



# Agenda

## Audit, Scrutiny and Transformation Committee

Tuesday, 29 September 2015 at 7.00 pm

Council Chamber - Town Hall

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### Membership (Quorum–3)

Cllrs Kerlake (Chair), Mrs Murphy (Vice-Chair), Barrett, Clark, Mrs Hones, Kendall, Mynott, Mrs Slade and Trump

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Agenda Item	Item	Wards(s) Affected	Page No
1.	Apologies for Absence		
2.	Minutes of the Previous Meeting		5 - 12
3.	Statement of Accounts 2014/2015	All Wards	13 - 140
4.	External Audit Results Report 2014/15	All Wards	141 - 172
5.	Internal Audit Progress Report	All Wards	173 - 268
6.	Strategic Risk Review	All Wards	269 - 296
7.	Scrutiny Work Programme 2015/2016	All Wards	297 - 302
8.	Transformation and New Ways of Working	All Wards	303 - 312

9. IT Transformation and Data Security

All Wards 313 - 318

10. Urgent Business

A handwritten signature in black ink, appearing to read 'P. L. Russell', with a large, sweeping underline.

Head of Paid Service

Town Hall  
Brentwood, Essex  
21.09.2015

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### Information for Members

#### Substitutes

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The names of substitutes shall be announced at the start of the meeting by the Chair and the substitution shall cease at the end of the meeting.

Where substitution is permitted, substitutes for quasi judicial/regulatory committees must be drawn from Members who have received training in quasi- judicial/regulatory decision making. If a casual vacancy occurs on a quasi judicial/regulatory committee it will not be filled until the nominated member has been trained.

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#### Rights to Attend and Speak

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Any Members may attend any Committee to which these procedure rules apply.

A Member who is not a member of the Committee may speak at the meeting. The Member may speak at the Chair's discretion, it being the expectation that a Member will be allowed to speak on a ward matter.

Members requiring further information, or with specific questions, are asked to raise these with the appropriate officer at least two working days before the meeting.

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#### Point of Order/ Personal explanation/ Point of Information

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##### Point of Order

A member may raise a point of order at any time. The Chair will hear them immediately. A point of order may only relate to an alleged breach of these Procedure Rules or the law. The Member must indicate the rule or law and the way in which they consider it has been broken. The ruling of the Chair on the point of order will be final.

##### Personal Explanation

A member may make a personal explanation at any time. A personal explanation must relate to some material part of an earlier speech by the member which may appear to have been misunderstood in the present debate, or outside of the meeting. The ruling of the Chair on the admissibility of a personal explanation will be final.

##### Point of Information or clarification

A point of information or clarification must relate to the matter being debated. If a Member wishes to raise a point of information, he/she must first seek the permission of the Chair. The Member must specify the nature of the information he/she wishes to provide and its importance to the current debate. If the Chair gives his/her permission, the Member will give the additional information succinctly. Points of Information or clarification should be used in exceptional circumstances and should not be used to interrupt other speakers or to make a further speech when he/she has already spoken during the debate. The ruling of the Chair on the admissibility of a point of information or clarification will be final.

## Information for Members of the Public

### **Access to Information and Meetings**

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The council welcomes the filming, photography, recording and use of social media at council and committee meetings as a means of reporting on its proceedings because it helps to make the council more transparent and accountable to its local communities.

Where members of the public use a laptop, tablet device, smart phone or similar devices to make recordings, these devices must be set to 'silent' mode to avoid interrupting proceedings of the council or committee.

If you wish to record the proceedings of a meeting and have any special requirements or are intending to bring in large equipment then please contact the Communications Team before the meeting.

The use of flash photography or additional lighting may be allowed provided it has been discussed prior to the meeting and agreement reached to ensure that it will not disrupt proceedings.

The Chair of the meeting may terminate or suspend filming, photography, recording and use of social media if any of these activities, in their opinion, are disrupting proceedings at the meeting.

### **Private Session**

Occasionally meetings will need to discuss some of its business in private. This can only happen on a limited range of issues, which are set by law. When a Committee does so, you will be asked to leave the meeting.

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### **Access**

There is wheelchair access to the Town Hall from the Main Entrance. There is an induction loop in the Council Chamber.

### **Evacuation Procedures**

Evacuate the building using the nearest available exit and congregate at the assembly point in the North Front Car Park.



## Minutes

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### **Audit, Scrutiny and Transformation Committee Monday, 29th June, 2015**

#### **Attendance**

Cllr Kerlake (Chair)  
Cllr Barrett  
Cllr Clark

Cllr Mynott  
Cllr Mrs Slade  
Cllr Trump (Vice-Chair, in the Chair)

#### **Substitute Present**

Cllr Reed (substituting for Cllr Mrs Murphy)  
Cllr Mrs Squirrell (substituting for Cllr Kendall)  
Cllr Wiles (substituting for Cllr Mrs Hones)

#### **Also Present**

Cllr Poppy  
Cllr Ms Rowlands

#### **Officers Present**

Zoey Foakes	- Governance & Member Support Officer
Helen Gregory	- Interim Head of Housing
Richard Haynes	- BDO, Internal Audit
Chris Leslie	- Finance Director
Gary Moss	- Interim Chief Accountant
Chris Potter	- Monitoring Officer & Head of Support Services
Greg Rubins	- BDO, Internal Audit
Rick Steels	- Revenues and Benefits Manager
Steve Summers	- Head of Customer Services
Sue White	- Risk and Insurance Officer

#### **59. Apologies for Absence**

Apologies were received from Cllr Mrs Murphy with Cllr Reed substituting, Cllr Mrs Hones with Cllr Wiles substituting and Cllr Kendall with Cllr Mrs Squirrell substituting.

In the absence of the Vice-Chair, it was agreed that Cllr Trump would act as Vice-Chair for the duration of this meeting only.

#### **60. Minutes of the Previous Meeting**

The minutes of the Audit and Scrutiny Committee meeting held on 9<sup>th</sup> March 2015 were approved and signed by the Chair as a correct record.

#### **61. Statement of Accounts 2014/15**

The report presented the Council's Statement of Accounts for 2014/15. Mr Leslie reiterated that the Committee were only being asked to review the accounts at this stage. The Committee would be asked to formally approve the financial statements after the completion of the external audit at the next meeting in September.

A motion was **MOVED** by Cllr Kerlake and **SECONDED** by Cllr Wiles to agree the recommendation in the report.

A vote was taken by a show of hands and it was **RESOLVED UNANIMOUSLY** that:

- 1. The Statement of Accounts for 2014/15 and Annual Governance Statement be reviewed.**

#### **REASON FOR RECOMMENDATION**

A system of sound financial control and governance arrangements underpins all of the services and priorities of the Council.

#### **62. Internal Audit Annual Report 2014-15**

The report presented to the Committee was the Internal Audit Annual report for 2014/15. The report gave a summary of the work performed for the 2014/15 Annual Audit Plan.

Cllr Clark raised the issue to revisit training for Members in relation to IT transformation and data security that had been previously discussed by Cllr Sleep. The Chair agreed that this would be on the next meeting agenda.

A motion was **MOVED** by Cllr Kerlake and **SECONDED** by Cllr Trump to agree the recommendation in the report.

A vote was taken by a show of hands and it was **RESOLVED UNANIMOUSLY** that:

- 1. The Internal Annual Report for 2014/15 be approved by the Committee.**

#### **REASON FOR RECOMMENDATION**

To approve the Internal Audit Annual report for 2014/15.

### **63. Internal Audit Progress Report**

The report detailed the progress to date against the 2014/15 internal audit plan that was agreed by the Audit Committee in March 2014 and the 2015/16 internal audit plan that was agreed by the Audit and Scrutiny Committee in March 2015.

The report also included an update on the progress of the implementation of the recommendations raised in 2013/14 and 2014/15.

The progress report received limited assurance and therefore were included as full reports as supplementary papers to this progress report:

- Partnership Arrangements
- Risk Management
- IT Data Security

A motion was **MOVED** by Cllr Kerlake and **SECONDED** by Cllr Wiles to agree the recommendation in the report.

A vote was taken by a show of hands and it was **RESOLVED UNANIMOUSLY** that:

- 1. The contents of the reports bereceived and noted by the Committee.**

#### **REASON FOR RECOMMENDATION**

Good financial management underpins all priorities within the Corporate Plan.

### **64. Strategic and Operational Risk Review**

The Strategic Risk Register and Operational Risk Registers had been reviewed and were submitted to the Committee for approval.

Cllr Clark asked if there would be additional risk training especially with there being new members. Ms White confirmed Zurich would be offering this.

A motion was **MOVED** by Cllr Kerlake and **SECONDED** by Cllr Wiles to agree the recommendation in the report.

A vote was taken by a show of hands and it was **RESOLVED** that:

- 1. The Strategic and Operational Risk Registers and that the risk scores recorded for each risk which accurately represents the current status of each risk be agreed.**

#### **REASONS FOR RECOMMENDATIONS**

With Risk Management a key aspect within the Senior Management Team, Directors and Heads of Services, a review of the top level risks for their

service areas and ensure that any risks were updated to reflect ongoing changes.

In addition, the Risk and Insurance Officer would be working with managers to ensure that any new or emerging risks were identified, assessed and managed appropriately.

#### **65. Corporate Complaints Monitoring and Freedom Of Information Requests**

The report before Members monitored and reviewed the complaints received through the Council's formal complaints process and provided information on the number of Freedom Of Information requests received to date. It was intended through the future introduction of a Customer Relationship Management (CRM) system that the Council would be able to understand, monitor and manage better customer's complaints and requests.

Mr Summers confirmed that in terms of formal complaints, 23 Stage One complaints were received in 2014/15 in comparison to 33 and 34 in previous years. There had been 6 complaints that progressed to Stage Two in comparison to 9 and 8 in previous years.

In 2014/15, 3 complaints had progressed to the Local Government Ombudsman in comparison to 7 and 4 in previous years.

With Freedom Of Information requests, 622 were received in 2014/15 compared to 661 in 2013/14 and 432 in 2012/13.

A motion was MOVED by Cllr Kerslake and SECONDED by Cllr Trump to agree the recommendation in the report.

A vote was taken by a show of hands and it was **RESOLVED UNANIMOUSLY** that:

- 1. The complaints received through the Council's formal complaints process and the number of Freedom Of Information requests received be noted.**

#### **REASON FOR RECOMMENDATION**

To monitor the Freedom Of Information requests and complaints received.

#### **66. Fraud Statistics**

The report provided Members with details of the work of the Fraud Investigation team for the period of January 2015 through to May 2015. The number of completed investigations and the subsequent sanctions applied to offenders bore no relation to the number of investigations opened during the same period.

174 referrals of potential fraud were reported between January 2015 and May 2015. With the exception of 2 potential housing tenancy frauds, 172 of the



referrals were for suspected Housing Benefit (HB) and/or Local Council Tax Support (LCTS) fraud.

25 cases were successfully investigated during the period, all for benefit fraud. The Fraud Investigation team applied sanctions to all 25 cases.

The Chair congratulated Mr Steels and the team on the positive media coverage success which sent out a strong message.

Mr Steels confirmed this would likely to be the last Fraud Statistics report of its kind due to the Fraud Investigation team being transferred to the Department of Working Pensions (DWP) as of 1<sup>st</sup> September 2015. There had not been any indication from the DWP on how reporting would be done in the future.

Mr Steels assured Members that the Council Tax base would be protected by the introduction of the new compliance roles with the service which had been funded by Essex County Council. BDO had been commissioned to undertake fraud risk assessment who had given Officers a report to review and made recommendations which would be addressed in due course. BDO would be commissioned to look into the risk assessment for corporate fraud.

The Committee requested appropriate reporting from DWP back to the committee in order for continuous monitoring of the statistics.

The Chair thanked Mr Steels for the work he had done for the Committee and Council.

A motion was **MOVED** by Cllr Kerlake and **SECONDED** by Cllr Wiles to agree the recommendation in the report.

A vote was taken by a show of hands and it was **RESOLVED UNANIMOUSLY** that:

- 1. The contents of the report be noted by Members.**

#### **REASON FOR RECOMMENDATION**

To note the work of the Fraud investigation team.

#### **67. Annual Audit and Certification Fees 2015/16**

The report set out the proposed Audit and Certification work proposed for 2015/16, together with the fees.

The proposed Audit Fee for 2015/16 was a reduction from 2014/15 following a retendering of contracts in March 2014.

A motion was **MOVED** by Cllr Kerlake and **SECONDED** by Cllr Slade to agree the recommendation in the report.

A vote was taken by a show of hands and it was **RESOLVED UNANIMOUSLY** that:

1. **The proposed fees for 2015/16 of £68,006 for audit work and £18,070 for certification work be approved.**

#### **REASON FOR RECOMMENDATION**

For Members to receive information on the indicative Audit Fees for 2015/16.

#### **68. Scrutiny Work Programme 2015/16**

The Audit and Scrutiny Committee would develop the annual work programme to guide its work for 2015/16. The work of the Audit, Scrutiny and Transformation Committee would be delivered by both Members working in groups and through formal Committee reports. The Committee would make recommendations to other decision making committees and Council as necessary.

Members discussed item 2.3 (removal of task and finish group to consider member engagement with the press from the work programme 2015/16) of the report and came to an agreement that the highly informative Communications training received by Mrs Murray-Green, together with a review of the Code of Conduct would be the best way to counteract the removal of this item.

An amendment was **MOVED** by Cllr Barrett and **SECONDED** by Cllr Kerslake where the following should be added to item 2.1 of the report:

*Review of the Members Code of Conduct in January 2016 with specific reference to, but not limited to member engagement with the media.*

A motion was **MOVED** by Cllr Kerslake and **SECONDED** by Cllr Trump to agree the recommendations in the report.

A vote was taken by a show of hands and it was **RESOLVED UNANIMOUSLY** that:

1. **The scrutiny work programme 2015/16 includes:**
  - **Review of the annual work programme**
  - **Hackney carriage fare setting process**
  - **Member/Officer communications and casework management**
  - **Budget Scrutiny**
  - **Revenues and Benefits shared service**
  - **Annual Report of the Audit, Scrutiny and Transformation Committee**
  - **William Hunter Way lessons learned Task and Finish Group**
  - ***Review of the Members Code of Conduct in January 2016 with specific reference to, but not limited to member engagement with the media.***

2. **The Transformation and New Ways of Working Programme includes:**
  - **Contact Centre performance and progression of the Customer Access Strategy/the integration of further service areas into the Contact Centre.**
  - **The progress and implementation of the New Ways of Working programme, highlighting major milestones achieved and to follow.**
  - **A review of the ICT work programme that supports both of the above.**
  - **Liaison with other Chairs (to ensure co-ordination particularly any work to be undertaken pre-scrutiny).**
3. **The following from the 2014/15 work programme be removed for 2015/16:**
  - **An officer report on the Appointment of an Interim Chief Executive.**
4. **The work programme be reviewed and updated at each meeting of the Committee.**
5. **The Annual Report of the Committee at Appendix C to be taken to the next meeting of Ordinary Council.**

#### **REASON FOR RECOMMENDATION**

To enact the provisions of Part 4.4 of the Constitution that the Audit and Scrutiny Committee prepare an annual scrutiny work programme.

#### **69. Urgent Business**

There was no urgent business to discuss.

The meeting ended at 20:40.

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**29 September 2015**

**Audit, Scrutiny and Transformation Committee**

**Statement of Accounts 2014/15**

**Report of:** *Chris Leslie, Finance Director (Section 151)*

**Wards Affected:** *N/A*

**This report is:** *Public*

## **1. Executive Summary**

- 1.1 This report presents the Council's 2014/15 Statement of Accounts for approval following external audit.

## **2. Recommendation(s)**

- 2.1 **That the Statement of Accounts for 2014/15 at Appendix A is approved.**
- 2.2 **That the Letter of Representation at Appendix B is approved.**

## **3. Introduction and Background**

- 3.1 The main sections in the Statement are:

### **a) Explanatory Foreword**

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the accounts.

