

**Steve Atkinson** MA(Oxon) MBA FIoD FRSA  
*Chief Executive*



**Date:** 13 September 2011

**Hinckley & Bosworth  
Borough Council**

*A Borough to be proud of*

Dear Sir/Madam

I hereby summon you to attend an EXTRAORDINARY meeting of the **HINCKLEY & BOSWORTH BOROUGH COUNCIL** in the Council Chamber at these offices on **WEDNESDAY, 21 SEPTEMBER 2011 at 6.00 pm.**

Yours faithfully

A handwritten signature in black ink, appearing to read 'RK Owen'.

Miss RK Owen  
Democratic Services Officer

**PLEASE NOTE START TIME**

**AGENDA**

1. Apologies
2. To receive verbally from Members any disclosures which they are required to make in accordance with the Council's code of conduct or in pursuance of Section 106 of the Local Government Finance Act 1992. This is in addition to the need for such disclosure to be also given when the relevant matter is reached on the Agenda.
3. To consider the Statement of Accounts 2010/11, attached marked C20.

To: All Members of the **HINCKLEY & BOSWORTH BOROUGH COUNCIL**  
(other recipients for information).

**COUNCIL - 21 SEPTEMBER 2011**

**REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)**  
**RE: STATEMENT OF ACCOUNTS 2010/11**

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1. **PURPOSE OF REPORT**

To seek Council approval of the Statement of Accounts and Annual Governance Statement for 2010/11.

2. **RECOMMENDATION**

That Council approves the Statement of Accounts and Annual Governance Statement for the year 2010/11.

3. **BACKGROUND TO THE REPORT**

**a) Statement of Accounts**

Under the terms of the Accounts and Audit Regulations each Local Authority is required to prepare a Statement of Accounts by 30 June following the end of the year to which they relate. This draft statement is signed by the Section 151 Officer as being a True and Fair Statement of the authority's financial performance during the year and of its financial position at the year end. This has been achieved for 2001/11 and the draft statement is attached to this report.

The Accounts and Audit Regulations also require that the Accounts are approved by members and published by 30 September each year. Between June and September the accounts have been subject to external audit and the auditors findings have been reported to the Finance, Audit and Performance Select Committee on 12 September 2011.

The statement has been prepared according to the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the code). For the first time the requirements of the code have been prepared on the basis of the reporting requirements of International Financial Reporting Standards (IFRS) rather than UK Generally Accepted Accounting Practice (UKGAAP). In his Budget Statement in 2006 the then Chancellor of the Exchequer announced that from April 2008 for Central Government bodies (including the NHS) and 2009 for Local Government and similar bodies (e.g. Police and Fire Authorities) the published statement of accounts was to be based on IFRS principles rather than UKGAAP. These deadlines were later put back by 12 months so that Central Government bodies produced their first IFRS accounts for the year 2009/10 and Local Government is producing its first set of IFRS accounts for 2010/11.

The application of Accounting Standards to published accounts is nothing new and started in the commercial sector in the 1970's with the development of

domestic Statements of Standard Accounting Practice (SSAP's). These were developed in order to aid the comparability of accounts ensuring that they were prepared on a consistent basis and to avoid misstatements that may impact on the users of the accounts decisions. Local Government started to adopt SSAP's in the 1980's and has more recently adopted a Statement of Recommended Practice (SORP) which was based on UKGAAP which is the practical application of SSAP's and Financial Reporting Standards that have superseded them. Standards are set by the Financial Reporting Council, which is made up of representatives of the various Accountancy bodies.

The application of Accounting Standards to Local Authority Accounts has in the past resulted in a conflict as to what needs to be included in the cost of services from an accounting point of view and the costs actually incurred in delivering the services for which the council collects Council Tax and is paid Central Government Grant. In order to avoid increases in local taxation resulting purely from changes in accounting practice and convention Central Government have made regulations that allow local authorities to take out the amounts included to comply with Accounting Standards and include the amounts that comply with statute. These adjustments are made through unusable reserves. Examples of this are Charges for the use of fixed assets where depreciation is included in the Cost of services above the line but taken out below the line and replaced with an interest charge and Minimum Revenue provision for the repayment of borrowing to reflect the financing costs of acquiring the asset and the charge for pensions where the cost of the annual accrual of benefits by employees is included in cost of services but taken out below the line and replaced by the employers contribution to the Pension Fund

The application of International Accounting Standards is intended to ensure comparability between published accounts for all organizations on a worldwide basis.

