further major shared service project with Dartford Borough Council for Environmental Health Services in 2012.

**f) Risk Management**

The Council's risk management framework underwent a comprehensive review during 2012 -13 which resulted in streamlining and simplification of the framework, whilst incorporating good practice Enterprise Risk Management (ERM) principles within the process. The process was informed by the requirements of ISO 31000 and facilitated by the ALARM toolkit. As a result of this review, relevant training was delivered to both Officers and Members. Service managers have assessed their operational risks for 2013-14, incorporating the new framework. The strategic aspects of the framework is currently being finalised and will take account of the new senior management structure which fully comes into effect on 2 September 2013. The new strategic framework would require endorsement of the new senior management team prior to full implementation. This has been included in the governance action plan. High level monitoring of risk management framework is now carried out by the new Audit Committee. Membership of the officers risk group has been reviewed and continues to have oversight of the Council's risk management process and delivery.

**g) Relationships and Ethics**

Good co-operative relationships exist between the Council and its external auditors and inspectors and between Officers and Members. Relationships between Officers and Members are guided by a protocol embedded in the Council's Constitution. A written communications protocol has also been established between the Leader and the Chief Executive. The Council has clear Codes of Conduct for Members and Officers embedded within its Constitution, underpinned by a culture of integrity and ethical behaviour. Member conduct is scrutinised by the Standards Committee.

**h) Service Delivery by Trained and Experienced People**

The Council has a robust recruitment policy and procedures in place. The Council holds Gold and "Champion" status in the Investors in People (IiP) New Choices scheme, conferred by an external inspection regime in December 2012. The Council was one of the first local authorities nationally to achieve this standard, in its previous inspection, in 2009. Staff appraisals take place annually, including an annual review of service and training plans, training evaluation and recruitment and selection procedures.

**i) Monitoring Officer**

The Council has appointed a Monitoring Officer to oversee its compliance with laws and statutory obligations. The Monitoring Officer reports to the Council's Standards Committee. Regular meetings between the three statutory Officers (Chief Executive, Corporate Resources Director and Head of Legal Services) form part of the Council's governance arrangements. The impact of changes regarding the Council's new senior management structure within this arrangement would form part of the assessment of the review of the new structure set out in Para 2.1 of the governance action plan.

**j) Anti-fraud and Corruption**

The Council has a fraud and corruption policy, including a whistle-blowing policy, published on its intranet site. The Council also has a dedicated Benefits Fraud Team and a well-publicised "fraud hotline", available to both staff and members of the public, which allows individuals to report anonymously any suspected cases of fraud and corruption. As part of fraud risk management, all staff and Members are required to complete annul declarations of interests. Appropriate briefings have been made to all staff regarding the Bribery Act 2010. The risks of fraud and corruption are assessed within the strategic risk register and appropriate measures put in place to mitigate these risks.

## 5. Role of the Chief Financial Officer (CFO)

5.1 Section 151 of the Local Government Act 1972 requires that the Council appoint an individual officer to be responsible and accountable for the administration of its financial affairs. The Scheme of Delegation held within Part 13 of Sevenoaks District Council's Constitution assigned this responsibility in paragraph 5.2 to the then Deputy Chief Executive &

Director of Corporate Resources (Dr Pav Ramewal), who is now the Chief Executive designate and will be become Chief Executive from 1 September 2013. The impact of changes regarding the Council's new senior management structure within this arrangement will form part of the assessment of the review of the new structure set out in Para 2.1 of the governance action plan.

5.2 CIPFA has issued a Statement on the Role of the Chief Financial Officer in Local Government. This details the governance arrangements and delegated responsibilities considered necessary to facilitate an effective CFO. The Council has considered this Statement, and believes that, during the financial year 2012-13, it has complied fully with the governance requirements of this Statement. The Council's Financial Procedure Rules, codified within Appendices D and E of the Constitution, ensure that all the appropriate responsibilities are delegated and reserved to the CFO as the Statement recommends. Any relevant changes necessary in relation to these rules arising from the new senior management structure and new governance arrangement will form part of the impact assessment of the new structure set out in Paras 2.1 and 2.2 of the governance action plan.

## 6. Review of Effectiveness

6.1 Sevenoaks District Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the outcome of the work of the Council's internal auditors during the year and by Heads of Service who have responsibility for the development and maintenance of the internal control environment. It also considers comments made by the external auditors and other external review agencies and inspectorates. The Council is keen to allow itself to be the subject of external scrutiny and challenge, and to consider recommendations for improvement.

6.2 The External Auditor concluded that, for 2011-12, the Council had effective arrangements in place to ensure value for money was achieved. An unqualified opinion was issued in relation to the Council's financial statements. The Council is not aware of any issues arising in relation to value for money from the current work being undertaken by the External Auditor.

6.3 Internal audit reports were presented to the Performance and Governance Committee. The annual internal audit report was presented to the Council's new Audit Committee in June 2013. This sets out the Audit, Risk and Anti-Fraud Manager's opinion on the overall internal control and governance environment. Any internal audit review judged "unsatisfactory" or "unacceptable" is subject to a timely action plan and follow-up audit.

6.4 The opinion of the Audit, Risk and Anti-Fraud Manager in the Annual Audit Report to the Audit Committee for 2012/13 is that the overall control environment within Sevenoaks District Council is **effective**.