### **b) Movement in Reserves Statement**

This is a summary of the movements in the financial year within the different reserves held by the Council. The reserves are analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

### **c) Comprehensive Income and Expenditure Statement**

This account brings together the expenditure and income relating to all of the services for which the Council is responsible and demonstrates how the net cost for the year has been financed.

**d) Balance Sheet**

This sets out the financial position of the Authority as the 31 March 2014. The Balance Sheet reflects the balances and reserves, and net current assets employed in all of its operations, together with summarised information on any fixed assets held.

**e) Cash Flow Statement**

This summarises the Council's cash transactions throughout the year.

**f) Notes to the Core Financial Statements including Accounting Policies**

These provide supporting analysis to the Core Financial Statements. The Accounting Policies outline the legislation and principles upon which the Statement of Accounts has been prepared.

**g) Housing Revenue Account Income and Expenditure Statement**

This reflects a statutory requirement to account separately for local council housing provision. It summarises the resources that have been generated and consumed in providing services and managing the Council's housing stock during the last year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed.

**h) Collection Fund**

The Council is required to maintain a separate Collection Fund to receive monies as a billing authority in relation to the Council Tax and National Non-Domestic Rates (Business Rates) and accounts for the distribution of Council Tax to preceptors (Essex County Council and Essex Police and Fire Authorities) and the Council's own General Fund; with the addition of the Government for Business Rates.

- 3.2 The Annual Governance Statement (AGS) is not an official part of the Statement of Accounts, but is provided as a supporting document to publish the governance arrangements in place within the Council to ensure that business is conducted in accordance with the law and proper standards and that public money is safeguarded.

**4. Issue, Options and Analysis of Options**

- 4.1 In accordance with statute, the responsible financial officer must re-sign and authorise for issue the final audited statements. This was done on 11th September. The Council (or delegated Committee) must approve the statements by 30th September at the latest.

4.2 Following external audit there have been no material amendments to the accounts since 30<sup>th</sup> June 2015. There was one amendment made above £0.5m relating to the classification of revaluations losses on HRA garages. The loss of £0.6m was classified as a Non Distributed Cost rather than a cost to the HRA.

4.3 As part of the audit process a letter of representation is required from the Council to enabling the auditors to form an opinion as to whether the financial statements give a true and fair view of the financial position. The letter for approval is at appendix B.

## **5. Reasons for Recommendation**

5.1 A system of sound financial control and governance arrangements underpins all of the services and priorities of the Council.

## **6. Implications**

### **Financial Implications**

**Name & Title:** Chris Leslie, Finance Director (Section 151)

**Tel & Email** 01277 312542 / christopher.leslie@brentwood.gov.uk

6.1 The financial implications are contained in the Statement of Accounts.

### **Legal Implications**

**Name & Title:** Chris Potter, Monitoring Officer & Head of Support Services

**Tel & Email** 01277 312860 / christopher.potter@brentwood.gov.uk

6.2 None.

## **7. Appendices to this report**

Appendix A – Statement of Accounts 2014/15

Appendix B – Letter of Representation

## **Report Author Contact Details:**

**Name:** Chris Leslie, Finance Director (Section 151)

**Telephone:** 01277 312542

**E-mail:** christopher.leslie@brentwood.gov.uk

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# STATEMENT OF ACCOUNTS 2014/15



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## EXPLANATORY FOREWORD

### Introduction

The Statement of Accounts summarises the financial performance of the Council for the year ended 31 March 2015. This foreword aims to provide an overview of the most significant aspects of the Council's financial performance and year-end financial position. A glossary to assist with some of the technical terms used within this document can be found at the back of the publication.

### Contents

The Statement comprises the following:

- **Explanatory Foreword**

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the accounts.

- **Statement of Responsibilities for the Statement of Accounts**

This identifies the officer who is responsible for the proper administration of the Council's financial affairs. The purpose is for the Chief Finance Officer to sign under a statement that the accounts present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year then ended.

- **Core Financial Statements**

*Movement in Reserves Statement*

This shows the movement in the year on the different reserves held by the Council 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 Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund balance and the Housing Revenue Account for council tax setting and housing rents setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves by the Council.

*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. Councils raise taxation to cover expenditure in accordance with regulations – this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

*Balance Sheet*

This shows the value at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are either usable or unusable. Usable reserves are those that the Council 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 can only be used to fund capital expenditure or repay debt). Unusable reserves cannot be used to provide services. Included are reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

### Cash Flow Statement

This shows the changes in cash and cash equivalents of the Council during the year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing or financing activities. The amount of net cash flow arising from operating activities is a key indicator of the extent to which operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been used to contribute to future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows as a result of borrowing.

- **Notes to the Core Financial Statements including significant Accounting Policies**

These provide supporting analysis to the Core Financial Statements. The significant Accounting Policies outline the legislation and principles upon which the Statement of Accounts has been prepared.

- **Supplementary Financial Statements**

#### Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost for the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and other income. Councils charge rents to cover expenditure in accordance with regulations - this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

#### Collection Fund

This is an agent's statement that reflects the statutory obligation for billing authorities such as the Council to maintain a separate Collection Fund. It shows the transactions of the Council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates (NNDR).

- **Notes to the Supplementary Statements**

These provide supporting analysis to the Supplementary Statements which informs the reader and gives sufficient information to present a good understanding of the Council's activities.

The **Annual Governance Statement** is not part of the Statement of Accounts, but is provided as a supporting document to publish the governance arrangements in place within the Council to ensure that business is conducted in accordance with the law and proper standards and that public money is safeguarded.

### Overview

During 2014/15 the Council operated under the direction of its Corporate Plan 2013-16, the key priorities of which are:

- **Street Scene and Environment** - Brentwood is a clean, green and pleasant borough. Maintaining and improving this involves not just the Council but also our communities and many partners. We will find new ways of working with our partners and communities, and improve the way we play our part, to enhance the environment and attractiveness of the borough.
- **Localism** – We believe that through bringing communities together and working effectively in collaboration with a range of groups and organizations we can better ensure the future wellbeing of our borough. We will work with local businesses, community groups and the voluntary sector to develop projects that will enhance and support the local community.
- **A Prosperous Borough** – A new Local Development Plan will shape the way our borough will change over the next fifteen years. We will work hard to get the best outcome and achieve a good balance for residents, business and the economy in a way that celebrates Brentwood's unique history and quality of life; both

within the borough and influencing the outcome of regional developments that will affect Brentwood residents.

- **Housing, Health and Wellbeing** – Current legislative reforms will lead to significant changes to the way the Council supports people in housing need and in receipt of state benefits. We will develop different ways of working, both in the way we deliver services and with the voluntary sector, to make sure that the more vulnerable residents in Brentwood are protected, and help goes to those most in need of it.
- **A Safe Borough** - In this era of austerity, it has never been more important to work in partnership to tackle the borough's community safety issues. As the new Police and Crime Commissioners begin their work, we will involve ourselves in new ways of working and continue to work with Safer Brentwood (the statutory Community Safety Partnership for Brentwood). With our partners and communities, we will further reduce incidents of crime and anti-social behaviour in the borough.
- **A Modern Council** – Between 2013 and 2016 the way the Council looks and works will be transformed. We will make it easier for customers to access services and information, cut out bureaucracy that doesn't add value and make sure taxpayers' money is spent even more wisely. We will become more entrepreneurial. We will have services delivered by those best placed to deliver excellence and value for money, whilst holding onto and enhancing our role, duties and powers as local council and community leader.

### **General Fund Revenue Spend Analysis**

General Fund spend is paid for by Council Tax, Business Rates, Government grants and other income.

A new system of accounting for and distributing Business Rates income came into effect in 2013/14. Prior to then Business Rates were collected on behalf of and paid over to the Government which then redistributed it nationally in the form of grant. Under the new system the Government gets 50% of Business Rates, the Council 40%, Essex County Council 9% and Essex Fire Authority 1%. However, Brentwood has higher than average collectable business rates and pays most of its share back to the Government (£10.4million in 2014/15).

For 2014/15, the approved spending requirement for the Council's General Fund was £10.0 million. The table below provides a summary of the actual spending and income for the General Fund compared to the budget. The figures shown are different from those in the Comprehensive Income and Expenditure Statement as many of the accounting adjustments and appropriations are reversed out in the Movement in Reserves Statement and therefore have no impact on the Council's actual budget position for the purpose of setting Council Tax.

	Budget £'000	Actual £'000	Variance £'000
<b>Corporate Priorities – Service Expenditure</b>			
Street Scene and Environment	3,303	3,366	63
Localism	1,301	1,251	(50)
A Prosperous Borough	634	457	(177)
Housing, Health and Wellbeing	506	427	(79)
A Safe Borough	1,224	1,306	82
A Modern Council	3,052	3,153	101
<b>TOTAL SPEND ON CORPORATE PRIORITIES</b>	<b>10,020</b>	<b>9,960</b>	<b>(60)</b>
Adjustments and appropriations	(304)	(380)	(76)
Payment to Parish Councils	282	282	-
<b>TOTAL SPENDING REQUIREMENT</b>	<b>9,998</b>	<b>9,862</b>	<b>(136)</b>
<b>Funding:</b>			
Council Tax	(5,476)	(5,476)	-
Revenue Support Grant and Business Rates	(3,197)	(3,073)	124
Council Tax Freeze Grant	(56)	(56)	-
Collection Fund Surplus	(37)	(37)	-
New Homes Bonus Grant	(1,215)	(1,220)	(5)
<b>TOTAL COUNCIL FUNDING</b>	<b>(9,981)</b>	<b>(9,862)</b>	<b>119</b>
<b>Deficit / (Surplus) for General Fund Services</b>	<b>17</b>	<b>-</b>	<b>(17)</b>

The table below details variances against the approved budget:

	£'000 Variance
<b>Income:</b>	
Higher than anticipated planning applications fees	(96)
Higher than anticipated parking income	(82)
Lower than anticipated golf course income	31
<b>Expenditure:</b>	
Higher than anticipated postage expenditure	42
Additional one-off costs of new banking arrangements	29
Additional one-off costs of new telephone system	20

Costs incurred on additional Awareness Events in the borough	19
Additional works and running expenses in cemeteries	14
Underspends on Finance and HR systems	(29)
Other	(8)
<b>Total Variation for 2014/15</b>	<b>(60)</b>

In addition to service area variations from the budget, some key adjustments to the Council's earmarked reserves have been made:

- transferring £362,300 from the Funding Volatility reserve to the General Fund working balance following a reassessment of the future funding position.
- transferring reserve balances no longer required from the Housing Benefit Subsidy Clawback reserve (£200,000) and the Housing Development Fund (£100,000) to the General Fund working balance.
- transferring the balance on the HRA Equal Pay reserve (£176,000) to the HRA to fund successful claims.
- increasing the Council Dwellings Investment Fund by £500,000.
- putting £400,000 into a Council Dwellings Repairs and Maintenance reserve to fund backlog works in future years.

Details of the Council's earmarked reserves are shown in Note 8 to the Statement.

After taking the movements in reserves into consideration, the General Fund Working Balance at 31 March 2015 was £4.5 million.

#### **Housing Revenue Account Spend Analysis**

The Housing Revenue Account (HRA) has to be kept as a separate account for all the expenditure and income relating to the Council's function as a landlord of managing and maintaining Council owned dwellings. The table below provides a summary of the actual spending and income for the HRA compared to the budget. The figures shown are different from those in the HRA Income and Expenditure Statement due to the accounting adjustments required which do not have an effect on the actual budget position.



	Budget £'000	Actual £'000	Variance £'000
<b>Expenditure:</b>			
Repairs and Maintenance	2,584	3,075	491
Supervision and Management	2,898	3,021	123
Rents, Rates, Taxes and Other Charges	189	184	(5)
Share of Corporate Costs	446	464	18
Depreciation and Impairment	2,026	2,059	33
Increase in Bad Debts Provision	85	102	17
Interest and Debt Management	1,988	1,999	11
Appropriations and Other Charges	2,938	2,511	(427)
<b>TOTAL EXPENDITURE</b>	<b>13,154</b>	<b>13,415</b>	<b>261</b>
<b>Income:</b>			
Dwelling Income	(11,870)	(11,866)	4
Non-Dwelling Income	(524)	(542)	(18)
Charges for Services and Facilities	(638)	(781)	(143)
Other	(231)	(320)	(89)
<b>TOTAL INCOME</b>	<b>(13,263)</b>	<b>(13,509)</b>	<b>(246)</b>
<b>Deficit / (Surplus) for HRA Services</b>	<b>(109)</b>	<b>(94)</b>	<b>15</b>

The table below details variances against the approved budget:

	£'000 Variance
<b>Income:</b>	
Higher than anticipated service charges	(143)
Insurance claims	(89)
<b>Expenditure:</b>	
Repairs and maintenance (R and M) expenditure, mainly on void properties	491
Contribution to R and M Reserve for future backlog expenditure	400
Equal pay claim not budgeted for	62
Increased depreciation	33
Net increase in employer's pension payments	20
Increase in provision for bad and doubtful debts	18
Other	3

Lower revenue contribution to finance capital expenditure required	(780)
<b>Total Variation for 2014/15</b>	<b>15</b>

As at 31 March 2015, the HRA Working Balance was £1.8 million.

### Capital Programme Spend Analysis

The Council's capital expenditure on the provision of new or enhanced assets is met from the Major Repairs Reserve, capital receipts, borrowing, revenue contributions and Government and other grants and contributions. The table below provides a summary of the actual spending and funding position for the Capital Programme compared to the budget.

	Budget £'000	Actual £'000	Variance £'000
<b>Corporate Priorities – Service Expenditure</b>			
Street Scene and Environment	621	260	(361)
Localism	259	203	(56)
A Prosperous Borough	236	70	(166)
Housing, Health and Wellbeing	3,952	2,247	(1,705)
A Safe Borough	168	124	(44)
A Modern Council	1,513	441	(1,072)
<b>TOTAL SPEND ON CORPORATE PRIORITIES</b>	<b>6,749</b>	<b>3,345</b>	<b>(3,404)</b>
<b>Funding</b>			
Capital Receipts	3,876	1,051	2,825
Government Grants	120	122	(2)
Other Grants and Contributions	-	95	(95)
HRA Business Plan	2,753	2,077	676
<b>TOTAL FUNDING</b>	<b>6,749</b>	<b>3,345</b>	<b>3,404</b>

Of the underspending, £210,000 was a result of the cessation of the cesspool service, the postponement of vehicle replacements and Section 106 schemes. A total of £3.135 million will be carried forward to 2015-16 to provide continuous funding to a number of continuing projects, including the following:

	<b>£'000</b>
Investment in HRA properties	1,586
Town Hall re-modeling	964
Vehicle replacement programme	150
Asset Management Strategy	126
Car park refurbishment and upgrade	95
Golf course irrigation	50
Hutton Community Centre	50

### **Current Borrowing Facilities and Capital Borrowing**

At 31 March 2015 the Council had no current borrowing facility and was reliant on short term investments. The position is kept under review in accordance with the Council's Treasury Management Strategy. The Council's Treasury position at the year end was as follows:

<b>31 March 2015</b>		
	<b>Principal</b>	<b>Average Rate</b>
	<b>£ million</b>	<b>%</b>
Fixed Interest Rate Debt	2.000	8.075
HRA Self-financing resultant debt	64.166	3.101
<b>Total Debt</b>	<b>66.166</b>	<b>-</b>
<b>Total Investments</b>	<b>8.822</b>	<b>0.328</b>
<b>Net Borrowing Position</b>	<b>57.344</b>	<b>-</b>

It should be noted that total debt excludes transferred debt from other councils (following reorganisation) of £0.525 million. Net borrowing has reduced by £8.277 million since last year. This is because of cash surpluses and a consequent increase in short-term investments on 31 March 2015. The investments of £8.822 million are all short term and are included in the Council's Balance Sheet as "Cash Equivalents" – see Note 17 to the Statement.