The presentation of the information in the statement has changed radically from that used for 2009/10 as well as the treatment of certain items within the accounts which are detailed below. Comparative figures for 2009/10 have been restated to reflect the new presentation and accounting treatment.

The statement comprises the Main Financial Statements

- Statement of Movements in Reserves
  - Comprehensive Income and Expenditure Statement
  - Balance Sheet
  - Cash Flow Statement
- Plus accompanying notes

Together with the following supplementary Statements

- Housing Revenue Account
  - Housing Repairs Account
  - Collection Fund
- Plus accompanying notes

The Statement also includes

- An explanatory foreword
- Statement of Accounting Policies
- Glossary of Terms

The main areas of change in accounting practice that affect this Council are

a) Leases

Leases can be defined as operating or finance leases. A finance lease can be defined as lease where the lessor uses the majority of the economic life of an asset over the lease or acquires the benefits and liabilities of ownership, an operating lease is a lease that is not a finance lease. Under a finance lease the asset is included in the balance sheet and is depreciated in the normal way. The financing cost is charged to income and expenditure.

The main area of impact for this Council related to the Waste Management Service Vehicles which were treated as being acquired under an operating lease but when tested turned out to be a finance lease. In the past the full payment to the leasing company has been charged to the service, under IFRS the following transactions are required,

At the inception of the lease create an asset and an equal long term liability

Each year the following transactions are required

In the Cost of Services the maintenance element of the lease payment and the charge for depreciation

In the Financing and investment income and expenditure the interest element of lease payment

In the Reserve movements statement the reversal of the depreciation and a charge for minimum revenue provision equal to the capital element of the lease payment.

b) Compensating absence provisions

It is assumed that employees accrue leave entitlement evenly throughout the year but actually take the leave in discreet blocks so that if the employee's leave year and the organisation's financial year do not coincide, at the end of the financial year for each employee there will be an amount of leave either under or overtaken. IFRS requires organisations to accrue for this variation in the accounts so there is a charge in the cost of services but regulations allow local authorities to reverse the charge out to a reserve.

c) Grants unapplied

In certain cases grant awarding bodies pay grants to the council before the expenditure they are intended to finance has been incurred. In the past these grants have been held in a Grants unapplied account in the balance sheet

until they have been required to finance expenditure. Under IFRS if the grant conditions have been met and there is no longer a requirement to repay the grant the authority needs to recognize the income in the Income and Expenditure Account and transfer the unused proportion to reserves. When the grant is required it will require a transfer from reserves to finance the expenditure.

### Notable items in the Accounts for 2010/11

#### 1. Non distributed costs

This item includes a credit of £5,716,000 in respect of a past pension service gain arising from the Chancellor of the Exchequer's announcement in the Emergency Budget in June 2010 that Public Sector Pensions would be uprated by the Consumer Prices Index (CPI) rather than the Retail Prices Index which has been traditionally higher than the CPI. This in effect reduces the long term liability in the scheme as going forward the amount of pensions payable will be lower than previously anticipated. This amount is included in the Income and Expenditure Account but reversed out under statute to the Pensions Reserve.

#### 2. Planning

This head includes a charge of £7,156,000 in respect of a market value impairment on the Atkins Building which was previously carried at cost and is now carried at a valuation as the work has been completed. Revaluations are normally dealt with via a revaluation reserve but in this case there were insufficient previous upward revaluations in the reserve relating to this asset to absorb the impairment. Under accounting practice this impairment is charged to the Income and Expenditure Account but reversed out under statute to the Capital Adjustment Account both the Revaluation Reserve and Capital Adjustment Account are unusable reserves that cannot be used to support future service expenditure.