6.5 The Chief Financial (Section 151) Officer and the Monitoring Officer periodically review the Constitution, procedures for internal financial control and application of the various Codes of Conduct. The impact of the new senior management structure on these arrangements will form part of the impact assessment on section 2.1 of the governance action plan.

6.6 The Council continues to review and improve its governance arrangements on a continuous basis. Improvements during 2012/13 include the following:

- New governance arrangements came into force in May 2013. Relevant issues affecting this development are cited in Para 2.2 of the governance action plan
- New senior management structure, to be fully implemented from 2 September 2013. Relevant issues affecting this development are cited in Para 2.2 of the governance action plan
- Review and enhancement of the Council's Risk Management Framework. Relevant issues affecting this development are cited in Para 2.4 of the governance action plan
- Ongoing review of savings plans and budget adjustments made to protect services in the circumstances of government grant cuts;
- Extension of Shared Service arrangements to incorporate new areas to improve Value for Money;
- The development, testing and peer review of the Council's Business Continuity and Incident Management Plan, particularly in relation to the successful delivery of the Olympics and Paralympics; and Health and Safety arrangements.
- The Standards Committee, comprising of seven elected Members, ensures that Members adhere to the protocols of Conduct as set out in the Constitution.

## 7. Significant Governance Issues

7.1 **The Council notes the following significant governance issue - as previously reported, there is an on-going regulatory inquiry into the fatal road traffic accident on 13th September 2011 involving one of the Council's road sweeping vehicles. The Police investigation has been concluded with no further action to be taken, but the matter is still being examined by the HSE.**

7.2 In addition to the above, the following areas although not considered as "significant issues" of concerns have been identified as areas requiring close monitoring, or further development, within the scope of the Governance Statement and in view of the Council's commitment to continuous improvements:

## Appendix: A

# ANNUAL GOVERNANCE STATEMENT 2012/13

1. **The Council's new senior management structure fully comes into effect in September 2013. An impact assessment of the changes will be carried out within a reasonable timescale, to determine the effect of the recent changes in delivering the Council's vision and priorities.**

2. **The Council has adopted new governance arrangements from the beginning of the municipal year (2013-14). This will be subject to review during the year. Any changes will be considered and determined by full Council.**

3. **The Council is reviewing the implications of the mandatory elements within the new Public Sector Internal Audit Standards 2013 and how these could be effectively implemented within the Council's governance and assurance framework.**

4. **The Council's revised strategic risk management framework will require senior management endorsement prior to full implementation.**

**Certification**

**Signature: ......................................   Date:.......................................**

**Cllr. Peter Fleming** (Leader of the Council & Cllr for Sevenoaks Town & St. John's)

**Signature:**................................................ **Date:** .........................................

**Robin Hales (**Chief Executive  and Head of Paid Service)

on behalf of Sevenoaks District Council

**Dr. Pav Ramewal**
Chief Executive Designate and sec 151 Officer
August 2013

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# Sevenoaks District Council
# Governance Action Plan 2012/13

| | Governance Issue | Detailed Action | Lead Officer | Date | Comments |
|---|---|---|---|---|---|
| 1 | **Significant Governance Issues**<br><br>As previously reported, there is an on-going regulatory inquiry into the fatal road traffic accident on 13th September 2010 involving one of the Council's road sweeping vehicles. The Police investigation has been concluded with no further action to be taken, but the matter is still being examined by the HSE. | Management will continue to monitor developments regarding any further action from the HSE and the Council will implement any relevant proposals or remedial actions that may be recommended.<br><br>Following the incident, the council had taken steps to review and strengthened its arrangements for Health and Safety. These arrangements are currently the subject of a review by the Council's internal audit team. | Chief Officer for Environmental Services | 31/09/13<br><br>3/12/13 | Action taken and timescale would largely depend on the outcome of the HSE report.<br><br>Any agreed recommendations arising from the internal audit review will be implemented speedily. |
| 2 | **Issues Requiring Close Monitoring or Further Development**<br><br>The following areas although not considered as "significant issues" of concerns have been identified as areas requiring close monitoring or further development within the scope of the Governance Statement: | | | | |

| | Governance Issue | Detailed Action | Lead Officer | Date | Comments |
|---|---|---|---|---|---|
| 2.1 | **New Senior Management Structure**<br><br>The Council's new senior management structure fully comes into effect in September 2013. | An impact assessment of the changes will be carried out within a reasonable timescale, to determine the effect of the recent changes in delivering the Council's vision and priorities. | Chief Executive | January 2014 | |
| 2.2 | **New Governance Arrangements**<br><br>The Council has adopted new governance arrangements from the beginning of the municipal year (2013-14). This will be subject to review during the year. Any changes will be considered and determined by full Council. | The arrangements will be reviewed by senior management during 2013-14 and any areas for further development identified will be taken to full Council prior to implementation | Chief Officer Legal and Governance | March 2014 | |
| 2.3 | **New Public Sector Internal Audit Standards**<br><br>The Council is reviewing the implications of the mandatory elements within the new Public Sector Internal Audit Standards 2013 and how these could be implemented within the Council's governance and assurance framework. | The Practice Notes issued by CIPFA for the implementation of the new standards will be used to inform proposals to senior management and in consultation with the Chair of the Audit Committee. Proposals agreed by Senior Management, will be taken to | Audit, Risk and Anti-Fraud Manager | End of Sept 2013 | |

| | Governance Issue | Detailed Action | Lead Officer | Date | Comments |
|---|---|---|---|---|---|
| | | the Audit Committee for their consideration and endorsement. | | | |
| 2.4 | **Revised Strategic Risk Management Framework**<br><br>The Council's revised strategic risk management framework would require senior management endorsement prior to full implementation. | The new strategic risk management framework would incorporate both the new Governance Framework and the new senior management structure. Proposals will be taken to the new senior management team after 2nd September 2013, when the new team is fully in place, for endorsement, prior to full implementation | Audit, Risk and Anti-Fraud Manager | End of Sept 2013 | |