### Summary of Funds Available to Meet Capital Expenditure Plans

Description	2015/16 £'000	2016/17 £'000	2017/18 £'000
<b>Expenditure</b>			
General Fund	5,056	1,529	660
Housing Revenue Account	4,535	5,154	4,555
<b>TOTAL EXPENDITURE</b>	<b>9,591</b>	<b>6,683</b>	<b>5,215</b>
<b>Financing</b>			
Capital Receipts	2,917	646	466
Borrowing	2,485	1,399	510
Met from Reserves	2,184	2,184	2,184
Contributions from Revenue	1,885	2,334	1,935
Government Grants	120	120	120
<b>TOTAL FINANCING</b>	<b>9,591</b>	<b>6,683</b>	<b>5,215</b>

### Net Pension Liability and Reserve

The Council's Balance Sheet shows a net liability of £47.0 million at 31 March 2015, offset by a reserve of the same amount. Details of the required accounting for pension schemes are contained in Note 35 to the Statement. The liability shows the underlying commitment the Council has to paying pensions in the long run and has a substantial impact on the net worth of the Council. However, there are statutory arrangements in place for funding the deficit which means that the Council's financial position remains healthy. The liability reflects future payments. Contributions into the Pension Fund over the remaining working life of employees will increase, if required, to ensure that any deficit is made good before the payments become due.

### Further Information

Further information about the accounts is available from the Finance Director, Brentwood Borough Council, Town Hall, Ingrave Road, Brentwood, Essex CM15 8AY.

## STATEMENT OF RESPONSIBILITIES

### The Council's Responsibilities

The Council 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 Council, that officer is the Finance Director.
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- approve the Statement of Accounts.

### The Finance Director's Responsibilities

The Finance Director is responsible for the preparation of the Council'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 COP).

In preparing this Statement of Accounts, the Finance Director has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the COP

The Finance Director has also:

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

The Statement of Accounts gives a true and fair view of the financial position of the Council as at 31 March 2015 and of its expenditure and income for the year then ended.



Chris Leslie  
Finance Director  
11<sup>th</sup> September 2015

The Statement of Accounts was approved by the Council's Audit, Scrutiny and Transformation Committee on 29<sup>th</sup> September 2015.

Councillor J. Kerlake  
Chair  
29<sup>th</sup> September 2015

**MOVEMENT IN RESERVES STATEMENT**

	General Fund Balance *	Earmarked General Fund Reserves *	Housing Revenue Account *	Earmarked HRA Reserves *	Capital Receipts Reserve **	Capital Grants Unapplied ** Account **	Major Repairs Reserve **	Total Usable Reserves	Unusable Reserves ***	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2013</b>	<b>3,649</b>	<b>3,350</b>	<b>1,822</b>	<b>505</b>	<b>1,593</b>	<b>14</b>	<b>20</b>	<b>10,953</b>	<b>81,335</b>	<b>92,288</b>
<b>Movement in reserves during 2013/14:</b>										
Surplus/(deficit) on the provision of services	(4,175)	-	12,147	-	-	-	-	7,972	-	7,972
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	16,520	16,520
<b>Total Comprehensive Income and Expenditure</b>	<b>(4,175)</b>	<b>-</b>	<b>12,147</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,972</b>	<b>16,520</b>	<b>24,492</b>
Adjustments between accounting basis and funding basis under regulations. ****	4,957	-	(12,120)	-	359	102	-	(6,702)	6,702	-
<b>Net increase/(decrease) before transfers to Earmarked Reserves</b>	<b>782</b>	<b>-</b>	<b>27</b>	<b>-</b>	<b>359</b>	<b>102</b>	<b>-</b>	<b>1,270</b>	<b>23,222</b>	<b>24,492</b>
Transfers (to)/from Earmarked Reserves*****	80	(80)	(184)	184	-	-	-	-	-	-
<b>Increase/(decrease) in 2013/14</b>	<b>862</b>	<b>(80)</b>	<b>(157)</b>	<b>184</b>	<b>359</b>	<b>102</b>	<b>-</b>	<b>1,270</b>	<b>23,222</b>	<b>24,492</b>
<b>Balance at 31 March 2014</b>	<b>4,511</b>	<b>3,270</b>	<b>1,665</b>	<b>689</b>	<b>1,952</b>	<b>116</b>	<b>20</b>	<b>12,223</b>	<b>104,557</b>	<b>116,780</b>
<b>Movement in reserves during 2014/15:</b>										
Surplus/(deficit) on the provision of services	(1,882)	-	6,838	-	-	-	-	4,956	-	4,956
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	9,005	9,005
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,882)</b>	<b>-</b>	<b>6,838</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,956</b>	<b>9,005</b>	<b>13,961</b>
Adjustments between accounting basis and funding basis under regulations. ****	1,194	-	(6,018)	-	367	(2)	(20)	(4,479)	4,478	(1)
<b>Net increase/(decrease) before transfers to Earmarked Reserves</b>	<b>(688)</b>	<b>-</b>	<b>820</b>	<b>-</b>	<b>367</b>	<b>(2)</b>	<b>(20)</b>	<b>477</b>	<b>13,483</b>	<b>13,960</b>
Transfers (to)/from Earmarked Reserves*****	686	(686)	(724)	724	-	-	-	-	-	-
<b>Increase/(decrease) in 2014/15</b>	<b>(2)</b>	<b>(686)</b>	<b>96</b>	<b>724</b>	<b>367</b>	<b>(2)</b>	<b>(20)</b>	<b>477</b>	<b>13,483</b>	<b>13,960</b>
<b>Balance at 31 March 2015</b>	<b>4,509</b>	<b>2,584</b>	<b>1,761</b>	<b>1,413</b>	<b>2,319</b>	<b>114</b>	<b>-</b>	<b>12,700</b>	<b>118,040</b>	<b>130,740</b>

\* Revenue Reserves    \*\* Capital Reserves    \*\*\* See Note 21    \*\*\*\* See Note 7    \*\*\*\*\* See Note 8

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2013/14				2014/15		
Gross Exp £'000	Gross Income £'000	Net Exp £'000	Note	Gross Exp £'000	Gross Income £'000	Net Exp £'000
2,133	(875)	1,258		1,797	(807)	990
2,440	(629)	1,811		2,941	(579)	2,362
6,946	(2,771)	4,175		6,513	(2,865)	3,648
4,168	(1,814)	2,354		3,480	(2,059)	1,421
1,085	(1,672)	(587)		1,115	(1,757)	(642)
(1,541)	(12,859)	(14,400)		4,271	(13,510)	(9,239)
19,929	(18,260)	1,669		18,970	(17,533)	1,437
3,071	(455)	2,616		2,640	(509)	2,131
62	-	62		86	-	86
<b>38,293</b>	<b>(39,335)</b>	<b>(1,042)</b>		<b>41,813</b>	<b>(39,619)</b>	<b>2,194</b>
592	(1,111)	(519)	9	725	(445)	280
4,186	(377)	3,809	10	3,868	(551)	3,317
-	(10,220)	(10,220)	11	-	(10,747)	(10,747)
<b>43,071</b>	<b>(51,043)</b>	<b>(7,972)</b>		<b>46,406</b>	<b>(51,362)</b>	<b>(4,956)</b>
-	(5,314)	(5,314)	21.1	-	(15,571)	(15,571)
-	(11,206)	(11,206)	35.5/ 35.6	6,566	-	6,566
<b>-</b>	<b>(16,520)</b>	<b>(16,520)</b>		<b>6,566</b>	<b>(15,571)</b>	<b>(9,005)</b>
<b>43,071</b>	<b>(67,563)</b>	<b>(24,492)</b>		<b>52,972</b>	<b>(66,933)</b>	<b>(13,961)</b>

## BALANCE SHEET

31 March 2014 £'000	Note		31 March 2015 £'000
	12	Property, Plant and Equipment	
184,496		Council dwellings	201,224
28,814		Other land and buildings	29,002
520		Infrastructure	506
706		Surplus assets	1,350
2,935		Community assets	2,956
2,218		Vehicles, plant and equipment	2,377
<hr/> 219,689			<hr/> 237,415
262		Intangible Assets	173
2,475	14	Investment Property	3,045
1,359	15.1	Long-term Debtors	973
<hr/> <b>223,785</b>		<b>Long-term Assets</b>	<hr/> <b>241,606</b>
121		Inventories	160
118	17	Cash and Cash Equivalents	6,799
7,290	16	Short-term Debtors	4,363
<hr/> <b>7,529</b>		<b>Current Assets</b>	<hr/> <b>11,322</b>
(2,088)		Short-term Borrowing	(89)
(2,659)	18	Short-term Creditors	(5,332)
(414)	30	Grants Receipts in Advance - Revenue	(690)
<hr/> <b>(5,161)</b>		<b>Current Liabilities</b>	<hr/> <b>(6,111)</b>



31 March 2014 £'000	Note		31 March 2015 £'000
(66,723)		Long-term Borrowing	(66,691)
(31)	15.1	Other Long-term Liabilities	(13)
(1,034)	30	Grants Receipts in Advance	(893)
(40,122)	35	Net Pension Liability	(46,969)
(1,463)	19	Provisions	(1,511)
<b>(109,373)</b>		<b>Long-term Liabilities</b>	<b>(116,077)</b>
<b>116,780</b>		<b>Net Assets</b>	<b>130,740</b>
1,952	20	Capital Receipts Reserve	2,319
20	HRA4	Major Repairs Reserve	-
3,959	8	Earmarked Reserves	3,997
116	20	Capital Grants Unapplied Account	114
1,665	20	Housing Revenue Account Balance	1,761
4,511	20	General Fund Balance	4,509
<b>12,223</b>		<b>Usable Reserves</b>	<b>12,700</b>
109,519	21.2	Capital Adjustment Account	114,586
35,188	21.1	Revaluation Reserve	49,836
864	21.5	Deferred Capital Receipts	601
(40,122)	21.4	Pension Reserve	(46,969)
(131)	21.7	Accumulated Absences Adjustment Account	(102)
(652)	21.6	Collection Fund Adjustment Account	118
(109)	21.3	Financial Instruments Adjustment Account	(30)
<b>104,557</b>		<b>Unusable Reserves</b>	<b>118,040</b>
<b>116,780</b>		<b>Total Reserves</b>	<b>130,740</b>

These financial statements replace the unaudited financial statements certified by the Finance Director on 26<sup>th</sup> June 2015.



## CASH FLOW STATEMENT

2013/14 £'000	Note		2014/15 £'000
7,972		<b>Net Surplus or (deficit) on the provision of services</b>	4,956
(7,052)	22.1	Adjustment to surplus or deficit on the provision of services for non cash movements	5,433
(2,405)	22.2	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(1,701)
(1,485)		<b>Net cash flows from Operating Activities</b>	8,688
(1,336)	23	Investing Activities	(1,614)
1,196	24	Financing Activities	(393)
(1,625)		<b>Net increase or decrease in cash and cash equivalents</b>	6,681
1,743		Cash and cash equivalents at the beginning of the reporting period	118
<b>118</b>	17	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>6,799</b>

## NOTES TO THE ACCOUNTS

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## NOTES TO THE ACCOUNTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011. These require the accounts to be prepared in accordance with proper accounting practices which primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the "COP") and the Service Reporting Code of Practice 2014/15 (the "SeRCOP"), 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.

#### 1.2 Accruals of Income and Expenditure

We account for activity in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, and where the amounts are significant, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for respectively as expenditure and income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### 1.3 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 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.

## 1.4 Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year end) such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following financial year, being the period in which the employee takes the benefit. 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 Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the relevant service line (or where applicable to the Non Distributed Costs line) in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension 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 amounts payable but unpaid at the year-end.

### Post-employment Benefits

Most employees of the Council are members of the Local Government Pension Scheme (LGPS) which provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The LGPS Fund is administered by Essex County Council and is accounted for as a defined benefits scheme:

- The liabilities of the fund attributable to the Council 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 earnings for current employees.
- Liabilities are discounted to their value at current prices using the 17 year point of the Merrill Lynch AA-rated corporate bond yield curve, which has been chosen to meet the requirements of IAS 19, and with consideration of the duration of each employer's liabilities. This is consistent with the approach used at the last accounting date.
- The assets of the fund attributable to the Council are included in the Balance Sheet on a bid value to bid value basis, estimated by the actuary where necessary.

- The change in the net pension liability is analysed into the following components:
  - Service cost comprising:
    - 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 as a result of a scheme amendment, curtailment or settlement the effect of which 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
    - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
  - Remeasurements comprising:
    - the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure
    - actuarial gains or losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure
  - contributions paid to the 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 Council 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 transfers to and from the Pension 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 Pension 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 Council 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 for 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.

## **1.5 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 where 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 Council'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.

## **1.6 Financial Instruments**

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council 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. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## **Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Council 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 Council 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 relevant service (for receivables specific to that service) or 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.

### **Available-for-Sale Assets**

Such assets are reclassified subsequently to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement, when specific conditions are met. The Council does not hold available-for-sale assets. As such the Council has not grouped the items in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement into amounts that may be reclassifiable in the Surplus or Deficit on Provision of Services and amounts that are not.

## **1.7 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 Council when there is a reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grant or contribution 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 in the form of 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 received 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 and Expenditure 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. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **1.8 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 or 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 regularly according to market conditions at the year end. 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 provisions 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.

### **1.9 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 components 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 Council as Lessee**

##### Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception or (if lower) the present value of the minimum lease payments. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council 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 – this is applied to reduce 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 are 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 Council at the end of the lease period).

The Council 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 Council as Lessor**

##### Finance Leases

Where the Council 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 Council'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 Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Initial indirect 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. 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 payment (e.g. there is a premium paid at the commencement of the lease).

### **1.10 Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the SeRCOP. The total absorption costing principle is used – the full cost of overheads and support services is 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 Cost of Services.

### **1.11 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 Council 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. The Council does not have a *de minimis* limit below which expenditure is written off to revenue as it is incurred (notwithstanding that the expenditure meets the definition of capital expenditure).

## 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; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred while assets are under construction.

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in a Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- infrastructure, community assets and assets under construction – depreciated historical cost
- 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 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 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 Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- 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 be 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 in the same way as decreases in value.

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 bases:

- dwellings and other buildings - straight line allocation over the useful life of the property as estimated by the valuer (see also Note 12.3)
- infrastructure – straight-line allocation over a period determined for each class of asset, as advised by a suitably qualified officer
- 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.

Where a Property, Plant and Equipment asset has major components the cost of which 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 highly 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 previous 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 that would have been recognised had they not been classed 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 or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). 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 non-current 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.

## **1.12 Provisions and Contingent Liabilities**

### **Provisions**

**Provisions** are made where an event has taken place that gives the Council 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 example, the Council 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 Council 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.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income of the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. 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 are disclosed in a note to the accounts.

### **1.13 Reserves**

The Council 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, and retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant policies.

### **1.14 Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council 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 that there is no impact on the level of Council Tax.

### **1.15 VAT**

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

## **2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED**

If it is anticipated that there will be a material impact on its financial statements, the Council is required to disclose information relating to the impact of an accounting change that will be required by a new accounting standard that has been issued but not yet adopted in 2014/15. The Council is required to apply (retrospectively unless otherwise required) and initially adopt the following standards by and as at 1 April 2015.

IFRS 13 – Fair Value Measurement – defines fair value (as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants); sets out in a single IFRS a framework for measuring fair value; and requires disclosures about fair value measurements. The standard is applied prospectively from 2015-16.

IFRIC 21 – Levies – clarifies when the liability to pay a levy (imposed by the Government or other public authorities) arises and should be recognised.

Annual Improvements to IFRS's 2011-13 Cycle – deals with a collection of narrow scope amendments to IFRS's:

IFRS 1 – First-time adoption of International Reporting Standards – clarifies the meaning of "each IFRS effective at the end of [a]....reporting period".

IFRS 3 – Business Combinations – clarifies scope exceptions for joint ventures.

IFRS 13 – Fair Value Measurement – clarifies the scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the “portfolio” exception).