#### 3. Housing Revenue Account

Included within the Expenditure on the Housing Revenue Account is £45,852,000 in respect of a market value impairment of the value of the Council's Housing Stock. For accounting purposes the Housing Stock is valued at Existing Use Value – Social Housing (EUV-SH). This is to reflect the fact that the property has a sitting tenant with a secure tenancy and to reflect the fact that the rents charged for social housing are lower than those charged in the open market. The EUV-SH valuation is arrived at by determining the market value of the property then applying a discount factor. For 2010/11 the Department of Communities and Local Government set a valuation factor of 34% for authorities in the East Midlands against the previous factor of 50%. Again accounting conventions require this amount to be charged to the Income and Expenditure Account and regulations allow for the charge to be taken out to unusable reserves.

## **b) Annual Governance Statement**

Regulations have placed emphasis on all local authorities to ensure they have sound systems of internal control. The Accounts and Audit Regulations 2011 have established requirements that all local authorities must adhere to in relation to systems of internal control. This has implications for the whole authority and all its services. The regulations require councils to “have a sound system of internal control which facilitates the effective exercise of the council’s functions and which include the arrangements for the management of risk”.

The Council is required to review at least annually the effectiveness of the system of internal controls and make a statement on that within the Statement of Accounts.

Whilst the legislation requiring the statement is placed with the Accounts and Audit Regulations **this is not just an accounting or auditing issue. The Statement on Corporate Governance is a key measure of the overall effectiveness of the Authority.**

As part of the production of the statement on corporate governance, assurance is required from all services regarding their current systems, procedures and accompanying controls operated. All services have therefore been asked to complete a service assurance assessment and produce an accompanying service assurance statement. The statements have been taken into account in drawing up the Statement of Internal Control.

### **4. FINANCIAL IMPLICATIONS [DB]**

There are no other financial implications other than those set out in this report by way of explanation of the completion of the Statement of Accounts under International Financial Reporting Standards.

### **5. LEGAL IMPLICATIONS [LH]**

None other than those contained in the body of the report

### **6. CORPORATE PLAN IMPLICATIONS**

This report contributes to the Council’s Corporate Objective

“Proud of our  
Probity and Honesty in Governance and Management  
And  
Value in Service Delivery & Investment in people”

### **7. CONSULTATION**

None

## 8. **RISK IMPLICATIONS**

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

<b>Management of significant (Net Red) Risks</b>		
<b>Risk Description</b>	<b>Mitigating actions</b>	<b>Owner</b>
None		

## 9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

There are none

## 10. **CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account: [if you require assistance in assessing these implications, please contact the person noted in parenthesis beside the item]

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

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### Background Papers

Civica Authority Financials/Business Objects Reports  
Accounts and Audit Regulations 2011  
Cipfa Code of Practice on Local Authority Accounting in the United Kingdom

Contact Officer – David Bunker, Accountancy Manager

Executive Member : Councillor K W P Lynch

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## The Annual Governance Statement

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### **SCOPE OF RESPONSIBILITY**

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

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

Hinckley and Bosworth Borough Council has approved and adopted a code of corporate governance (The Constitution) which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Constitution can be found on the Council's website at Services>Council & Democracy. This statement explains how the Council has complied with the code and also meets the statutory and other requirements in relation to the publication of an annual governance statement.

### **THE PURPOSE OF THE SYSTEM OF CORPORATE GOVERNANCE**

The system of corporate governance is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of corporate governance 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.

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

The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of the approval of the Statement of Accounts

Improvements to the System of Internal Control have been made during 2010/11 and will be further developed in future years.