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**INTERNAL AUDIT PROGRESS REPORT**

**Audit Committee – 10 September 2013**

| | |
|---|---|
| Report of | Chief Finance Officer |
| Status: | For Consideration |
| Key Decision: | No |

**This report supports the Key Aim of** Effective Management of Council Resources

| | |
|---|---|
| **Portfolio Holder** | Cllr. Ramsay |
| **Contact Officer(s)** | Bami Cole, ext.7236 |

**Recommendation to Audit Committee:** It be RESOLVED that Members:

Note the contents of the report and the progress made by the audit team in delivering the 2013/14 Annual Internal Audit Plan

**Reason for recommendation:** The Audit Committee is required to review the progress of the Internal Audit Plan in compliance with its terms of reference.

**Introduction and Background**

1 This report provides details of the progress of the Internal Audit Team in delivering the Annual Internal Audit Plan 2013/14 and outcomes of final internal audit reports issued since the meeting of the committee in June 2013.This is the first progress report sent to the Audit Committee since its formation in May 2013.

2 The internal audit function is a key process of the Council's overall governance arrangements. Its key purpose is to conduct independent reviews of the Council's system of internal controls and to provide an assurance to both senior management and Members regarding the effectiveness of such systems. In fulfilling his duty and responsibilities, the Audit Manager, is required to report to Members on the progress made in delivering the internal audit plan in meeting the Council's assurance requirements, in accordance with relevant professional standards.

**Summary of Issues Raised Within the Report:**

3 A summary of progress made towards delivering the assurance requirements for 2013/14 is attached as Appendix A to this report, which sets out details of the reviews agreed initially by the Performance and Governance Committee, in April 2013; and subsequently endorsed by this committee in June 2013. Members may note that three planned reviews have been finalised to date, with a further five

shown as work in progress. Thus to date, a total of eight reviews have either been completed, or have commenced from this year's annual plan. This is equivalent to 34% of the annual internal audit plan for 2013/14. Given the relatively late start in commencing work on the 2013/14 annual plan, steady progress have been made and we expect to deliver the plan to meet the assurance requirements for 2013/14.

4 Appendix B sets out details of the reports which were issued since the last meeting of this committee and provides a brief summary of the findings and recommendations agreed with service management, to address any areas for further improvements, required to strengthen internal control. Further details on any of the issues raised on the report summaries would be provided to members of this committee on request.

**Internal Audit Resources**

5 The joint Audit, Risk and Anti-fraud Team have continued to work productively this year towards achieving service objectives and have made good progress in delivering an effective service for both Dartford Borough Council and Sevenoaks District Council.

**New Public Sector Internal Audit Standards**

6 The Audit Committee was informed at the meeting on 11 June 2013 regarding the New Public Sector Internal Audit Standards which came into effect on 1 April 2013. All public sector internal audit functions are required to comply with the new standards. The committee was also advised of the steps the Council is taking to comply with the new standards. Following the meeting in June, management has acquired the Practice Notes issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on how the standards should be applied. The notes will be used to develop proposals on the appropriate steps the Council need to take in order to comply with the requirements of the new standards. This issue is set out in the Council's Annual Governance Statement 2012/13 and is Para 2.3 on the Governance Action Plan which is a separate item on the agenda for this meeting.

**Key Implications**

<u>Financial</u>

Not Applicable.

<u>Legal Implications and Risk Assessment Statement.</u>

No additional legal implication beyond the Council's duty to comply with the Accounts and Audit Regulations 2011.

The Council is required to comply with the requirements of the Accounts and Audit Regulations 2011, regarding its "arrangements to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". The report indicates that the Council has effective arrangements in place and is taking steps to implement the requirements of the new Public Sector Internal Audit Standards.

Equality Impacts

| Consideration of impacts under the Public Sector Equality Duty: | | |
|---|---|---|
| Question | Answer | Explanation / Evidence |
| a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community? | No | |
| b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity? | No | |
| c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above? | | N/A |

**Conclusions**

This report sets out progress of the Internal Audit Team in delivering the Council's assurance requirements for 2013/14 and provides a summary of final reports issued since the meeting of the Audit Committee in June 2013. No significant concerns have been identified in audit reviews to date. Where issues for further improvements have been identified, internal audit have agreed appropriate and timely actions to address such issues.