IAS 40 – Investment Property – clarifies the interrelationship of IFRS 3 – Business Combinations, and IAS 40 when classifying property as investment property or owner-occupied property.

It is not anticipated that any of the above changes will have a material impact on the Council’s financial statements.

### **3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the Accounting Policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future funding for Local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Although the Council has identified two Heritage Assets, the Council considers that the cost of obtaining valuations of the assets in order to recognise them on the Balance Sheet outweighs the benefit of such recognition to the users of the financial statements.
- The Brentwood Leisure Trust manages Brentwood Leisure Centre and the Council’s Community Halls. The Council has determined that, under IFRS10, the Trust is not a subsidiary or an associate of, nor a part of a joint venture with, the Council. As such, the Council considers that it is not required to consolidate the financial statements of the Council and the Trust.
- International Financial Reporting Standards require that component accounting should be applied as far as possible to the Council’s non-current assets, although the degree of componentisation is a matter for the Council. The Council has determined that, in all material aspects, a basic land and buildings apportionment is sufficient, especially given that the Council’s housing stock is not broken down into its component parts for depreciation purposes.
- New arrangements for the retention of business rates (NDR) came into force on 1 April 2013 at which date the Council assumed the liability for refunding ratepayers who successfully appeal against the rateable value of their properties. The Council has made provision for potential successful appeals to 31 March 2015 (see also notes 4 and 19).
- The Council has examined its leases and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive, and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership to the lessor.
- Investment properties have been classified by the Council using the identifiable criteria under International Financial Reporting Standards of being solely held for rental income or for capital appreciation. This review and assessment may be subject to interpretation.



#### **4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows.

##### *Property, Plant and Equipment*

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. In addition, asset values carried in the balance sheet are in the main related to property market values.

The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. It also makes uncertain market values, bringing into doubt whether the values of Council assets will be impaired.

If the useful lives of assets are reduced, depreciation increases and the carrying value of the assets falls. If assets are impaired the carrying amount of the assets also falls.

It is estimated that the annual depreciation charges for Council dwellings would increase by £28,000 and for other buildings by £37,000 for every year that useful lives had to be reduced. The value of Council dwellings would reduce by £1.43 million and other buildings by £0.14 million for every 1% of impairment of the buildings element of the assets.

##### *Pensions Liability*

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are expected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The effects on the gross pension liability and projected service cost of changes in individual assumptions can be measured. A 0.5% increase in the assumed discount rate would reduce the liability by £9.7 million and the service cost by £175,000; in the assumed long term salary increase, increase the liability by £875,000 and the service cost by £5,000; and in the assumed pension increase and deferred revaluation increase the liability by £9.0 million and the service cost by £175,000. A 5 years increase in the mortality age rating assumption would reduce the liability by £20.5 million and the service cost by £260,000.

##### *Debtors*

At 31 March 2015 the Council had a balance of debtors of £4.36 million, or £2.25 million excluding central and local government bodies. The latter sum is net of an average impairment of debtors of 40.0% (£1.5 million). However, in the current economic climate it is not certain that such an allowance would be sufficient.

If collection rates were to deteriorate, a 50% increase in the amount of the estimated impairment of debts would require an additional £0.75 million to be set aside as an allowance.

#### *Business Rates (NNDR) appeals*

At 31 March 2015 there is a total provision of £2.264 million for refunding business ratepayers who successfully appeal against the rateable values on the rating list. The Council's share of the provision is £0.905 million. Of the £2.264 million potential refunds £1.554 million is in respect of 9 properties in the borough; and £1.423 million is in respect of 7 properties. Should any of those appeals fail completely, then the provision would be reduced by between £43,000 and £610,000. An overall 1% error rate would change the total estimate by £22,600 and an error rate of 26.5% (which is most unlikely) would be required for the resultant change to be material to the Council's financial statements.

### **5. MATERIAL ITEMS OF INCOME AND EXPENSE**

Material items of income and expense are either disclosed separately on the face of the Comprehensive Income and Expenditure Statement or included in the appropriate notes to the accounts.

### **6. EVENTS AFTER THE REPORTING PERIOD**

The Statement of Accounts was authorised for issue by the Finance Director on 11 September 2015. Events taking place after this date are not reflected in the financial statements or notes. No events have taken place before this date but after 31 March 2015 which provided information which required the financial statements and notes to be amended.

### **7. 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 Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following is a description of the reserves against which the adjustments are made.

#### **General Fund Balance**

The General Fund is the statutory fund into which the receipts of a council are required to be paid, and out of which all liabilities of the Council 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). However, the balance is not available to be applied to funding Housing Revenue Account (HRA) services.

#### **Housing Revenue Account Balance**

The HRA Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act which is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) which is required to be recovered from tenants in future years.

**Major Repairs Reserve**

The Council is required to maintain the Major Repairs Reserve which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources which have yet to be applied at the year-end.

**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.

## Adjustments

## Usable Reserves

2014/15	General Fund Balance	Housing Revenue Account Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Usable Reserves	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</i>							
Charges for depreciation of non-current assets	1,083	2,016	-	-	-	3,099	(3,099)
Reversal of impairment and losses previously charged	(95)	(4,855)	-	-	-	(4,950)	4,950
Revaluation losses on Property, Plant and Equipment	740	685	-	-	-	1,425	(1,425)
Movements in the fair value of Investment Properties	(331)	-	-	-	-	(331)	331
Amortisation of intangible assets	163	8	-	-	-	171	(171)
Capital grants and contributions applied	(225)	-	-	-	-	(225)	225
Revenue expenditure funded from capital under statute	177	(6)	-	-	-	171	(171)
Amounts of non-current assets written off on disposal or sale as part of the gain or loss on disposal to the CIES*	-	1,133	-	-	-	1,133	(1,133)
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>							
Provision for the financing of capital investment	(16)	(1,500)	-	-	-	(1,516)	1,516
Capital expenditure charged direct to revenue	-	(34)	-	-	-	(34)	34
Other**	(1)	-	-	-	-	(1)	-
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the CIES*	2	-	-	-	(2)	-	-

<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain or loss on disposal to the CIES*	(85)	(1,493)	1,578	-	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	(1,051)	-	-	(1,051)	1,051
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	423	-	(423)	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	263	-	-	263	(263)
<b>Adjustments primarily involving the Major Repairs Reserve:</b>							
Transfer of depreciation charged to the HRA	-	(2,015)	-	2,015	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(2,035)	-	(2,035)	2,035
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the CIES* are different from finance costs chargeable in the year in accordance with statutory requirements	(79)	-	-	-	-	(79)	79
<b>Adjustments primarily involving the Pensions Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES*	2,468	527	-	-	-	2,995	(2,995)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,234)	(480)	-	-	-	(2,714)	2,714
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
Amount by which Council Tax and NNDR income credited to the CIES* is different from Council Tax and NNDR income calculated for the year in accordance with statutory requirements	(770)	-	-	-	-	(770)	770
<b>Adjustments primarily involving the Accumulated Absences Account:</b>							
Amount by which staff remuneration charged to the CIES* on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(26)	(4)	-	-	-	(30)	30
<b>Total Adjustments</b>	<b>1,194</b>	<b>(6,018)</b>	<b>367</b>	<b>(20)</b>	<b>(2)</b>	<b>(4,479)</b>	<b>4,478</b>

\*Comprehensive Income and Expenditure Statement

\*\* Rounding adjustment

2013/14	General Fund Balance	Housing Revenue Account Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Usable Reserves	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Charges for depreciation of non-current assets	1,042	1,950	-	-	-	2,992	(2,992)
Reversal of impairment and losses previously charged	-	(13,481)	-	-	-	(13,481)	13,481
Revaluation losses on Property, Plant and Equipment	2,605	2,503	-	-	-	5,108	(5,108)
Movements in the fair value of Investment Properties	(140)	-	-	-	-	(140)	140
Amortisation of intangible assets	141	8	-	-	-	149	(149)
Capital grants and contributions applied	(182)	(64)	-	-	-	(246)	246
Revenue expenditure funded from capital under statute	379	331	-	-	-	710	(710)
Amounts of non-current assets written off on disposal or sale as part of the gain or loss on disposal to the CIES*	85	970	-	-	-	1,055	(1,055)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Provision for the financing of capital investment	(49)	(500)	-	-	-	(549)	549
Capital expenditure charged direct to revenue	(72)	(618)	-	-	-	(690)	690
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the CIES*	(116)	-	-	-	116	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(14)	(14)	14
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain or loss on disposal to the CIES*	(720)	(1,438)	2,158	-	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	(1,524)	-	-	(1,524)	1,524
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital							

receipts pool	305	-	(305)	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	5	-	-	5	(5)
Transfer of repayments of capital grants	(25)	-	25				
<b>Adjustments primarily involving the Major Repairs Reserve:</b>							
Transfer of depreciation charged to the HRA	-	(1,950)	-	1,950	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,950)	-	(1,950)	1,950
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the CIES* are different from finance costs chargeable in the year in accordance with statutory requirements	(79)	-	-	-	-	(79)	79
<b>Adjustments primarily involving the Pensions Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES*	3,042	662	-	-	-	3,704	(3,704)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,228)	(493)	-	-	-	(2,721)	2,721
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
Amount by which Council Tax and NNDR income credited to the CIES* is different from Council Tax and NNDR income calculated for the year in accordance with statutory requirements	960	-	-	-	-	960	(960)
<b>Adjustments primarily involving the Accumulated Absences Adjustment Account:</b>							
Amount by which staff remuneration charged to the CIES* on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	9	-	-	-	-	9	(9)
<b>Total Adjustments</b>	<b>4,957</b>	<b>(12,120)</b>	<b>359</b>	<b>-</b>	<b>102</b>	<b>(6,702)</b>	<b>6,702</b>

\*Comprehensive Income and Expenditure Statement

## 8. TRANSFERS TO AND FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and Housing Revenue Account balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2014/15.

	Balance at 1 April 2013 £'000	Amount out 2013/14 £'000	Amount in 2013/14 £'000	Balance at 31 March 2014 £'000	Amount out 2014/15 £'000	Amount in 2014/15 £'000	Balance at 31 March 2015 £'000
<b>General Fund</b>							
Asset Management	118	-	-	118	-	-	118
Asset Valuations	-	-	17	17	(17)	-	-
Brentwood Community Fund	79	(30)	21	70	(45)	10	35
Brentwood Community Hospital	-	-	49	49	(4)	-	45
Building Control	64	(16)	-	48	-	-	48
CCTV	-	-	4	4	(4)	-	-
Community Alarms	259	-	18	277	-	14	291
Community Rights	13	-	17	30	-	16	46
Community Safety	-	-	9	9	(9)	-	-
Duchess of Kent/Nightingale	367	(12)	-	355	(13)	-	342
Economic Development	15	-	-	15	-	14	29
Electoral Registration	29	-	14	43	-	-	43
Environmental Change	8	(8)	-	-	-	-	-
Financial Management System	69	(69)	-	-	-	-	-
Funding Volatility	750	-	500	1,250	(417)	55	888
Housing Benefit Subsidy Clawback	200	-	-	200	(200)	-	-
Housing Development Fund	50	-	50	100	(100)	-	-
ICT Contracts	30	(30)	-	-	-	-	-
Neighbourhood Action Scheme	30	(30)	-	-	-	-	-
Neighbourhood Plan	21	-	-	21	-	5	26
Organisational Transformation	453	-	30	483	-	-	483
Parking Equipment and Machinery	10	(10)	-	-	-	-	-
Planning Delivery Grant	48	-	54	102	-	15	117
Preventing Homelessness	-	-	15	15	-	23	38
Preventing Repossession	30	(30)	-	-	-	-	-
Public Consultation	-	-	10	10	(5)	-	5
Renaissance Group	18	(18)	-	-	-	-	-
Single Status	616	(586)	-	30	-	-	30
Street Scene Training	2	-	-	2	(2)	-	-
Taxi Licensing	20	(20)	-	-	-	-	-
Ward Based Budgets	22	(22)	21	21	(21)	-	-
Welfare Reform	29	(29)	-	-	-	-	-
<b>Total</b>	<b>3,350</b>	<b>(910)</b>	<b>829</b>	<b>3,269</b>	<b>(837)</b>	<b>152</b>	<b>2,584</b>
<b>Housing Revenue Account</b>							
Carpets for Sheltered Schemes	5	-	8	13	-	-	13
Council Dwellings Investment Fund	500	-	-	500	-	500	1,000
Equal Pay	-	-	176	176	(176)	-	-
Repairs and Maintenance	-	-	-	-	-	400	400
<b>Total</b>	<b>505</b>	<b>-</b>	<b>184</b>	<b>689</b>	<b>(176)</b>	<b>900</b>	<b>1,413</b>



The **Asset Management** reserve has been established to meet the cost of developing and implementing the Asset Management Strategy.

The **Assets Valuation** reserve carried forward unspent budget in respect of a service paid for in 2014-15.

The **Brentwood Community Fund** reserve contains unspent Local Strategic Partnership monies to fund agreed community projects in 2015/16.

The **Brentwood Community Hospital** reserve is a Section 106 developer contribution to be used for annual grounds maintenance of the former hospital site.

The **Building Control** reserve represents a trading account which balances to zero over a period of three financial years. Any surplus is taken into account when setting future years' fees and charges.

The **CCTV** reserve carried forward unspent budget from 2013/14 and was fully used in 2014/15.

The **Community Alarms** reserve is for the renewal and maintenance of equipment used for emergency call alarm system operated by the Council. Government Grant and residents' contributions are paid into the reserve.

The **Community Rights** reserve is a reserve which contains the Government grant provided to assist in the implementation of the Localism Act.

The **Community Safety** reserve carried forward unspent budget from 2013/14 and was fully used in 2014/15.

The **Duchess of Kent / Nightingale** reserve is a developer contribution provided to meet the cost of grounds maintenance at the new housing development.

The **Economic Development** reserve contains Government reward grant and underspent budget which will be used to fund projects to support the Economic Development Strategy in 2015/16.

The **Electoral Registration** reserve carried forward unspent budgets from 2012/13 and 2013/14 for use in the implementation of individual electoral registration in 2015/16 and 2016/17.

The **Funding Volatility** reserve was established to mitigate financial risks from proposed changes in respect of the localisation of Business Rates and the Council Tax Support Scheme. It was part used during the year.

The **Housing Benefit Subsidy Clawback** reserve was originally established to meet the potential cost of repaying Government subsidy following the audit of claims. It was closed during the year.

The **Housing Development Fund** reserve carried forward from 2012/13 and 2013/14 a planned contribution towards the future cost of providing affordable housing. It was fully used in 2014/15.

The **Neighbourhood Plan** reserve carries forward Government grants to be used in connection with Doddinghurst and West Horndon neighbourhood plans.

The **Organisational Transformation** reserve will meet the costs anticipated as the Council seeks to develop its vision and demonstrate continuous improvement in its services, employees and members.

The **Planning Delivery Grant** reserve holds and carries forward unspent grant and budget from previous years and will be used for work associated with the Local Development Plan.

The **Preventing Homelessness** reserve carries forward unspent budgets and Government grant to be used for various initiatives in 2015/16.

The **Public Consultation** reserve carries forward unspent budget to be used for a borough wide satisfaction surveys.

The **Single Status** reserve was a reserve established to meet potential costs from the Single Status Project. It was part used and the required amount reassessed and reduced in 2013/14.

The **Street Scene Training** reserve carried forward unspent budget in 2013/14 and was fully used in 2014/15.

The **Ward Based Budgets** reserve carried forward unspent budget from 2012/13 to 2013/14 to meet the cost of agreed schemes. It was fully used in 2014/15.

The **Carpets for Sheltered Schemes** reserve carries forward unspent budget from 2012/13 and 2013/14. It will be fully used in 2015/16.

The **Council Dwellings Investment Fund** reserve contains an annual contribution from the HRA, as included in its Business Plan, towards investment in the Council's housing stock.