### **THE INTERNAL CONTROL ENVIRONMENT**

The key elements of the Council's internal control arrangements are as follows:



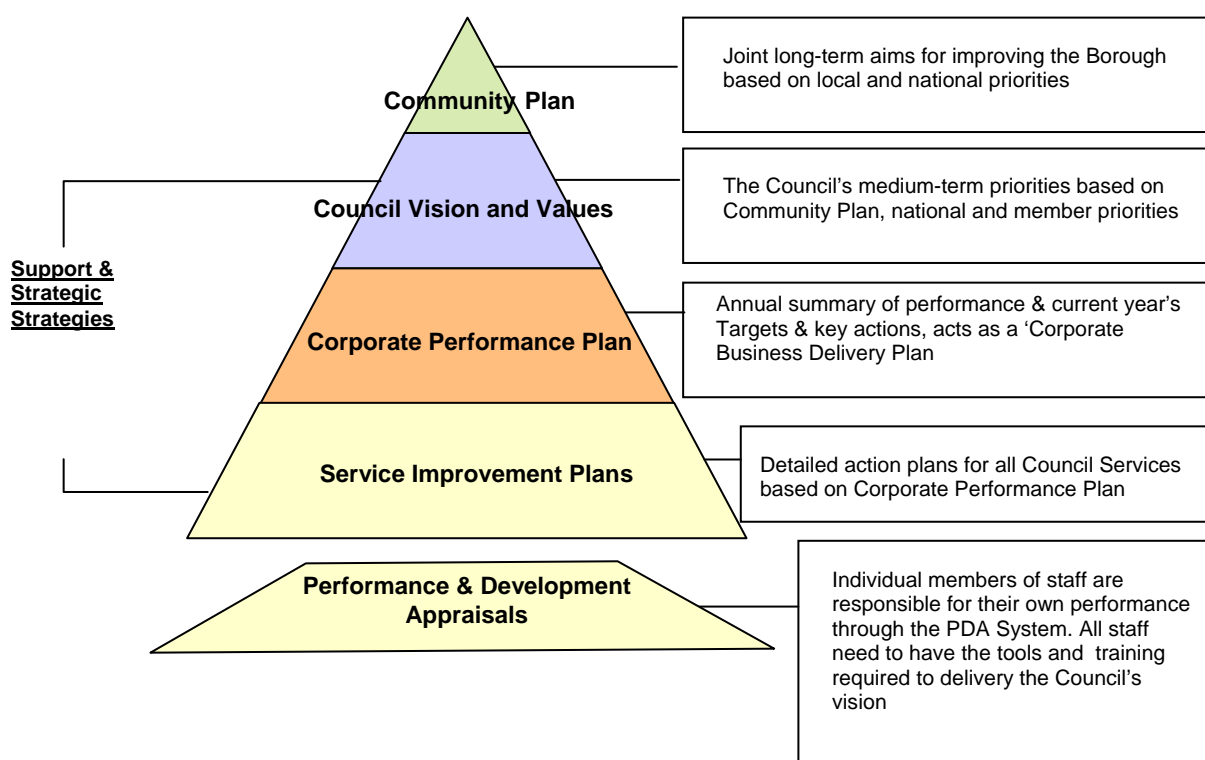
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The Annual Governance Statement (continued)

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- The Council's Community Plan developed by the Local Strategic Partnership for the period 2007/12 sets out the long-term aims of the Borough and drives the Corporate Performance Plan and Medium Term Financial Strategy. The Council's Corporate Performance Plan for the period 2008/13 focuses on the Council's development of its services based around an agreed set of priorities developed through cross-party engagement by the Council's Executive. The objectives are reflected in the Service Improvement Plans developed by the Service Managers and the Strategic Leadership Board. Progress achieved against the objectives is continuously managed through the Performance Management Framework on a quarterly basis and annually in the Corporate Performance Plan. The financial implications arising out of the implementation of the corporate performance plan are set out in the Medium Term Financial Strategy.
- The Council uses different plans and strategies at all levels of the organisation to plan and monitor the achievement of its objectives. The framework is represented by the diagram set out below and a simple explanation is given for each element.