**Appendices** Appendix A – Progress Against 2013/14 Plan

Appendix B - Summary of Final Reports Issued

Appendix C - Audit Opinions - Definitions

**Background Papers:** Internal Audit Annual Plan for 2013/14

New Public Sector Internal Audit Standards 2013 [http://www.cipfa.org/-/media/Files/Publications/Standards/Public%20Sector%20Internal%20Audit%20Standards]

Audit Committee Report 11 June 2013

Accounts and Audit Regulations 2011 [http://www.legislation.gov.uk/uksi/2011/817/contents/made]

**Adrian Rowbotham**

**Chief Finance Officer**

| PROGRESS AGAINST 2012/13 INTERNAL AUDIT PLAN | | Status at 23/8/13 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Final report issued | Draft report issued | Feedback process in progress | Fieldwork in progress | Brief issued | Possibly defer or cancel |
| 23 | Risk Management | x | | | | | |

| PROGRESS AGAINST 2013/14 INTERNAL AUDIT PLAN | | Status at 23/8/13 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Final report issued** | **Draft report issued** | **Feedback process in progress** | **Fieldwork in progress** | **Brief issued** | **Possibly defer or cancel** |
| 1 | Main Accounting System | | | | | | |
| 2 | Budgetary Control | | | | | | |
| 3 | Bank Reconciliations | | | | | | |
| 4 | Treasury Management | | | | | | |
| 5 | Payroll | | x | | | | |
| 6 | Purchasing & Creditors | | | | | | |
| 7 | Debtors | | | | | | |
| 8 | Council Tax/NNDR | | | | | | |
| 9 | Council Tax/Housing Benefits | | | | | x | |
| 10 | Housing | | x | | | | |
| 11 | Car Parking Income | | | | x | | |
| 12 | Contract Management Arrangements | | | | | | |
| 13 | Shared Services Recharges | | | | | | |
| 14 | Section 106 Agreement | | | | | | |
| 15 | Annual Governance Statement | x | | | | | |
| 16 | Information Management | | | | x | | |
| 17 | IT Review | | | | | | |
| 18 | Dunbrik | | | | | | |
| 19 | Corporate Health & Safety Arrangements | x | | | | | |
| 20 | Safeguarding Arrangements | x | | | | | |
| 21 | Planning & Development Control | | | | | | |
| 22 | Contract Payments | | | | | | |
| 23 | Housing Benefits/NFI | | | | | | |
| | **Total** | 3 | 2 | 0 | 2 | 1 | |

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**Appendix B**

**FINAL AUDIT REPORTS ISSUED DURING 2013/14**

| Audit title | Date Issued | Opinion Framework/Control |
|---|---|---|
| Sundry Debtors (2012/13) | 3/06/13 | Good/Good |
| IT Implementation & Network (2012/13) | 14/06/13 | Satisfactory/Unsatisfactory |
| Direct Services – Dunbrik (2012/13) | 14/60/13 | Satisfactory/Satisfactory |
| Council Tax/NNDR (2012/13) | 24/06/13 | Good/Good |
| Environmental Health Partnership (2012/13) | 8/07/13 | Good/Good |
| Project Delivery Arrangements (2012/13) | 16/07/13 | Good/Good |
| Corporate Health and Safety | 23/08/13 | Good/Good |
| Review of Safeguarding | 23/08/13 | Satisfactory/Satisfactory |
| Review of Risk Management (2012/13) | 22/08/13 | Not Applicable |
| Annual Governance Statement (See Agenda Pack) | 07/08/13 | Not Applicable |
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**Review of Debtors 2012/13** **Issued: 29 May 2013**

**Opinion:** Control Framework – Good.
Compliance with Framework -Good

The purpose of this review was to provide an assurance regarding the effectiveness of the system set up for the administration of the Council's Debtor system. In particular, the review examined the process for identifying, processing and where appropriate, recovering funds payable to the Council.

To this effect, the following key risks and controls were examined;

1. The Council may not comply with relevant legislation, organisational policy or good practice
2. There may be insufficient or no documentary evidence to support debtor accounts and transactions
3. Transactions may not be processed promptly and debtor accounts may not be up-to-date or accurate
4. Invoices may not be correct, promptly issued or contain all relevant information
5. Aged debt may not be monitored and recovery action not taken
6. Income may not be posted to the correct financial codes within accounting software
7. Fraud and corruption may be undetected
8. Opportunities to achieve or demonstrate efficiency or value for money may not be maximised
9. Risk assessments may not be undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in eight of the nine aspects examined, whilst one was partially met (Risk 5). The audit opinions for both Framework and Compliance are 'good'. This meant that a robust framework is in place to enable the achievement of service objectives, obtain good corporate governance and mitigate against foreseeable risks. There is evidence that the framework is substantially being complied with; and that the management of risk is considered to be good. Only minor errors or omissions were identified.

One recommendation was agreed with Management to address the area where controls were partially met. This relates to risk 5.

- An officer needs to ensure on a regular basis (at least monthly) that performance figures reported to Committee are consistent with Covalent. Any deviations should be investigated and amended as necessary.

Members will be advised of the progress in implementing this recommendation in due course.

**Review of SDC IT Implementation and Network 2012/13** **Issued: 3 June 2013**

**Opinion:** Control Framework – Satisfactory.
Compliance with Framework - Unsatisfactory

The purpose of this review was to provide an assurance regarding the effectiveness of the arrangements to ensure delivery of Council's Information Systems which facilitates the work of the Council. In particular, the review focussed on resilience, security of data, disaster recovery, business continuity arrangements and the Council's compliance with good practice.