The **Equal Pay** reserve was a reserve to meet known unequal pay claims. It was fully used in 2014/15.

The HRA **Repairs and Maintenance** reserve is a new reserve which carries forward unspent budget in 2014/15.

#### 9. OTHER OPERATING EXPENDITURE

2013/14		2014/15
£'000		£'000
281	Parish Council precepts	302
310	Payments to the Government Housing Capital Receipts Pool	423
(1,110)	(Gains) / losses on the disposal of non-current assets	(445)
<b>(519)</b>	<b>Total</b>	<b>280</b>

#### 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2013/14		2014/15
£'000		£'000
2,180	Interest payable and similar charges	2,176
2,007	Net interest on the pensions net defined benefit liability (asset)*	1,692
(99)	Interest receivable and similar income	(67)
(279)	Income and expenditure in relation to investment properties and changes in their fair value	(484)
<b>3,809</b>	<b>Total</b>	<b>3,317</b>

\* See note 35 for further details

## 11. TAXATION AND NON-SPECIFIC GRANT INCOME

<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
(5,556)	Council Tax Income	(5,631)
(1,134)	Non-domestic rates (NDR) income	(1,576)
(3,267)	Non-ringfenced Government grants	(3,406)
(263)	Capital grants and contributions	(134)
<b>(10,220)</b>	<b>Total</b>	<b>(10,747)</b>

## 12. PROPERTY, PLANT AND EQUIPMENT

### 12.1 Movements on balances in 2014/15

	Total £'000	Council Dwellings £'000	Other Land and Buildings £'000	Infra-structure £'000	Vehicles, Plant and Equipment £'000	Surplus Assets £'000	Community Assets £'000
<b>Cost or Valuation</b>							
<b>At 1 April 2014</b>	<b>224,450</b>	<b>184,496</b>	<b>29,538</b>	<b>704</b>	<b>6,067</b>	<b>710</b>	<b>2,935</b>
Acquisitions	747	-	-	-	747	-	-
Additions	2,353	2,066	227	-	-	39	21
Revaluation increases/(decreases) recognised in the Revaluation Reserve	13,280	11,241	1,392	-	-	647	-
Revaluation increases/(decreases) recognised in the Surplus or Deficit on the Provision of Services	3,226	4,566	(1,294)	-	-	(46)	-
Derecognition - disposals	(1,145)	(1,145)	-	-	-	-	-
Asset reclassified to Investment Property	(285)	-	(285)	-	-	-	-
<b>At 31 March 2015</b>	<b>242,626</b>	<b>201,224</b>	<b>29,578</b>	<b>704</b>	<b>6,814</b>	<b>1,350</b>	<b>2,956</b>

### Accumulated Depreciation and Impairment

<b>At 1 April 2014</b>	<b>(4,761)</b>	-	<b>(724)</b>	<b>(184)</b>	<b>(3,849)</b>	<b>(4)</b>	-
Depreciation charge	(3,099)	(1,872)	(611)	(14)	(588)	(14)	-
Other movements in depreciation and impairment	2,649	1,872	759	-	-	18	-
<b>At 31 March 2015</b>	<b>(5,211)</b>	-	<b>(576)</b>	<b>(198)</b>	<b>(4,437)</b>	-	-

### Net Book Value

<b>At 31 March 2015</b>	<b>237,415</b>	<b>201,224</b>	<b>29,002</b>	<b>506</b>	<b>2,377</b>	<b>1,350</b>	<b>2,956</b>
<b>At 31 March 2014</b>	<b>219,689</b>	<b>184,496</b>	<b>28,814</b>	<b>520</b>	<b>2,218</b>	<b>706</b>	<b>2,935</b>

12.2 Comparative Movements on Balances in 2013/14

Cost or Valuation	Total £'000	Council Dwellings £'000	Other Land and Buildings £'000	Infra-structure £'000	Vehicles, Plant and Equipment £'000	Surplus Assets £'000	Community Assets £'000
<b>At 1 April 2013</b>	<b>210,142</b>	<b>167,620</b>	<b>33,018</b>	<b>704</b>	<b>5,519</b>	<b>400</b>	<b>2,881</b>
Acquisitions	740	192	-	-	548	-	-
Additions	2,666	2,082	530	-	-	-	54
Impairment	(62)	(62)	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	3,534	4,436	(902)	-	-	-	-
Revaluation increases/(decreases) recognised in the Surplus or Deficit on the Provision of Services	8,090	11,198	(3,108)	-	-	-	-
Derecognition - disposals	(970)	(970)	-	-	-	-	-
Assets reclassified from Held for Sale	310	-	-	-	-	310	-
<b>At 31 March 2014</b>	<b>224,450</b>	<b>184,496</b>	<b>29,538</b>	<b>704</b>	<b>6,067</b>	<b>710</b>	<b>2,935</b>

Accumulated Depreciation and Impairment

<b>At 1 April 2013</b>	<b>(3,893)</b>	-	<b>(434)</b>	<b>(170)</b>	<b>(3,289)</b>	-	-
Depreciation charge	(2,992)	(1,801)	(613)	(14)	(560)	(4)	-
Other movements in depreciation and impairment	2,124	1,801	323	-	-	-	-
<b>At 31 March 2014</b>	<b>(4,761)</b>	-	<b>(724)</b>	<b>(184)</b>	<b>(3,849)</b>	<b>(4)</b>	-

Net Book Value

<b>At 31 March 2014</b>	<b>219,689</b>	<b>184,496</b>	<b>28,814</b>	<b>520</b>	<b>2,218</b>	<b>706</b>	<b>2,935</b>
<b>At 31 March 2013</b>	<b>206,249</b>	<b>167,620</b>	<b>32,584</b>	<b>534</b>	<b>2,230</b>	<b>400</b>	<b>2,881</b>

### 12.3 Depreciation

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

Council Dwellings	69 years
Other Land and Buildings	5-70 years
Vehicles Plant and Equipment	5-10 years
Infrastructure	
Land Drainage	50 years
Other	10 years

### 12.4 Capital Commitments

At 31 March 2015, the Council had entered into the following contract for the enhancement of its council dwellings in 2015/16 and future years. Similar commitments at 31 March 2014 were £950,000.

Scheme	£'000
Structural works - balconies	347

### 12.5 Revaluations

The Council 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 valuation of the Council's golf course as at 31 March 2015 was carried out by independent external Royal Institute of Chartered Surveyors (RICS) registered valuers in accordance with the methodologies and bases for estimation set out in the professional standards of the RICS. All other valuations as at that date were carried out by internal RICS registered valuers on the same bases. The bases for valuation are set out in accounting policy 1.11.

The significant assumptions applied in estimating the fair values are that:

*in respect of housing dwellings (using the "beacon" approach) and other dwellings*

- the properties are assumed to be in reasonable repair and condition and have been valued on the basis of a desk top review
- there have been no material changes to the properties at the date of valuation

*in respect of other non-current assets*

- where possible the assets have been examined internally and copies of occupational leases reviewed. Otherwise the valuer has relied on information on accommodation as provided
- a building survey has not been carried out, nor has woodwork been inspected or other parts of the property which are covered, unexposed or inaccessible and such parts have been assumed to be in good repair. The assets have not been inspected for the purposes of condition or structural stability
- the property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoing and that good title can be shown
- the values of asset classes has been assessed on the basis of local knowledge, publicized data and advice received by other surveyors and valuers.

Valuation history

	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure £'000	Vehicles, Plant and Equipment £'000	Surplus Assets £'000	Community Assets £'000	Total £'000
Carried at depreciated historical cost	-	-	506	2,377	-	2,956	5,839
Valued at fair value as at							
31 March 2008	442,659	43,257	-	-	-	-	485,916
31 March 2009	(267,936)	(1,960)	-	-	-	-	(269,896)
31 March 2010	15,113	(9,551)	-	-	-	-	5,562
31 March 2011	(25,191)	1,334	-	-	-	-	(23,857)
31 March 2012	5,090	(225)	-	-	1,170	-	6,035
31 March 2013	(2,115)	(271)	-	-	(770)	-	(3,156)
31 March 2014	16,876	(3,770)	-	-	306	-	13,412
31 March 2015	16,728	188	-	-	644	-	17,560
<b>Total Cost or Valuation</b>	<b>201,224</b>	<b>29,002</b>	<b>506</b>	<b>2,377</b>	<b>1,350</b>	<b>2,956</b>	<b>237,415</b>

### 13. HERITAGE ASSETS

The COP requires heritage assets to be recognised in the Balance Sheet where information on the cost or value of the asset is available. Where such information is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the COP does not require that the asset is recognised in the Balance Sheet. It does, however, require that appropriate disclosure is made where the asset is not recognised. The Council has two heritage assets, the Shenfield War Memorial and the Heritage Column, which are not recognised in the Balance Sheet. Cost and valuation information is not available, and the Council considers that the cost of obtaining the information outweighs the benefit to users of the financial statements in recognising the assets in the Balance Sheet. The Council does not have a general or specific policy for the acquisition, preservation, management and disposal of heritage assets.

Shenfield War Memorial is situated on Chelmsford Road in Brentwood and is readily accessible to the public. A programme of renovation was completed in 2012/13 which has given an expected maintenance-free life of the memorial of twenty five years. Annual inspections will take place to ensure that appropriate maintenance will be carried out in the future.

The Heritage Column is a sculpture that depicts in steel, scenes of Brentwood's history. It sits at the junction of Kings Road and Brentwood High Street and is available for viewing by the public at all times. There is no specific maintenance programme for the column, which will be inspected on an *ad hoc* basis.

### 14. 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:

	2013/14 £'000	2014/15 £'000
Rental Income from investment property	139	153
<b>Net gain/(loss)</b>	<b>139</b>	<b>153</b>

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

The following table summarises the movement in the fair value of investment properties over the year. Valuations were carried out by internal Royal Institute of Chartered Surveyors (RICS) registered valuers.

	2013/14 £'000	2014/15 £'000
Balance at start of the year	2,335	2,475
Net gains or (losses) from fair value adjustments	140	331
Transfers (to) or from Property Plant and Equipment	-	239
<b>Balance at end of the year</b>	<b>2,475</b>	<b>3,045</b>



## 15. FINANCIAL INSTRUMENTS

### 15.1 Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet.

	Long-term		Current	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
<b><i>Investments / Cash Equivalents</i></b>				
Loans and receivable*	-	-	546	8,822
<b>Total Investments / Cash Equivalents</b>	-	-	<b>546</b>	<b>8,822</b>
<b><i>Debtors</i></b>				
Loans and receivables	919	665	1,346	1,108
Financial assets carried at contract amounts	440	308	-	-
<b>Total included in Debtors</b>	<b>1,359</b>	<b>973</b>	<b>1,346</b>	<b>1,108</b>
<b><i>Borrowings</i></b>				
Financial liabilities at amortised cost	66,166	66,166	2,058	58
<b>Total included in Borrowings</b>	<b>66,166</b>	<b>66,166</b>	<b>2,058</b>	<b>58</b>
<b><i>Other Long-term Liabilities</i></b>				
Finance lease liabilities	31	13	-	-
<b>Total Other Long-term Liabilities</b>	<b>31</b>	<b>13</b>	-	-
<b><i>Creditors</i></b>				
Financial liabilities carried at contract amounts	-	-	1,473	1,699
<b>Total Creditors</b>	-	-	<b>1,473</b>	<b>1,699</b>

\*The 31 March 2014 amount of £546,000 was omitted, in error, from the 2013-14 Statement of Accounts. The omission had no effect on any other figure in the Statement of Accounts.

#### **Material soft loan made by the Council**

A working capital loan of £613,000 was made to Brentwood Leisure Trust in 2010/11. Although this is deemed to be a soft loan - the loan is interest free - the nominal amount of the loan is carried in the Council's Balance Sheet as it is not materially different from the fair value of the loan. The balance of the loan at 31 March 2015 was £349,258 (£411,214 at 31 March 2014).

## 15.2. Income, Expense, Gains and Losses

	2013/14			2014/15		
	Financial Liabilities measured at amortised cost	Financial Assets - Loans and receivables	Total	Financial Liabilities measured at amortised cost	Financial Assets - Loans and receivables	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	2,180	-	2,180	2,176	-	2,176
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>2,180</b>	<b>-</b>	<b>2,180</b>	<b>2,176</b>	<b>-</b>	<b>2,176</b>
Interest income	-	(99)	(99)	-	(67)	(67)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>(99)</b>	<b>(99)</b>	<b>-</b>	<b>(67)</b>	<b>(67)</b>
<b>Net (gain) or loss for the year</b>	<b>2,180</b>	<b>(99)</b>	<b>2,081</b>	<b>2,176</b>	<b>(67)</b>	<b>2,109</b>

## 15.3 Fair value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their 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 facts or assumptions:

- range of interest rates at 31 March 2015 of 1.24% to 8.875% for loans from the Public Works Loan Board
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2014		31 March 2015	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial liabilities	68,166	70,955	66,166	81,391

The fair value of the liabilities is higher than the carrying amount because the loans taken out to finance Housing Revenue Account reform were at a discounted rate. The fair value includes a premium that would have to be paid if the loans were repaid, to reflect the discount.

Loans and receivables, long-term debtors; and short term debtors and creditors are carried at cost as this is a fair approximation of their value.

#### 16. DEBTORS

	31 March 2014 £'000	31 March 2015 £'000
Central Government bodies	4,206	1,606
Other local authorities	689	509
Other entities and individuals:		
Housing rents	589	590
Prepayments	244	448
Council Tax payers	338	349
Business Rates payers	854	912
Sundry	1,459	1,449
Less impairment allowance	(1,089)	(1,500)
<b>Total</b>	<b>7,290</b>	<b>4,363</b>

#### 17. CASH AND CASH EQUIVALENTS

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

	31 March 2014 £'000	31 March 2015 £'000
Cash held by the Council	3	5
Bank current accounts	(430)	(2,028)
Short-term deposits with banks	545	8,822
<b>Total Cash and Cash Equivalents</b>	<b>118</b>	<b>6,799</b>

## 18. CREDITORS

	31 March 2014 £'000	31 March 2015 £'000
Central Government bodies	338	1,557
Other local authorities	180	1,107
Other entities and individuals		
Council Tax payers	45	57
Business Rates payers	184	233
Sundry	1,508	1,904
Receipts in advance	404	474
<b>Total</b>	<b>2,659</b>	<b>5,332</b>

## 19. PROVISIONS

	Insurance Claims £'000	Legal Costs £'000	NNDR Appeals £'000	Rent Deposit Scheme £'000	Total £'000
<b>Balance at 31 March 2014</b>	<b>67</b>	<b>561</b>	<b>822</b>	<b>13</b>	<b>1,463</b>
Additional provisions made in 2014/15	-	-	83	-	83
Amounts used in 2014/15	-	(12)	-	(1)	(13)
Unused amounts reversed in 2014/15	(22)	-	-	-	(22)
<b>Balance at 31 March 2015</b>	<b>45</b>	<b>549</b>	<b>905</b>	<b>12</b>	<b>1,511</b>

**Insurance Claims** – provision to meet claims from the Council's previous insurers Municipal Mutual Insurance who are subject to a Scheme of Arrangement. The Council's liability was further clarified during the year. As a result £22,000 has been transferred back to services.

**Legal Costs** - provision for the cost of various legal proceedings against the Council. This is by way of a general provision albeit in respect of specific issues. It is considered that further disclosure of the nature, amounts or timing of potential settlements would seriously prejudice the position of the Council.

**NNDR Appeals** – under the current Business Rates retention scheme the Council is required to make provision for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. This includes amounts relating to NNDR charged to businesses under the old arrangements in 2012/13 and earlier years. A total provision of £2.264 million has been made, the Council's share being £0.905 million.

**Rent Deposit Scheme** - provision for the cost of compensating landlords for tenant damage. This is an ongoing provision and although amounts are anticipated to be required annually, the annual amount required will remain uncertain depending on events.