**Hinckley & Bosworth Borough Council – Corporate Planning Framework**



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The Annual Governance Statement (continued)

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- The Corporate Planning Framework is underpinned by a number of support and strategic documents which outline in detail how particular aspects of the Council's business are going to be delivered. The Council's support strategies identify how the support services of the Council will reinforce and sustain the services that the Council provides and consist of Human Resources Strategy, ICT Strategy, Medium Term Financial Strategy, Risk Management Strategy and Procurement Strategy.
- The Council's Strategic documents outline how specific services will be provided to the Borough in the medium to long term and these strategies consist of Cultural Strategy, Green Space Strategy, Hinckley Town Centre Master Plan, Local Development Framework and Leicestershire Waste Management Strategy.
- Council policies are produced in accordance with the principles set out in the Council's Constitution and recommended for approval following review by senior management in consultation with Heads of Service. Decision-making that falls within the policy and budgetary framework rests with the Council's Executive whilst those falling outside the framework are reserved to full Council. The call-in procedure enables the Scrutiny Commission to review decisions made by Executive (although the major focus of the overview and scrutiny function involvement is through policy development rather than policy review). Day to day decision-making is carried out by appropriate officers in accordance with the Scheme of Delegated Powers and the Financial Procedure Rules. These arrangements all contribute to the economic, efficient and effective operation of the Council.
- The Council's Constitution includes provisions relating to the conduct of elected members and officers of the Council and provides details of a complaints procedure.
- The Council's Constitution also includes provisions for the governance of partnerships the Council is part of.
- The Council ensures compliance with established policies, procedures, laws and regulations through various channels. Two statutory officers (Section 151 Officer and the Monitoring Officer) have responsibility for ensuring that the Council does not act in an ultra vires manner, supported by the Internal Audit function, which facilitates the management and mitigation of risk and provides assurance on matters of internal financial control. The Human Resources function, through the use of workforce development reviews assesses and provides a means of improving competencies to ensure that officers are equipped to discharge their duties in accordance with the requirements of the Council.
- In 2008/09 the Council sought a CPA re-assessment and was recategorised as an "excellent" authority. This was a recognition of all the work that had been undertaken since the previous inspection to implement and embed the improvement actions identified in the 2004 inspection. The Council continued its continuous improvement drive in delivering its services together with a number of regeneration projects in 2010/11

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The Annual Governance Statement (continued)

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- The Council's service and financial planning process ensures that resource allocation is aligned to the priorities identified in the Corporate Performance Plan and annual Service Improvement Plans. The Council has in place Contract Standing Orders and Financial Procedure Rules designed to ensure that the Council achieves value for money in discharging its procurement requirements.
- The Council's revised Medium Term Financial Strategy was approved by Council in February 2010 and will be reviewed in the autumn of 2011. The financial management of the authority will be guided by the Medium Term Financial Strategy and three-year financial forecast, which will provide a framework for the Council to work within when considering strategic financial decisions. The annual Treasury Management Strategy statement determines the Council's approach to investment and borrowing during the course of the financial year. The detailed Financial Procedure Rules provide the rules, regulations and procedures that govern the day-to-day financial affairs of the Council.
- The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures, management supervision, and a system of delegation and accountability. Senior officers within the Council undertake development and maintenance of the system and its effectiveness is reviewed by both external and internal audit. In particular, the system includes:
  - As a minimum an adequate system of budgetary control;
  - Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
  - The preparation of regular financial reports which indicate actual expenditure against the forecasts;
  - Clearly-defined capital expenditure guidelines;
  - As appropriate, formal project management disciplines;
  - Regular performance management reports;
  - Data Quality Checks;
  - Embedded Risk Management
- Financial management information is provided to members of the Executive on a regular basis throughout the year in order that they can monitor the specific portfolio areas for which they have responsibilities. The Strategic Leadership Board and other officers receive regular detailed reports on variances and the systems and procedures in place are designed to prevent avoidable adverse variances. The Internal Audit function operates a risk-based approach to its work and carries out its duties in accordance with the CIPFA Code of Practice. Internal Audit reports are produced in blocks in accordance with the approved Plan. Internal Audit reviews each area against a set of system controls agreed with management at the start of the visit and within the overall framework of system control objectives. The findings of Internal Audit, including any recommendations are reported to, and scrutinised by, the Finance and Audit Services Select Committee in a six-week cycle. The Finance and Audit Services Select Committee undertakes the core functions of an Audit Committee as set out in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