To this effect, the following key risks and controls were examined;

1. The Council may not comply with relevant legislation, organisational policies, and good practice
2. The Council may not ensure that data, including personal data, is secure against unauthorised access and editing, both internally and externally
3. Data may not be recoverable, or recoverable in good time, in the event of system loss
4. The Council may not have effective or up to date business continuity arrangements, leading to less efficient operation
5. Relevant data may not be accessible or available to the correct officers
6. System and data backup arrangements may not be adequate or effective
7. System resilience arrangements may not be as effective as possible
8. Alignment of systems and interface with partner organisations
9. System and application upgrades may not be received or installed correctly and promptly
10. Fraud and corruption may be undetected
11. Opportunities to achieve or demonstrate efficiency or value for money may not be maximised
12. Risk assessments may not be undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in eight of the aspects examined, whilst four were partially met (Risks 2, 5, 7 and 11). The audit opinion for the control framework is 'satisfactory'. Controls are in place and to varying degrees are complied with but there are gaps in the process, which leave the service exposed to identifiable risks. There is, therefore, a need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure of the Council.

The opinion for implementation of the framework was 'unsatisfactory'. There is a need to improve compliance with existing controls, as errors and omissions were detected during the review which may affect the effectiveness of service delivery. Failure to improve compliance would leave the Council exposed to potentially significant risks, including risks to the achievement of key service objectives. However, since the report Internal audit was advised by management that recommendations relating to bullet points two to five below have been implemented, thus reducing the threat impact to the Council. But Internal Audit has not yet undertaken a follow-up on the implementation of the recommendations. This will be done in due course and reported to the next meeting of this Committee.

The following recommendations were agreed with Management to address the areas where controls were partially met. These relate to risks 2, 5, 7 and 11.

- IT should review lists of dormant accounts periodically to ensure that all leavers have had their access to the system removed.
- The issues regarding pressures on the IT network should be formalised within a risk assessment, with proposed controls, which should be presented for management to approve, in order to ensure buy-in across the Council.
- Project briefs presented to the IT Steering Group should include an estimate of the resource required to complete a whole life program, including post-implementation project phases.
- When evaluating and determining IT projects, including maintenance projects, the IT Steering Group should ensure that there is sufficient time budgeted within the project for knowledge to be documented and shared within the team, such that the long-term efficiency of projects is not affected.
- A knowledge sharing protocol should be established to ensure that all IT support staff have a basic knowledge and understanding of all current, new and updated IT systems.
- The IT Support team should regularly test all automated network restriction controls to ensure they are working as according to the established policies.

Members will be advised of the progress in implementing these recommendations in due course.

**Review of Direct Services (Dunbrik) 2012/13** **Issued: 14 June 2013**

**Opinion:** Control Framework – Satisfactory
Compliance with Framework – Satisfactory

The purpose of this review was to provide an assurance regarding the effectiveness of systems within the Dunbrik Depot in meeting relevant service objectives and compliance with Council procedures and policies. The review examined the systems and arrangements for Trade Waste, Cesspools and Health and Safety.

To this effect the following key risks and controls were examined;

1. Risk that the processes and procedures in place at the depot may not comply with relevant legislation, policies or good practice.
2. Risk that financial arrangements, including the income generation and collection systems may not comply with the organisation’s Financial Regulations, policies and procedures.
3. Risk that Health and Safety procedures, including the risk assessment process and record keeping, may not be comprehensive or effective.

4. Risk that the Trade Waste arrangements may not be efficient, effective or profitable.
5. Risk that the Cesspool emptying arrangements may not be efficient, effective or profitable.
6. Risk that performance indicators may be calculated on inaccurate information.
7. Risk that fraud and corruption may be undetected.
8. Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
9. Risk that risk assessments may not be undertaken and risks not adequately managed.

Audit testing indicated that controls were fully met in six of the nine aspects examined. Controls in respect of risks 2, 3 and 9 were partially met.

The audit opinions for both framework and compliance were "Satisfactory". This meant that controls are in place and to varying degrees are complied with, but there are gaps in the process, which leaves the service exposed to identifiable risks. There is therefore a need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure to the Council.

The following three recommendations were agreed with management to enhance existing controls within the service. They relate sequentially to risks 2, 3 and 9.

- Additional controls should be put in place at Dunbrik for deductions from cash income to fund petty cash. These should include a third party confirmation in the petty cash records of addition's made and the third party being copied into the e mail at Argyle Road which reports the under banking.
- Risk assessments needs to be reviewed by management after they have been completed in order to ensure accurate reporting and that appropriate action is taken where necessary.
- Management should consider including the risks posed by the decline in customers for cesspool emptying and trade waste services as separate risks in the operational risk register. Making the risks more explicit would add value by improving the transparency of the risks assessed and may highlight the importance of the impact of demand on the relevant services and the implications for the funding of other service areas, as well as demonstrating whether effective actions have been taken to mitigate any identified threats to achieving objectives.

Members will be advised of the progress in the implementation of the above recommendations in due course.

**Review of Council Tax & NDR 2012/13** **Issued: 24 June 2013**

**Opinion:** Control Framework – Good.
Compliance with Framework -Good

The purpose of this audit was to provide an assurance regarding the effectiveness of the system set up for the administration of Council Tax and NDR, in delivering service objectives, including fitness for purpose. Key areas examined include areas of concerns raised in previous internal and external audit reports; in addition to the systems for recording liability and collecting income, including recovery arrangements, single person discounts and accuracy of data transfer onto the Council Tax and NDR accounting systems.

To this effect, the following key risks and controls were examined;

1. Risk that the Council may not comply with legislation, organisational policy or regulatory requirements.
2. The service may not deliver its service objectives.
3. The system for identifying and recording liability may not be operating correctly.
4. The system for collecting income including recovery arrangements and overpayments may not be effective
5. Single person (and other discounts and exemptions) may be invalid, not supported by valid applications or not properly authorised.
6. The accuracy of data transfer onto the computer system may not be reliable.
7. Risk that fraud and/or corruption may occur.
8. Risk that opportunities to demonstrate efficiency or VFM may not be maximised.
9. Risk that risk assessments may not be adequately undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in six of the nine aspects examined, whilst three were partially met (risk 2, risk 5 and risk 7).