## 20. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

## 21. UNUSABLE RESERVES

31 March 2014 £'000		31 March 2015 £'000
35,188	Revaluation Reserve	49,836
109,519	Capital Adjustment Account	114,586
(109)	Financial Instruments Adjustment Account	(30)
864	Deferred Capital Receipts Reserve	601
(40,122)	Pensions Reserve	(46,969)
(652)	Collection Fund Adjustment Account	118
(131)	Accumulated Absences Account	(102)
<b>104,557</b>	<b>Total Unusable Reserves</b>	<b>118,040</b>

### 21.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council 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 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.

2013/14 £'000		2014/15 £'000
<b>30,858</b>	<b>Balance at 1 April</b>	<b>35,188</b>
7,351	Upward revaluation of assets	16,794
(2,037)	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(1,223)
<b>5,314</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>15,571</b>
(522)	Difference between fair value depreciation and historical cost depreciation	(573)
(125)	Accumulated gains on assets sold or scrapped	(160)
(337)	Adjustments in respect of previous years*	(190)
<b>(984)</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>(923)</b>
<b>35,188</b>	<b>Balance at 31 March</b>	<b>49,836</b>

\*These are in respect of the treatment of impairment in 2011/12 (with a small amount in respect of 2012/13).

### 21.2 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 and impairment losses are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to an historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. It also contains revaluation gains accumulated to 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.

2013/14 £'000		2014/15 £'000
99,954	<b>Balance at 1 April</b>	109,519
337	Adjustments in respect of previous years*	189
	<b>Reversal of items relating to Capital Expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
(3,054)	Charges for depreciation and impairment of non-current assets	(3,099)
(5,047)	Revaluation losses on Property, Plant and Equipment	(1,424)
13,481	Reversal of previous revaluation losses	4,950
(149)	Amortisation of Intangible assets	(171)
(729)	Revenue Expenditure Funded from Capital under Statute	(171)
(1,055)	Amounts of non-current assets written off on disposal or sale as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	(1,133)
<b>3,784</b>	<b>Sub Total</b>	<b>(859)</b>
647	Adjusting amounts written out of the Revaluation Reserve	734
<b>4,431</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(125)</b>
	<b>Capital Financing applied in the year</b>	
1,522	Use of the Capital Receipts Reserve to finance new capital expenditure	1,051
1,952	Use of the Major Repairs Reserve to finance new capital expenditure	2,035
247	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	225
14	Application of grants to capital financing from the Capital Grants Unapplied Account	-
710	Revenue contributions to capital expenditure	34
549	Provision for the financing of capital investment charged against the General Fund and HRA balances	1,516
<b>4,994</b>	<b>Sub Total</b>	<b>4,861</b>
140	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	331
<b>109,519</b>	<b>Balance at 31 March</b>	<b>114,586</b>

\*These are in respect of the treatment of impairment in previous years.

### 21.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. The balance on the Account at 31 March 2015 will be fully charged to the General Fund Balance in 2015/16.

2013/14 £'000		2014/15 £'000
(188)	Balance at 1 April	(109)
79	Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	79
(109)	Balance at 31 March	(30)

### 21.4 Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council 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 Council makes employer's contributions to the Pension Fund 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 Council 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. See also Note 35.

2013/14 £'000		2014/15 £'000
(50,345)	Balance at 1 April	(40,122)
-	Adjustment to opening balance**	372
11,206	Remeasurements of the net defined benefit liability / (asset)	(6,938)
(3,704)	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	(2,995)
2,721	Employer's pensions contributions and direct payments to pensioners payable in the year	2,714
(40,122)	Balance at 31 March	(46,969)

\*\*Adjustment in respect of a revised 2013-14 actuary's report which was not reflected in the 2013-14 accounts on the basis that the amount involved was not material.

### 21.5 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 Council 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.

2013/14 £'000		2014/15 £'000
870	Balance at 1 April	864
(6)	Transfer to the Capital Receipts Reserve upon receipt of Cash	(263)
864	Balance at 31 March	601

### 21.6 Collection Fund Adjustment Account

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

2013/14 £'000		2014/15 £'000
308	Balance at 1 April	(652)
(960)	Amount by which Council Tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and NNDR income calculated for the year in accordance with statutory requirements	770
(652)	Balance at 31 March	118

### 21.7 Accumulated Absences Adjustment Account

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

2013/14 £'000		2014/15 £'000
(122)	Balance at 1 April	(131)
(9)	(Increase) or decrease in the 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	29
(131)	Balance at 31 March	(102)



## **22. CASH FLOW STATEMENT - OPERATING ACTIVITIES**

### **22.1 Adjustment to surplus or deficit on the provision of services for non-cash movements**

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
2,992	Depreciation	3,099
(8,372)	Impairment and downward valuations	(3,525)
149	Amortisation	171
478	Increase / (decrease) in impairment provision for bad debts	411
(562)	Increase / (decrease) in creditors (including revenue grants received in advance and excluding Collection Fund agencies)	2,083
(4,380)	(Increase) / decrease in debtors (including long-term and excluding impairment provision and Collection Fund agencies)	2,111
(52)	(Increase) / decrease in inventories	(39)
983	Movement in pensions liability	281
1,055	Carrying amounts of non-current assets sold	1,133
657	Other non-cash movements	(292)
<b>(7,052)</b>		<b>5,433</b>

### **22.2 Adjustment for items Included in the net surplus or deficit on the provision of services that are Investing and Financing Activities**

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
(2,159)	Proceeds from the sale of non-current assets	(1,578)
(246)	Other items for which the cash effects are investing or financing cash flows	(123)
<b>(2,405)</b>		<b>(1,701)</b>

## **23. CASH FLOW STATEMENT - INVESTING ACTIVITIES**

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
(3,713)	Purchase of Property, Plant and Equipment and Intangible assets	(3,173)
2,158	Proceeds from the sale of Property, Plant and Equipment	1,578
219	Other Receipts from Investing Activities	(19)
<b>(1,336)</b>	<b>Net cash flows from Investing Activities</b>	<b>(1,614)</b>

## **24. CASH FLOW STATEMENT - FINANCING ACTIVITIES**

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
1,261	Other receipts from financing activities	1,656
(16)	Cash payments for the reduction of the outstanding liabilities relating to finance leases	(18)
(49)	Repayments of short-term and long-term borrowing	(2,031)
<b>1,196</b>	<b>Net cash flows from Financing Activities</b>	<b>(393)</b>

## **25. 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 in the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across priority areas (segments). 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 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 pension contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to departments.

Income and expenditure for each priority area for the year (segment reporting analysis) was as follows:

Priority Area	Street Scene and Environment £'000	Localism £'000	A Prosperous Borough £'000	Housing, Health and Wellbeing £'000	A Safe Borough £'000	A Modern Council £'000	Total £'000
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**2014/15**

Government grants	(41)	(16)	(5)	(195)	-	(16,499)	(16,756)
Fees, charges and other service income	(3,018)	(30)	(2,608)	(13,870)	(269)	(1,153)	(20,948)
<b>Total Income</b>	<b>(3,059)</b>	<b>(46)</b>	<b>(2,613)</b>	<b>(14,065)</b>	<b>(269)</b>	<b>(17,652)</b>	<b>(37,704)</b>
Employee expenses	2,752	133	1,214	1,555	843	3,847	10,344
Other service expenses	2,347	619	1,036	4,791	238	20,655	29,686
Support service recharges	712	416	718	1,488	458	(4,021)	(229)
Depreciation, impairment and revaluations	615	129	102	(2,741)	36	323	(1,536)
<b>Total Expenditure</b>	<b>6,426</b>	<b>1,297</b>	<b>3,070</b>	<b>5,093</b>	<b>1,575</b>	<b>20,804</b>	<b>38,265</b>
<b>Net Expenditure</b>	<b>3,367</b>	<b>1,251</b>	<b>457</b>	<b>(8,972)</b>	<b>1,306</b>	<b>3,152</b>	<b>561</b>

**2013/14**

Government grants	(133)	(16)	-	(173)	-	(16,670)	(16,992)
Fees, charges and other service income	(4,349)	(36)	(854)	(13,468)	(320)	(1,142)	(20,169)
<b>Total Income</b>	<b>(4,482)</b>	<b>(52)</b>	<b>(854)</b>	<b>(13,641)</b>	<b>(320)</b>	<b>(17,812)</b>	<b>(37,161)</b>
Employee expenses	3,047	181	841	1,652	776	3,713	10,210
Other service expenses	2,481	602	746	5,351	209	20,414	29,803
Support service recharges	468	481	672	1,740	517	(4,030)	(152)
Depreciation, impairment and revaluations	626	55	4	1,976	30	424	3,115
<b>Total Expenditure</b>	<b>6,622</b>	<b>1,319</b>	<b>2,263</b>	<b>10,719</b>	<b>1,532</b>	<b>20,521</b>	<b>42,976</b>
<b>Net Expenditure</b>	<b>2,140</b>	<b>1,267</b>	<b>1,409</b>	<b>(2,922)</b>	<b>1,212</b>	<b>2,709</b>	<b>5,815</b>

### 25.1 Reconciliation of Segment Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the segment analysis of income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2013/14 £'000	2014/15 £'000
Net expenditure in the Segment Analysis	5,815	561
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(6,857)	1,633
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>(1,042)</b>	<b>2,194</b>

## 25.2 Reconciliation to Subjective Analysis

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

2014/15

	Segment Analysis	Amounts not reported to management for decision making	Cost of services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000
Government grants and contributions	(16,756)	(446)	(17,202)	(4,981)	(22,183)
Council Tax income	-	-	-	(5,631)	(5,631)
Financing and Investment Income	-	-	-	(552)	(552)
Gain or Loss on Disposal of Non-current Assets etc.	-	-	-	(445)	(445)
Fees, charges and other service income	(20,948)	(1,469)	(22,417)	(134)	(22,551)
<b>Total Income</b>	<b>(37,704)</b>	<b>(1,915)</b>	<b>(39,619)</b>	<b>(11,743)</b>	<b>(51,362)</b>
Employee expenses	10,344	316	10,660	-	10,660
Other service expenses	29,686	(60)	29,626	-	29,626
Support service recharges	(229)	1,846	1,617	-	1,617
Depreciation, impairment and revaluations	(1,536)	1,446	(90)	-	(90)
Financing and investment expenditure	-	-	-	3,868	3,868
Precepts and Levies	-	-	-	302	302
Payment of Housing Capital Receipts to the Government	-	-	-	423	423
<b>Total Expenditure</b>	<b>38,265</b>	<b>3,548</b>	<b>41,813</b>	<b>4,593</b>	<b>46,406</b>
<b>Surplus or Deficit on Provision of Services</b>	<b>561</b>	<b>1,633</b>	<b>2,194</b>	<b>(7,150)</b>	<b>(4,956)</b>

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	Segment Analysis	Amounts not reported to management for decision making	Cost of services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000
Government grants and contributions	(16,992)	-	(16,992)	(4,276)	(21,268)
Council Tax income	-	-	-	(5,556)	(5,556)
Financing and Investment Income	-	-	-	(378)	(378)
Gain or Loss on Disposal of Non-current Assets etc.	-	-	-	(1,111)	(1,111)
Fees, charges and other service income	(20,169)	-	(20,169)	(388)	(20,557)
<b>Total Income</b>	<b>(37,161)</b>	<b>-</b>	<b>(37,161)</b>	<b>(11,709)</b>	<b>(48,870)</b>
Employee expenses	10,210	906	11,116	-	11,116
Other service expenses	29,803	-	29,803	-	29,803
Support service recharges	(152)	-	(152)	-	(152)
Depreciation, impairment and revaluations	3,115	(7,763)	(4,648)	-	(4,648)
Financing and investment expenditure	-	-	-	4,187	4,187
Precepts and Levies	-	-	-	282	282
Payment of Housing Capital Receipts to the Government	-	-	-	310	310
<b>Total Expenditure</b>	<b>42,976</b>	<b>(6,857)</b>	<b>36,119</b>	<b>4,779</b>	<b>40,898</b>
<b>Surplus or Deficit on Provision of Services</b>	<b>5,815</b>	<b>(6,857)</b>	<b>(1,042)</b>	<b>(6,930)</b>	<b>(7,972)</b>

## 26. TRADING OPERATIONS

The Council operates car parks and collects trade waste' which generate income from the public or other third parties. Details of income and expenditure (which are included in Highways and transport services in the Comprehensive Income and Expenditure Statement) are as follows:

		2013/14		2014/15	
		£'000	£'000	£'000	£'000
<b>Car Parks</b>					
	Income	1,468		1,602	
	Expenditure	777		891	
	Surplus		691		711
<b>Trade Waste Collection*</b>					
	Income	523		671	
	Expenditure	434		369	
	Surplus		89		302

\*Note - Information was not included in the 2013-14 Statement of Accounts on the basis that figures were below the Council's materiality threshold.

## 27. MEMBERS' ALLOWANCES

The Council paid the following amounts to Members of the Council during the year.

	2013/14 £'000	2014/15 £'000
Allowances	283	281
<b>Total</b>	<b>283</b>	<b>281</b>

## 28. OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

2014/15

Title	Note	Salary, Fees and Allowances	Bonuses	Benefits in Kind	Expenses Allowance	Compensation for loss of Office	Pension Contribution	Total
		£	£	£	£	£	£	£
Managing Director	1	30,729	12,600	-	692	84,000	3,912	131,933
Head of Street Scene		61,005	-	-	-	-	8,663	69,668
Head of Customer Services	2	33,097	-	-	-	-	3,972	37,069
Head of Housing	3	38,946	-	524	-	-	3,963	43,433
Head of Borough Health, Safety and Localism		61,005	-	-	-	-	8,663	69,668
Head of Planning	4	31,791	-	-	-	-	3,815	35,606
Director of Strategy and Corporate Services (Section 151 officer)	5	13,329	-	-	-	-	-	13,329
Chief Executive	6	96,352	-	-	-	-	-	96,352
Monitoring Officer and Head of Support Services	7	40,831	-	-	-	-	4,900	45,731
Head of Business Transformation	8	17,912	-	-	-	-	-	17,912
<b>Total</b>		<b>424,997</b>	<b>12,600</b>	<b>524</b>	<b>692</b>	<b>84,000</b>	<b>37,888</b>	<b>560,701</b>

Note 1. The Managing Director left the Council on 6 July 2014. The annualised salary was £102,000. The post was deleted.

Note 2. The Head of Customer Services was a new post filled on 17 September 2014. The annualised salary is £61,005.

Note 3. The Head of Housing left the Council on 17 October 2014 due to ill health. The annualised salary is £60,522. The post was covered by an interim agency worker to the end of the year at a cost of £77,902.

Note 4. The Head of Planning was appointed with effect from 13 October 2014. The annualised salary is £66,005. Up until that date, the post was covered by an interim agency worker at a cost of £58,628.

Note 5. The post of Director of Strategy and Corporate Services (Section 151 officer) became vacant from 1



June 2014. The duties of the post were then covered by the Acting Chief Executive. The annualised salary was £79,974.

Note 6. An Acting Chief Executive was appointed on 1 June 2014. The annualised salary is £103,680. An interim Chief Executive was appointed on a part time basis from 1 March 2015 at a cost of £4,130.

Note 7. The Monitoring Officer and Head of Support Services is a new post filled on 1 August 2014. The annualised salary is £61,005. Prior to that date, part of the duties of the post were covered by an interim agency team at a cost of £20,000.

Note 8. The Head of Business Transformation left the Council on 18 July 2014 and the post was deleted. The annualised salary was £58,902.