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The Annual Governance Statement (continued)

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- The Council has in place an agreed clear and coherent framework for managing performance. Management arrangements are in place to evaluate performance. A computer-based system has also been established for the regular management of performance indicators that are reported to officers and members. Each month figures are entered by Heads of Service before the database is locked to maintain accuracy in reporting. These reports show all performance indicators in an accessible format of charts and figures and are allocated to individual Executive Member leads. The reports provide the following information for each of these indicators:
  - performance for current year
  - the target set for current year
  - performance in the previous year
  - targets for the next three years
  - an explanation of performance and the targets set
  - Data Quality Checks

The reports are presented to Strategic Leadership Board, Scrutiny Commission and the Executive.

The Council's financial management arrangements conform with the governance arrangements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)

### **REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is reported by internal audit and the executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

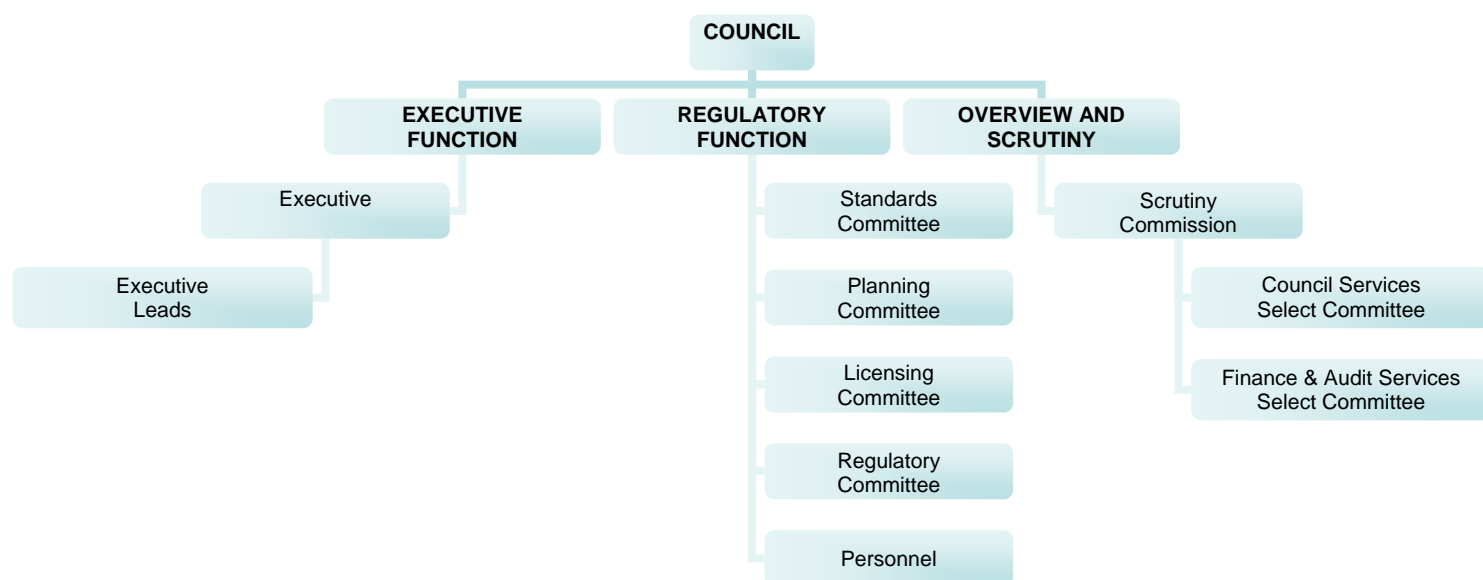
- Internal Audit is provided in accordance with the statutory responsibility under S151 of the Local Government Act 1972, the Accounts and Audit Regulations 2011 and to the professional standards of the CIPFA Code of Practice for Internal Audit in Local Government.
- The internal audit service has been outsourced to RSM Tenon, for 2010/11. Internal Audit delivers its work in accordance with best practice and complies with the requirements of the Government Internal Audit Standard, CIPFA Code and other relevant CCAB standards. RSM Tenon report through the responsible financial officer, who then submits reports to the Finance and Audit Select Committee, which in turn derives its terms of reference from the Scrutiny Commission. Audit recommendations are followed up in a timely manner based upon the priority of the recommendation. RSM Tenon acting as Chief Internal Auditor provide and amend assurance statements containing an opinion on the adequacy and effectiveness of the system of internal control, drawing upon the work completed during the year and the extent of the internal audit strategy covered.