The opinion of the auditor was that the Council Tax and NDR framework was "good" Additionally, the compliance with the current Council Tax and NDR framework was "good". This meant that a robust framework is in place to enable the achievement of service objectives, obtain good corporate governance and mitigate against foreseeable risks. There is evidence that the framework is substantially being complied with; and that the management of risk is considered to be good. Only minor errors or omissions were identified.

The following five recommendations were agreed with Management to address the areas where controls were partially met:

- Management should ensure that the entire new process (including the increased number of council tax payers) is effectively risk managed using the new risk management framework, and if necessary seek further advice from the Audit, Risk and Anti-Fraud Manager.
- Management should arrange for an interim audit to take place a few months into the changes. This would determine that the changes have been smoothly and

correctly implemented and highlight any areas of improvement or future considerations.

- Management should review the collection targets in relation to payment arrangements and the increase number of new Council Tax payers to ensure that they are within the expectations of both Councils. Given the on-going economic uncertainties which are predominantly outside the Council's control which could affect collection over the next year at least. Alternatively, whether there are any innovative ways to increase collections.
- Discussions need to take place between the Revenues and Fraud Managers to review the current SPD process and how discounts are verified to ensure they are correctly applied. Additional improvements have been proposed by both Managers which need to be agreed and formalised.
- A review should be undertaken to ascertain whether Council Tax and NDR online payments could be received securely and processed consistently with other Council services

Members will be advised of the progress in implementing these recommendations in due course.

**Review of the Environmental Health Partnership 2012/13** **Issued: 8 July 2013**

**Opinion:** Control Framework – Good.
Compliance with Framework -Good

The purpose of the review was to provide as assurance regarding the effectiveness of the new shared service arrangements, between Dartford Borough Council and Sevenoaks District Council for the provisions of Environmental Health Service on behalf of both Councils. The review examined the following key aspects; the achievement of the objectives identified in the Business Plan and the effectiveness of the service in delivering its operational objectives and performance, including the savings forecast.

To this effect, the following key risks and controls were examined;

1. Risk that the Council may not comply with relevant legislation, policies or good practice
2. Risk that business plans may not be feasible in practice
3. Risk that implementation cost targets may not be adequately managed
4. Risk that savings targets may not be achieved
5. Risk that performance targets may not be achieved
6. Risk that workload arrangements may not be appropriately distributed across the two councils
7. Risk that contractual arrangements may not be in place or monitored
8. Risk that monitoring and reporting of the financial arrangements may not be adequate or appropriate
9. Risk that fraud and corruption may be undetected

10. Risk of failure to maximise opportunities to demonstrate efficiency or VFM
11. Risk that risk assessments may not be undertaken or risks not adequately managed

Audit testing results indicated that controls were fully met in seven of the nine aspects examined, whilst four were was partially met (Risks 5, 6, 7 and 8)

The audit opinion for the framework was **Good.** This meant that effective controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. Additionally, the implementation of the controls to ensure achievement of service objectives was also **Good.** There is substantial compliance with existing framework and no notable exceptions were identified.

The following recommendations were agreed with Management to address the area where controls were partially met. These relates to risks 5, 6, 7 and 8

- Environment Health Managers should review how food inspection visits are recorded and reported in order to ensure that records and performance indicators provide an accurate reflection on activity.
- The use of Uniform to capture and collate data for PI's should be explored to see if it can be utilised.
- Counterparts in similar roles should continue structured integration and knowledge sharing by undertaking cross familiarisation across the whole partnership area, under controlled and structured conditions
- Arrangements should be progressed to ensure that the Environmental Health Partnership schedule, between Dartford Borough Council and Sevenoaks District Council, is formally agreed and signed
- Finance Managers and Environmental Health Managers should work together to agree a universal format for monitoring all EH budgets in order to provide clear effective and appropriate management information and to enable EH managers to effectively manage and monitor budgets.

Members will be advised of the progress in implementing this recommendation in due course.

**Review of Project Delivery Arrangements 2012/13** **Issued: 16 July 2013**

**Opinion:** Control Framework – Good.
Compliance with Framework –Good

The purpose of this audit was to provide an assurance regarding the effectiveness of the Council's grant allocation process to external bodies with whom it works to deliver some services to the local communities. In particular, this review examined the effectiveness of the process leading to grant allocation and decision making, including Member involvement.

To this effect, the following key risks and controls were examined;

1. The Council may not comply with relevant legislation, organisational policy and good practice
2. The Council may not have an effective and fair system for assessing applications for community grant funding
3. There may not be documented agreements with recipient organisations
4. There may be ineffective arrangements for monitoring of agreed project outcomes, and reporting of project results
5. The Council may destabilise voluntary organisations through reliance on grant funding for their core costs
6. The Council may not allocate funding to projects or services consistent with the aims of the Community Fund and the strategic objectives of the Council.
7. Fraud and/or corruption may be undetected
8. Opportunities to demonstrate efficiency or value for money may not be maximised
9. Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in all nine of the aspects examined.

The audit opinion was ‘good’. This meant that controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.