## 2013/14

Title	Note	Salary, Fees and Allowance s	Bonuses	Benefits in Kind	Expenses Allowance	Compensation for loss of Office	Pension Contribution	Total
		£	£	£	£	£	£	£
Managing Director		102,000	13,800	-	2,601	-	12,266	130,667
Head of Street Scene		58,902	-	-	-	-	7,068	65,970
Head of Performance and Improvement	1	35,602	-	-	-	41,776	4,062	81,440
Head of Legal and Governance	2	21,685	-	-	-	63,333	2,270	87,288
Head of Localism and Partnerships	3	22,347	-	-	-	-	2,588	24,935
Head of Housing		59,142	-	711	-	-	7,078	66,931
Head of Borough Health, Safety and Localism		57,335	-	-	-	-	6,873	64,208
Head of Planning	4	45,132	-	-	-	-	5,755	50,887
Director of Strategy and Corporate Services (Section 151 officer)		83,044	-	-	-	-	-	83,044
Head of Business Transformation	5	23,167	-	-	-	-	-	23,167
<b>Total</b>		<b>508,356</b>	<b>13,800</b>	<b>711</b>	<b>2,601</b>	<b>105,109</b>	<b>47,960</b>	<b>678,537</b>

Note 1. The Head of Performance and Improvement left the Council on 31 October 2013 and the post was deleted. The annualised salary was £59,826.

Note 2. The Head of Legal and Governance left the Council on 19 July 2013. The annualised salary was £71,953. The post has been covered by an agency interim team at a cost of £40,000.

Note 3. The Head of Localism and Partnerships left the Council on 28 August 2013 and the post was deleted. The annualised salary was £54,373.

Note 4. The Head of Planning left the Council on 5 December 2013. The annualised salary was £66,158. The post was covered by an interim agency worker until 31 March 2014 at a cost of £31,270.

Note 5. The Head of Business Transformation started in this new post on 4 November 2013. The annualised salary is £57,135.

The number of other employees of the Council receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) was as follows:

	2013/14	2014/15
Remuneration Band	Number of employees	Number of employees
£50,000 - £54,999	3	1

The number and total cost of exit packages within cost bands are set out 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	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £	2014/15 £
£0 - £20,000	3	2	4	-	7	2	88,167	25,492
£20,001 - £40,000	1	1	3	-	4	1	111,178	29,537
£40,001 - £60,000	1	-	1	-	2	-	84,597	-
£60,001 - £80,000	1	1	-	-	1	1	63,333	84,000
<b>Total</b>	<b>6</b>	<b>4</b>	<b>8</b>	<b>-</b>	<b>14</b>	<b>4</b>	<b>347,275</b>	<b>139,029</b>

### 29. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and other services provided by the Council's external auditors.

2013/14		2014/15
£'000		£'000
90	Fees payable in respect of external audit services carried out by the appointed auditor for the year	90
16	Fees payable for the certification of grant claims and returns for the year	31
<b>106</b>	<b>Total</b>	<b>121</b>

In addition to the above, a net total of £3,254 is included in the 2014/15 Comprehensive Income and Expenditure Statement, comprising of £900 additional fee for 2013/14, £9,381 in respect of additional Housing Benefit grant claim work, £2,200 for the payment of National Fraud Initiative and a refund of (£9,227) from the Audit Commission relating to 2013/14 in respect of audit fees.

### 30. GRANT INCOME

The Council has credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

	2013/14 £'000	2014/15 £'000
<b>Credited to Taxation and Non-specific Grant Income:</b>		
Brentwood Share Fund	3	-
Business Rates		
Inflation Cap	-	16
New Burden Administrative Costs	-	10
Reoccupation Relief	-	3
Retail Relief	-	145
Small Business Relief	207	230
Capitalisation Grant	11	-
Council Tax Freeze Grant	57	57
Developers' Section 106	116	141
Homes and Communities Agency Grant	64	(7)
New Homes Bonus Scheme	811	1,219
Pilgrims Hatch Partnership	15	-
Revenue Support Grant	2,179	1,719
Skateboard Park Association	40	-
Transparency Code Set Up Grant	3	6
<b>Total</b>	<b>3,506</b>	<b>3,539</b>

<b>Credited to Services:</b>	<b>2013/14 £'000</b>	<b>2014/15 £'000</b>
Asset of Community Value	-	9
Bulk Data Matching Initiative	-	3
Community Right to Bid	-	8
Community Right to Challenge	16	-
Council Tax		
Family Annexes Discount	-	1
Local Support Scheme	-	64
Local Support Scheme Administration	-	67
New Burden (Localised Council Tax Scheme)	38	-
Countrywide Stewardship	3	6
Disabled Facilities Grant	125	130
Discretionary Housing Payment Grant	110	67
Food Waste Grant	402	407
Fraud and Error Reduction Incentive Scheme	-	4
Housing Benefit Administration	-	232
Housing Benefit and Council Tax Administration Grant	341	-
Inspire Annex III	-	7
Internship Funding	-	3
Keep Safe Funding	-	1
Local Authority Data Sharing	-	11
Migrants' Access to Housing Benefits Changes	-	2
Neighbourhood Planning Grant	-	5
Rent Allowances	9,705	9,342
Rent Rebates	6,449	6,595
Single Fraud Investigation service	-	1
Supporting People	173	195
Transitional Funding	27	7
Weekly Collection Support Scheme	130	35
<b>Total</b>	<b>17,519</b>	<b>17,202</b>

The Council received a number of grants and contributions that have yet to be recognised as income because they have conditions attached to them which could require the monies to be returned to the grantor. The balances at the year end were as follows:

<b>Grants Receipts in Advance (Revenue Grants)</b>	<b>31 March 2014 £'000</b>	<b>31 March 2015 £'000</b>
<b>Current Liabilities</b>		
Weekly Collection Support Scheme	414	690
<b>Total</b>	<b>414</b>	<b>690</b>

<b>Grants Receipts in Advance (Capital Grants)</b>	<b>31 March 2014 £'000</b>	<b>31 March 2015 £'000</b>
<b><i>Developers Contributions</i></b>		
Former Warley Hospital Site	808	808
Former British Gas Site*	29	18
Former Highwoods Hospital Site*	38	27
Land at Brentwood Community Hospital	49	-
Phase 4a former British Gas site	50	-
Willowbrook School	60	40
<b>Total</b>	<b>1,034</b>	<b>893</b>

\*Included in Former Warley Hospital in the 2013-14 Statement of Accounts

## **31. RELATED PARTIES**

The Council 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**

Central Government has significant influence over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of the funding in the form of grants and prescribes the terms of many of the transactions the Council has with other parties (for example Council Tax bills, housing benefits). Grants received from Government departments are set out in the subjective analysis in Note 25 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March 2015 are shown in Note 30.

### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2014/15 is shown in Note 27. In addition, grants totaling £113,021 were paid to voluntary organisations the governing bodies of which included at least one Member representing the Council. In all instances the grants were made with proper consideration of declarations of interest.

### **Entities in which Members have a controlling interest**

Members of the Council are required to review and complete a register of Members Financial interests. All Members submitted a nil return for 2014/15.

### **Other Public Bodies**

Four Members of the Council were also Members of Essex County Council during the financial year. One of those Members also sits on Essex Fire Authority. In 2014/15 the Council paid grants totaling £131,635 to Parish Councils within its area. The Council paid Essex County Council a total of £441,730, of which £248,159 was for the provision of professional services, £148,816 was for trade waste and £35,640 was for planning and land charges services. The Council was paid £1,731,041 by Essex County Council during the year. Of that amount, £1,536,950 was in respect of recycling and waste disposal and £85,000 was in respect of the highways ranger service. The balance was in respect of a number of other services ranging from the provision of community alarms to grass cutting and weed spraying. In addition, the Council paid the London Borough of Barking and Dagenham £316,615 during the year for the provision of professional services.

### **Entities Controlled or Significantly Influenced by the Council**

The Council has an arrangement with Brentwood Leisure Trust whereby the company provides sport and leisure services within the borough. The Trust manages Brentwood Leisure Centre and the Council's community halls, in addition to using the premises for its own purposes. The Council does not have power over the Trust, is not an investor in it and does not share control of its activities. As such the Council has no interest in the Trust as a subsidiary, associate or joint venture respectively. The Council paid the Trust a total of £177,119 in 2014/15 (£250,300 in 2013/14). The Trust was a debtor of the Council at 31 March 2015 in the amount of £349,258 (£411,214 at 31 March 2014) in respect of a loan to the Trust.

### 32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown below (including the value of assets acquired under finance leases), 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2013/14 £'000		2014/15 £'000
<b>78,353</b>	<b>Opening Capital Financing Requirement</b>	<b>77,804</b>
	<i>Capital Investment</i>	
3,407	Property, Plant and Equipment	3,100
307	Intangible Assets	73
730	Revenue Expenditure Funded from Capital under Statute *	172
	<i>Sources of Finance</i>	
(1,522)	Capital receipts	(1,051)
(260)	Government grants and other contributions	(217)
(1,952)	Major Repairs Reserve	(2,035)
(710)	Revenue contributions to capital expenditure	(42)
(549)	Sums set aside from revenue for the repayment of debt	(1,516)
<b>77,804</b>	<b>Closing Capital Financing Requirement</b>	<b>76,288</b>
	<i>Explanation of Movements in the Year</i>	
	Increase (decrease) in the underlying need to borrow (unsupported by	
(500)	Government financial assistance)	(1,500)
(49)	Assets acquired under finance leases	(16)
<b>(549)</b>	<b>Increase or (Decrease) in Capital Financing Requirement</b>	<b>(1,516)</b>

\*See note HRA5 (i)

### 33. LEASES

#### Council as Lessor

##### *Finance Leases*

The Council has leased out Thorndon Court and Becketts Court on a finance lease with remaining terms of 79 years and 81 years respectively.

The Council has a gross investment in the leases, 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 Council in future years whilst the debtor remains outstanding.

In the case of Thorndon Court, a number of lessees extended the term of the lease by payment of a capital sum to the Council with the result that no further lease payments are due. Most of the lease extensions occurred in the year 2012-13. The resultant loss of future years' income would have had a significant effect on the minimum lease payments and gross investment in the leases as at 31 March 2014 if the change had been made in 2013-14. The second column in the table below illustrates the effect. There is no change to prior year amounts nor balances.

The gross investment is made up of the following amounts:

	31 March 2014 £'000	31 March 2014 Revised £'000	31 March 2015 £'000
Finance lease debtors (net present value of minimum lease payments):			
Non-current	25	312	297
Unearned finance income	2,061	1,462	1,418
Unguaranteed residual value	415	-	-
Gross investment in the lease	2,501	1,774	1,715

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross investment in lease			Minimum Lease Payments		
	31 March 2014 £'000	31 March 2014 Revised £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2014 Revised £'000	31 March 2015 £'000
Not later than one year	-	23	22	27	23	22



Later than one year and not later than five years	25	91	89	107	91	89
Later than five years	2,476	1,660	1,604	2,367	1,660	1,604
<b>Total</b>	<b>2,501</b>	<b>1,774</b>	<b>1,715</b>	<b>2,501</b>	<b>1,774</b>	<b>1,715</b>

The minimum lease payments do not include rents that are contingent on the events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15 no contingent rents were receivable by the Council (none in 2013/14).

#### **Operating Leases**

The Council leases out premises under operating leases for the following purposes:

- for the provision of community services, such as sports facilities and community centres;
- for economic development purposes to provide suitable affordable accommodation for local businesses

The future minimum lease payments receivable under non-cancellable leases in future years are:

	<b>31 March 2014 £'000</b>	<b>31 March 2015 £'000</b>
Not later than one year	234	211
Later than one year and not later than five years	709	650
Later than five years	876	726
<b>Total</b>	<b>1,819</b>	<b>1,587</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15 no contingent rents were receivable by the Council (none in 2013/14).

#### **34. TERMINATION BENEFITS**

The Council terminated the contracts of a number of employees in 2014/15, incurring liabilities of £139,029 (£347,275 in 2013/14) - see Note 28 for the number of exit packages and total cost per band. Of the total, £84,000 was payable to an employee of the Council who was made redundant as part of the Council's back office review; and £55,029 was in respect of agreed departures of employees following other service reviews.

## 35. DEFINED BENEFIT PENSION SCHEMES

### 35.1 Participation in Pension Schemes

As part of the terms and conditions of employment of its staff, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- (i) The Local Government Pension Scheme, administered locally by Essex County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- (ii) Arrangements for the award of discretionary post retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

### 35.2 Actuary

The fund assets and liabilities information and disclosures are in accordance with Barnett Waddingham, an independent firm of actuaries, estimates for the Essex County Council Fund being based on the latest full valuation of the scheme as at 31 March 2013.

### 35.3 Transactions Relating to Post-employment Benefits

The Council 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 the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. See also Note 1.4. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund and HRA Balances via the Movement in Reserves Statement during the year:

Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
2013/14 £'000	2013/14 £'000		2014/15 £'000	2014/15 £'000
<b>Comprehensive Income and Expenditure Statement</b>				
		<i>Cost of Services</i>		
		Service cost comprising		
1,635	-	Current service cost	1,263	-
52	-	Past service costs including curtailments	34	-

-	-	Gain on settlements	(22)	-
10	-	Administration	28	-
		<i>Financing and Investment Income and Expenditure</i>		
1,857	150	Net interest expense	1,543	149
<b>3,554</b>	<b>150</b>	<b>Total Post-employment Benefits Charged to the Surplus or Deficit on the Provision of Services</b>	<b>2,846</b>	<b>149</b>
		<i>Remeasurement of the net defined benefit comprising</i>		
(2,445)	-	Return on plan assets (excluding the amount included in the net interest expense)	(5,732)	-
1,848	-	Other actuarial (gains) / losses on assets	-	-
(5,554)	(144)	Actuarial gains and losses arising on changes in demographic assumptions	-	-
(2,074)	(32)	Actuarial gains and losses arising on changes in financial assumptions	12,499	223
(2,805)	-	Experience (gain) / loss on defined benefit obligation	(52)	-
<b>(7,476)</b>	<b>(26)</b>	<b>Total Post-employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>9,561</b>	<b>372</b>
		<i>Movement in Reserves Statement</i>		
(3,554)	(150)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	(2,846)	(149)
		<i>Actual Amount Charged against the General Fund and HRA Balances for the Year</i>		
<b>2,477</b>	<b>244</b>	Employer's contributions payable to scheme	<b>2,472</b>	<b>242</b>
2,028	200	Contributions / payments charged to the General Fund	2,035	199
449	44	Contributions / payments charged to the Housing Revenue Account	437	43
<b>2,477</b>	<b>244</b>		<b>2,472</b>	<b>242</b>

### 35.4 Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2013/14	2014/15	2013/14	2014/15
	£'000	£'000	£'000	£'000
Present Value of the defined benefit obligation	(97,730)	(113,073)	(3,513)	(3,591)
Fair value of plan assets	61,121	69,695	-	-
<b>Net liability arising from defined benefit obligation</b>	<b>(36,609)</b>	<b>(43,378)</b>	<b>(3,513)</b>	<b>(3,591)</b>

### 35.5 Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme	
	2013/14	2014/15
	£'000	£'000
<b>Opening fair value of scheme assets</b>	<b>58,661</b>	<b>61,121</b>
Adjustment to opening fair value**	-	372
Interest income	2,398	2,698
Remeasurement of the return on plan assets (excluding the amount included in the net interest expense)	2,445	5,732
Other actuarial gains / (losses)	(1,848)	-
Administration expenses	(10)	(28)
Contributions from employer	2,721	2,714
Contributions from employees into the scheme	427	444
Benefits paid	(3,673)	(3,296)
Settlements made	-	(62)
<b>Closing fair value of scheme assets</b>	<b>61,121</b>	<b>69,695</b>

\*\*Adjustment in respect of a revised 2013-14 actuary's report which was not reflected in the 2013-14 accounts on the basis that the amount involved was not material.