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The Annual Governance Statement (continued)

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- Internal Audit objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic and effective use of resources. During 2010/11, this responsibility was carried out by following an approved risk based annual audit plan covering the period 2010 to 2013. RSM Tenon provides an independent opinion on the adequacy and effectiveness of the system of internal financial control. In their Annual Audit Report presented to Finance and Audit Services Select Committee on 18 April 2011 2010 RSM Tenon reported a positive opinion on the system of Internal Control.
- The Council is committed to the principle of open government and everyone is welcome to attend meetings (when no confidential information is being discussed) and to receive details of non-confidential items. The diagram below sets out the Council's democratic decision making arrangements



- The Council's Constitution sets out the essential elements of the scrutiny processes that are administered by the Scrutiny Commission and the Select Committees. It describes the functions and membership of the Select Committees and refers to the Select Committee and Scrutiny Procedure Rules. Decisions of the Cabinet are subject to scrutiny by the Scrutiny Commission and two Select Committees, one responsible for Council Services and the other for Finance and Audit. The Scrutiny Commission and Select Committees also have a role in policy development. In addition, task groups are established to oversee ad-hoc projects. The Scrutiny Commission publishes an Annual Report and a Work Programme; this is available on the Council's website ([www.hinckley-bosworth.gov.uk/scrutiny](http://www.hinckley-bosworth.gov.uk/scrutiny)) and from the Council on request.

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The Annual Governance Statement (continued)

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- The Council publishes a rolling Forward Plan. This Plan provides details of the key decisions that are planned to be taken over the following four month period. The Council has improved upon this process in 2010/11 and endeavours to include all decisions that it plans to make over a four month period. The information is available on the Council's website: [www.hinckley-bosworth.gov.uk/forwardplan](http://www.hinckley-bosworth.gov.uk/forwardplan) and decisions of particular interest are included in the Borough Bulletin.
- Each year all services are required to conduct a self-assessment of the adequacy of controls in place to manage principal business risks – a Service Assurance Statement. This Statement evaluates the effectiveness of procedures, systems and controls, highlights areas for improvement and actions intended to address these. Action plans are incorporated in the service planning process.

The effectiveness of the internal financial controls are also reviewed annually by the external auditor whose Management Letter is considered formally by the Executive.

**SIGNIFICANT INTERNAL CONTROL ISSUES**

The Council continued to have on-going financial monitoring and billing issues with the housing repairs service provider, Willmott Dixon,. These issues have been closely monitored by the Council's Chief Officer for Contracts and Streetscene Services and subsequent to the financial year end an agreement has been reached with Willmott Dixon for full and final settlement of all historical financial amounts. The housing repairs service will be brought back in house from September 2011.

An instance of a breach of Financial Procedure Rules came to light within the Planning Service area in 2010/11 in that services were procured without sufficient budgetary provision being available to cover the cost, proper procurement procedures were not followed, the scope of the work increased but again no budgetary provision was identified and procurement procedures not followed. Finally the invoices for the work were not processed within laid down procedures or in a timely manner. This breach has been dealt with under the Council's Disciplinary Procedures

We have been advised on the implications of the review of the effectiveness of the system of internal control by the Executive and plan to address weaknesses and ensure continuous improvement of the system is in place.

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Steve Atkinson MA(Oxon) MBA FioD FRSA  
Chief Executive

Date.....

.....  
Stuart Bray  
Leader of the Council

Date .....