One recommendation was agreed with Management to enhance existing controls and provide further value for money. This relates to risk 1.

- Copies of all applications, submitted for consideration to the Big Community Fund, should be automatically copied to all Members representing the relevant ward or wards who were not signatories, for information, and within 5 days of receipt by Community Development.

Members will be advised of the progress in implementing this recommendation in due course.

**Review of Corporate Health & Safety Arrangements 2013/14 Issued: 22 August 2013**

**Opinion:** Control Framework – Good
Compliance with Framework –Good

The purpose of this audit is to provide an assurance on the effectiveness of the Council's arrangements for Health and Safety in order to ascertain compliance with Council policy. In particular to determine fitness for purpose and compliance with statutory requirements.

To this effect, the following key risks and controls were examined;

1. The Council may not comply with relevant legislation, organisational policy and good practice
2. The Council may not have an effective corporate governance structure in relation to health and safety
3. All officers may not be aware of the governance arrangements, processes, or procedures in place for health and safety
4. Adequate training may not have been provided to responsible officers
5. Effective incident and management reporting structures may not be in place
6. Effective measures may not be taken to address identified health and safety issues
7. Fraud and/or corruption may be undetected
8. Opportunities to demonstrate efficiency or value for money may not be maximised
9. Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in five of the aspects examined. Controls were partially met in four aspects (risks 2, 3, 5 and 9)

The audit opinion was 'good'. This meant that controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.

Six recommendations were agreed with Management to address identified areas for further development and to further enhance existing controls, or to provide improved value for money. These related to risks 2, 3, 5 and 9.

- The Corporate Health and Safety Group should have a standing annual agenda item to consider whether or not the Health and Safety Policy Statement requires a review.
- Council Officers should be reminded of the need to fully complete accident reports. Monitoring procedures should ensure that outstanding reports are followed up promptly.

- The current review of the Strategic Risk Register should set out Health and Safety risks as a separate item, in order to demonstrate the Council's commitment to strengthening its Health and Safety framework.
- The Corporate Health and Safety Group should identify those officers requiring access to the Accident Reporting system, and liaise with IT Services to ensure that all relevant shared services officers have access to the system.
- The Corporate Health and Safety Group should continue to monitor actions to ensure that all relevant Health and Safety information is available via the refreshed intranet site as soon as possible.
- As per planned developments, officers responsible for risk assessment actions on Covalent should be required to confirm their progress via milestone updates, in order to provide an efficient and effective process for identifying compliance in completing risk assessments.

Members will be advised of the progress in implementing this recommendation in due course.

**Review of Safeguarding 20 2013-14** **Issued: 22nd August 2013**

**Opinion:** Control Framework – Satisfactory
Compliance with Framework – Satisfactory

The purpose of this review was to provide an assurance regarding the Council's arrangements for the "safeguarding" of children, young people and vulnerable adults, including compliance with regulatory and statutory requirements.

To this effect the following key risks and controls were examined;

1. The Council may not comply with relevant legislation, policies or good practice
2. The Council may not have an appropriate or adequate framework in place for delivering its duties under the Act
3. There is no clear line of responsibility to raise concerns or raise awareness
4. The Council may not have a rigorous recruitment process for those who come into contact with children, young people and vulnerable adults, or to continue to monitor the suitability of such person that may be authorised to come into contact with those protected by the Act
5. Staff do not have access to a clear written code which outlines responsibilities and good practice when working with children, young people and vulnerable adults
6. Inadequate training including child protection and health and safety
7. The Council does not provide an open and well publicised way for adults and young people to voice any concerns about abusive or unethical behaviour, or to raise any concerns in general
8. External suppliers, contractors etc., used to provide events and services on behalf of the Council do not comply with safeguarding policies
9. Fraud and corruption may be undetected
10. Opportunities to achieve or demonstrate efficiency or value for money may not be maximised

11. Risk assessments may not be undertaken and risks not adequately managed

Audit testing indicated that controls were fully met in six of the eleven aspects examined. Controls in respect of risks 1, 2, 3, 4 and 6 were partially met. The audit opinions for both framework and compliance were “Satisfactory”. This meant that controls are in place and to varying degrees are complied with, but there are gaps in the process, which leaves the service exposed to identifiable risks. There is therefore a need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure to the Council. It was noted however that management is already taking steps to address some of the issues and to reduce identified treats to the Council, but these have not been fully reflected in the opinions as the actions are not yet fully embedded.
The following seven recommendations were agreed with management to enhance existing controls within the service.

- Safeguarding policy includes any recent amendments (April 2013) and that all legislative points are covered. The revised policy should be made available on the intranet and the SDC website as soon as it has been agreed by full Council. The SDC website should be used to promote the policy and to encourage communication and engagement with stakeholders.
- The Council’s complaints officers must be made aware of the revised child protection policy including the flowcharts so they can deal with complaints effectively. The revised child protection policy must be put on the intranet and the SDC website as soon as it has been agreed. The policy should be reviewed every 2 years.
- Management should take appropriate steps to ensure that all Council officers are made aware of the person responsible for safeguarding by publicising on the intranet. Steps should also be taken to make sure all officers are aware of what to do if they come across any concerns impacting on safeguarding they believe ought to be raised with management or the appropriate authorities whilst carrying out their duties.
- The Chief Officer Communities and Business should liaise with the Heads of Service to ensure: -
    - Where necessary job descriptions and person specification should detail the safeguarding policy. Compliance with the latest policy should form part of the post key activities.
    - Application forms to mention the latest Safeguarding and Child protection
    - Starter pack should contain a copy of the latest Councils safeguarding policy
- The safeguarding group has only met twice, once to decide to do more training and once to decide what training should consist of and which officers would be prepared to support or act as sounding boards for others. This is part of the review of the policy.

- Before a project is commissioned, appropriate checks should be carried out regarding the appropriateness or suitability of provider to undertake the work. These checks should include what procedures the provider has in place regarding information sharing.
- The Chief Officer Communities & Business should ensure that there is an effective system in place to support officers that have received training.
- An evaluation form should be distributed immediately after training to add value to the process and to ensure that officers can identify any skills gaps that may remain following training

Members would be advised of progress of the recommendations in due course.

**Review of Risk Management 2012/13** **Issued: 22 August 2013**

**Opinion: N/A**

This report provides a position statement on the progress of the revised risk management frameworks and so no opinion has been offered in accordance with standard practice for systems in transition. Once the systems are fully embedded, a full audit on Risk Management will be undertaken in order to provide an opinion and appropriate assurance on its effectiveness and fitness for purpose.

The initial purpose of this audit was to provide assurance on the Council's risk management arrangements. However, during 2012 the Council undertook a review of its risk management frameworks with a view to streamlining and simplifying the process. As this process is still being implemented, it was not considered appropriate to undertake a standard assurance review at this time.

Additionally, changes in the structure and management of the Council were announced which would have an impact on risk management. It was considered prudent therefore to delay until more information was available and the structure agreed.

This position statement has taken into account developments to date and progress on implementing the new frameworks, it concludes: -

- The operational risk management framework is being successfully implemented across the Council, with Service Managers understanding the process and completing their registers in conjunction with the objectives identified in their Service Plans.
- The production of the strategic risk management framework and its endorsement by Management, should empower the Council to recognise and address its responsibility to manage risks to achieve its objectives, both in terms of minimising threats and exploiting objectives.
- Having undergone a robust consultation process and considered senior management views, the process should ensure future buy-in from stakeholders in regard to its implementation.

Four recommendations have been agreed with management which will support the process going forward.

- In order to support the implementation of the strategic framework, stakeholders should be made aware of and agree their roles and responsibilities early in the process.
- Once it has been endorsed, the strategic risk management framework should be widely publicised across the Council, in order that all staff become familiar with the terminology, and are aware of its importance and relevance.
- Once it has been endorsed, the strategic risk management framework documentation should be made available to all staff via the intranet. This will ensure they are aware of the requirements and the information is available for reference.
- A full audit on both risk management frameworks should be undertaken once the processes are embedded in order to provide an assurance on their effectiveness and fitness for purpose.

Members will be advised of the progress in implementing this recommendation in due course.

**Appendix C**

# DEFINITIONS OF AUDIT OPINIONS

| Opinion | Framework | Effectiveness(Implementation) |
|---|---|---|
| **Excellent** | … innovative frameworks are in place, which demonstrate efficiencies and excellent value for money, whilst ensuring the achievement of service objectives, good corporate governance and high level of protection for the council against foreseeable risks. | … there is full compliance with the framework of controls and the risk management process is considered to be fully effective. There is evidence of notable practice and no areas of concern were identified. |
| Minimum requirement | All controls are in place | All controls are fully implemented |
| **Good** | … a high level of control framework is in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. | … the framework of controls is substantially being complied with and risk management process is considered to be good. Only minor errors or omissions identified |
| Minimum requirement | All controls are in place | 51% or above of risks examined are low and the remainder are medium. Limited room for further development |
| **Satisfactory** | … controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. | … occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks. |
| Minimum requirement | Control requirements are substantially met | Up to 50% of risks examined are medium or low. Opportunities for further developments exists requiring constructive proposals for management consideration |
| **Un-satisfactory** | … limited controls are in place but there are gaps in the process, which leave the service exposed to foreseeable risks. Hence further development in framework is needed to make the system effective. | … there is an urgent need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure to the Council. |

| | | |
|---|---|---|
| Minimum requirement | Control requirements are patchy and unreliable | Testing results identified one or more high risk |
| **Un-acceptable** | … controls are considered to be inadequate or non-existent with the absence of at least one critical control mechanism. An urgent need exists to introduce appropriate level of controls without delay. | … failure to urgently improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.<br>Note: compliance testing in this circumstance may not add value. However, there would be some value in conducting weakness testing in some circumstances to determine the level of "threat" or "loss" to the Council. Hence an opinion for compliance may not be given where the framework is "unacceptable" |
| Minimum requirement | No evidence of controls exit | Testing results identified one or more very high risk |

Audit Committee 2013/14 –Work Plan

| | 11 June 2013 | 10 September 2013 | 14 January 2014 | 18 March 2014 |
|---|---|---|---|---|
| **Internal Audit** (Irregularities to be reported confidentially as & when necessary) | Review of effectiveness of Internal Audit<br><br>Internal Audit Annual Report | Internal Audit Quarter 1 report<br><br>Annual Governance Statement | Q2 Report | Internal Audit Plan<br><br>Q3 Progress Report |
| **Risk Management** | Risk Management Plan | | Update | |
| **Accounts and External Audit** | External Audit - Annual Audit Plan | Statement of Accounts 2012/13 | External Audit - Annual Audit Letter | |
| **Other** | | Operation of the Council's Surveillance Policy | | |

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