### 35.6 Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):

	Funded liabilities: Local Government Pension Scheme	Unfunded liabilities: Discretionary Benefits	Funded liabilities: Local Government Pension Scheme	Unfunded liabilities: Discretionary Benefits
	2013/14	2013/14	2014/15	2014/15
	£'000	£'000	£'000	£'000
<b>Opening balance at 1 April</b>	<b>(105,223)</b>	<b>(3,783)</b>	<b>(97,730)</b>	<b>(3,513)</b>
Current service cost	(1,635)	-	(1,263)	-
Interest cost	(4,255)	(150)	(4,241)	(149)
Contributions from scheme participants	(427)	-	(444)	-
Remeasurement actuarial gains and losses				
Arising from changes in demographic assumptions	5,554	144	-	-
Arising from changes in financial assumptions	2,074	32	(12,499)	(223)
Experience gains / (losses)	2,805	-	-	52
Settlements liabilities extinguished	-	-	84	-
Benefits paid	3,429	244	3,054	242
Past service cost	(52)	-	(34)	-
<b>Closing balance at 31 March</b>	<b>(97,730)</b>	<b>(3,513)</b>	<b>(113,073)</b>	<b>(3,591)</b>

### 35.7 Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2015 is estimated to be 14%. The actual return on the Fund assets over the year may be different. The estimated asset allocation for the Council as at 31 March is as follows:

Asset Share – Bid Value	31 March 2014		31 March 2015	
	£'000	%	£'000	%
Equities	40,951	67	46,904	67
Gilts	4,890	8	3,067	4
Other Bonds	4,890	8	6,691	10
Property	6,723	11	7,527	11
Cash	1,222	2	1,533	2
Alternative Assets	2,445	4	3,973	6
<b>Total</b>	<b>61,121</b>	<b>100</b>	<b>69,695</b>	<b>100</b>

To calculate the asset share the actuary has rolled forward the assets allocated to the Council at 31 March 2013 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Council and its employees.

Bid values have been estimated by the actuary where necessary and the final asset allocation of the Fund assets as at 31 March 2015 is likely to be different from that shown as a result of estimation techniques. Based on the above the Council's share of the assets of the Fund is approximately 1%.

Information provided by the administering authority of the Fund (Essex County Council) shows that:

- of the equities allocation above, 23% are UK investments, 77% are overseas investments, 93% of equities are quoted and 7% are not
- the gilts allocation consists entirely of UK index linked government securities
- the other bonds allocation consist entirely of UK corporate bonds
- of the property allocation above 41% is quoted
- the alternative assets allocation is made up of 53% in infrastructure, 3% in a financing fund, 18% in timber and 26% in currency.

### 35.8 Liabilities

To assess the value of the Council's liabilities at 31 March 2015, the actuary has rolled forward the value of the liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with International Accounting Standard 19 (IAS 19). The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the schemes as well as pensions and lump sums that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

As required under IAS 19 the projected unit method of valuation has been used to calculate the service cost.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2015 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2015 should not introduce any material distortions in the results provided that the actual experience of the Council and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the last formal valuation. From the information received by the actuary there appears to be no evidence that this approach is inappropriate.

The demographic assumptions used by the actuary have been:

	2013/14	2014/15
Mortality assumptions		
Life expectancy from age 65		
Retiring today		
Men	22.7	22.8
Women	25.1	25.2

Retiring in 20 years		
Men	24.9	25.1
Women	27.4	27.6

The actuary has also made the following assumptions:

- members will exchange 60% of their commutable pension for cash at retirement
- members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
- 10% of active members will take up the option under the new scheme to pay 50% of contributions for 50% of benefits

The financial assumptions used by the actuary have been:

Assumption as at	31 March 2013		31 March 2014		31 March 2015	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.3	-	3.5	-	3.1	-
CPI Increases	2.5	-0.8	2.7	-0.8	2.2	-0.9
Salary Increases	4.3	1.0	4.5	1.0	4.0	0.9
Pension Increases	2.5	-0.8	2.7	-0.8	2.2	-0.9
Discount Rate	4.1	0.8	4.4	0.9	3.2	0.1

The actuary's estimate of the duration of the Council's liabilities is 17 years. The discount rate is the annualised yield at the 17 year point on the Merrill Lynch AA rated corporate bond yield curve which has been chosen to meet the requirements of IAS 19 and with consideration of the duration of the Council's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 17 year point on the BoE market implied inflation curve. This is consistent with the approach used at the last accounting date. The RPI assumption is therefore 3.1%.

As future pension increases are expected to be based on CPI rather than RPI, the actuary has made a further assumption about CPI which is that it will be 2.2%, 0.9% below RPI. This is a slightly lower estimate than last year. The actuary believes that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts.

Salaries are then assumed to increase at 1.8% above CPI in addition to a promotional scale.

### 35.9 Sensitivity Analysis

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analysis below has been determined based on reasonably possible changes of the

assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysis changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method.

<b>Sensitivity Analysis</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	114,732	116,664	118,631
Projected Service Cost	1,498	1,533	1,568
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	116,839	116,664	116,490
Projected Service Cost	1,534	1,533	1,532
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	118,473	116,664	114,886
Projected Service Cost	1,568	1,533	1,499
Adjustment to mortality age rating assumption	+1 Year	None	- 1 Year
Present Value of Total Obligation	112,572	116,664	120,793
Projected Service Cost	1,481	1,533	1,586

### **35.10 Impact on the Council's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve and then maintain a funding level of 100%. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earning schemes to pay pensions and other benefits to certain public servants.



### 35.11 2015-16

The Council's 2015-16 projected pension expense, excluding the capitalised cost of any early retirements or augmentations which may occur after 31 March 2015, is:

	£'000
Service Cost	1,533
Net Interest on the defined benefit liability (asset)	1,473
Administration expenses	32
<b>Total</b>	<b>3,038</b>
<b>Employer Contributions</b>	<b>2,170</b>

### 36. CONTINGENT LIABILITIES

The Council had no contingent liabilities at 31 March 2015.

### 37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council'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 funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's management of treasury risks actively works to minimise its exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Revised Code of Practice on Treasury Management through its Treasury Management Policy Statement and Strategy.

#### **Credit Risk**

This risk reflects the possibility that lending counterparties may fail to repay sums arising from the short-term lending of surplus funds to banks, building societies and other authorised institutions, in addition to credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy which requires that deposits are not made with financial institutions that do not meet specified minimum credit criteria.

In accordance with its Treasury Management Strategy the primary principle governing the Council's investment criteria is the security of its investments although the yield or return on the investments is also a key

consideration. The Council's policy is to place deposits only with a limited number of UK banks and building societies each of which is classified as an Eligible Institution for the HM Treasury Credit Guarantee Scheme and whose credit ratings, as assessed by an appropriate independent ratings agency, are at a level specified in the strategy. Additionally the Council is prepared to lend to top rated money market funds, the UK Government and other local authorities. Whilst credit ratings remain a key source of information, the Council recognises their limitations and takes into account market intelligence.

Deposits are limited to £3 million in the case of banks, building societies and money market funds (with the exception of Bank of Scotland, Royal Bank of Scotland, Nationwide Building Society and other local authorities where the limit is £5 million). No limit is placed on loans to the UK Government. Time limits are also specified for counterparties of varying types and ratings.

The following analysis summarises the Council's potential maximum exposure to credit risk for 2014-15 based on past and current market conditions. No credit limits were exceeded during 2014-15 and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

	Amount at 31 March 2015	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2015	Estimated maximum exposure at 31 March 2015	Estimated maximum exposure at 31 March 2014
	£'000	%	%	£'000	£'000
Deposits with banks and other institutions	8,822	-	-	-	-
Customers	1,108	55	55	609	431
Brentwood Leisure Trust - Loan	287	-	-	-	-
<b>Total</b>	<b>10,217</b>			<b>609</b>	<b>431</b>

The outstanding customer balances as at 31 March 2015 are analysed by age as follows:

	31 March 2014	31 March 2015
	£'000	£'000
Less than three months	135	111
Three to six months	269	222
Six months to one year	404	332
More than one year	538	443
	<b>1,346</b>	<b>1,108</b>

Customer debts can be further analysed as follows:

	31 March 2014	31 March 2015		
	Carrying amount	Customer debt	Provision for impairment	Carrying amount
	£'000	£'000	£'000	£'000
Dwellings rents	335	590	327	263
Other	475	518	279	239
	<b>810</b>	<b>1,108</b>	<b>606</b>	<b>502</b>

### Liquidity Risk

The Council ensures it has adequate but not excessive cash resources, borrowing arrangements and overdraft facilities to enable it, at all times, to have the level of funds available which are necessary for the achievement of its business objectives. Specifically the Council seeks to ensure that short-term deposits of at least £1 million are available with a week's notice.

As the Council has ready access to borrowing from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. However, there is a risk that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates, though such risks are managed as far as possible through prudential treasury management.

The maturity analysis of financial liabilities is as follows:

	31 March 2014	31 March 2015
	£'000	£'000
Less than one year	2,031	32
Between one and two years	65	5,033
Between two and five years	5,098	98
Between five and ten years	5,158	5,158
Between ten and twenty years	25,501	25,449
Between twenty and thirty years	29,191	29,191
More than 30 Years	1,710	1,648
Total	<b>68,754</b>	<b>66,609</b>

All trade and other payables are due to be paid in less than one year.

## Market Risk

### Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates could have a complex impact on the Council. For instance, a rise in interest rates could have the following effects:

- borrowings at variable rates: the interest charged to the Comprehensive Income and Expenditure Account would rise
- borrowings at fixed rates: the fair value of the liabilities borrowings would fall
- investments at variable rates: the interest credited to the Comprehensive Income and Expenditure Account would rise
- investments at fixed rates: the fair value of the assets would fall

Borrowings and investments are not carried at fair value so nominal gains and losses on fixed rate instruments would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Surplus or Deficit in the Provision of Services and affect the General Fund Balance.

The Council manages its exposure to interest rate risks specifically through four treasury activity limits:

- variable interest rate exposure
- fixed interest rate exposure
- maturity structures of borrowing to limit the Council's exposure to excessively large sums falling due for refinancing at a time of high interest rates
- total invested for periods greater than 364 days.

The Council has an effective strategy for assessing interest rate exposure that informs the setting of the annual budget and is used to update the budget during the year. This allows any adverse changes to be accommodated.

According to this assessment strategy, if interest rates had been ½% higher at 31 March 2015, with all other variables held constant, the annualised interest receivable on the Council's investments/cash equivalents would have increased by £441,100. The movements would be reversed if interest rates had been ½% lower. A ½% movement would have had a negligible effect on the fair value of the Council's investments/cash equivalents.

All the Council's borrowings are at a fixed rate. As a result, a 1% movement in interest rates at 31 March 2015 would have had no effect on interest payable. However, a 1% change in the current value of the borrowings would result in movement of £661,660.

### Price Risk and Foreign Exchange Risk

The Council does not invest in instruments such as equity shares as part of its treasury function and thus has no exposure to loss arising from movements in price. The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## HRA INCOME AND EXPENDITURE STATEMENT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and Government grants. Councils charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the HRA Statement.

2013/14			2014/15
£'000	Note		£'000
		<b>Expenditure</b>	
3,597		Repairs and maintenance	3,075
3,842		Supervision and management	3,021
169		Rent, rates, taxes and other charges	184
(9,200)		Depreciation and impairment of non-current assets	(2,112)
51		Movement in the allowance for bad debts	103
<b>(1,541)</b>		<b>Total Expenditure</b>	<b>4,271</b>
		<b>Income</b>	
(11,278)		Dwelling rents	(11,866)
(559)		Non-dwelling rents	(542)
(694)		Charges for services and facilities	(782)
(328)		Contributions towards expenditure	(320)
<b>(12,859)</b>		<b>Total Income</b>	<b>(13,510)</b>
<b>(14,400)</b>		Net Expenditure of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement	<b>(9,239)</b>
453		HRA share of Corporate and Democratic Core	459
2		HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services	5
<b>(13,945)</b>		<b>Net Expenditure of HRA Services</b>	<b>(8,775)</b>
		HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement	
(476)		(Gain) or loss on sale of HRA non-current assets	(361)
2,062		Interest payable and debt management expenses	2,063
(88)		Interest and investment income	(64)
364		Pensions net interest expense	299
(64)		Other non-specific grants	-
<b>(12,147)</b>		<b>(Surplus) or deficit for the year on HRA services</b>	<b>(6,838)</b>

## Movement on the HRA Statement

2013/14			2014/15
£'000	Note		£'000
1,822		Balance on the HRA at the end of the previous year	1,665
12,147		Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	6,838
(12,120)	HRA1	Adjustments between accounting basis and funding basis under the legislative framework	(6,018)
27		Increase or (decrease) before transfers to or from reserves	820
(184)	HRA1	Transfers (to) or from earmarked reserves	(724)
(157)		Increase or (decrease) in the year on the HRA	96
1,665		<b>Balance on the HRA at the end of the current year</b>	<b>1,761</b>

## Notes to the HRA

### HRA1 - Movement on the HRA Statement

	Note	2013/14	2014/15
		£'000	£'000
<b>Adjustments between accounting basis and funding basis under the legislative framework</b>			
Gain or loss on sale of HRA non-current assets		(468)	(360)
HRA share of contributions to or from the Pensions Reserve		169	47
Transfers to or from the Major Repairs Reserve		(1,950)	(2,015)
Transfers to or from the Capital Adjustment Account (including Revenue Expenditure Funded from Capital under Statute)		(9,871)	(3,686)
Transfers to or from the Accumulated Absences Adjustment Account		-	(4)
<b>Total adjustments between accounting basis and funding basis under the legislative framework</b>		<b>(12,120)</b>	<b>(6,018)</b>
Transfers (to) or from earmarked reserves		(184)	(724)
<b>Total Movement</b>		<b>(12,304)</b>	<b>(6,742)</b>

## HRA2 - Housing Stock

The type and number of dwellings in the Council's housing stock at 31 March were as follows:

	2014	2015
<b>Flats</b>		
1 Bedroom	600	598
2 Bedroom	507	504
3 Bedroom	62	61
<b>Houses and Bungalows</b>		
1 Bedroom	289	289
2 Bedroom	393	389
3 Bedroom	638	633
4 Bedroom	14	14
<b>Equity share properties</b>		
1 Bedroom	6	6
2 Bedroom	2	2
<b>Total</b>	<b>2,511</b>	<b>2,496</b>

## HRA3 - HRA Non-current Assets

The Balance Sheet values at 31 March of assets within the Council's HRA were as follows:

	2014	2015
	£'000	£'000
Dwellings	181,399	197,513
Other land and buildings	8,398	7,697
Vehicles, furniture, plant and equipment	9	2
<b>Total</b>	<b>189,806</b>	<b>205,212</b>

The Balance Sheet values of the land, houses and other property within the Council's HRA were as follows:

	Dwellings	Other Land and Buildings	Vehicles, Furniture, Plant and Equipment	Total
	£'000	£'000	£'000	£'000
Net Book Value at 31 March 2013	165,244	8,543	6	173,793
Changes during the year	16,355	(145)	3	16,213
Net Book Value at 31 March 2014	181,599	8,398	9	190,006
Changes during the year	15,914	(701)	(7)	15,206
Net Book Value at 31 March 2015	197,513	7,697	2	205,212

Depreciation and impairment charges during the year were as follows:

	2013/14	2014/15
	£'000	£'000
<b>Depreciation</b>		
Dwellings	1,770	1,838
Other land and buildings	176	176
Vehicles, furniture, plant and equipment	12	2
<b>Total</b>	<b>1,958</b>	<b>2,016</b>
<b>Valuation loss / Impairment</b>		
Dwellings	(11,158)	(4,788)
Other land and buildings	-	618
<b>Total</b>	<b>(11,158)</b>	<b>(4,170)</b>
Dwellings	(9,388)	(2,950)
Other land and buildings	176	794
Vehicles, furniture, plant and equipment	12	2
<b>Total</b>	<b>(9,200)</b>	<b>(2,154)</b>

In 2014-15 the housing stock was revalued resulting in a total of £0.6 million being charged to the HRA as a revaluation loss (£2.3 million in 2013-14) and an amount of £4.8 million being credited as a reversal of losses and impairment in previous years (£13.5 million in 2013-14).

The vacant possession value of dwellings within the Council's HRA was £506.443 million in 2014-15 (£465.128 million in 2013-14). The difference between the vacant possession value and the Balance Sheet value shows the economic cost to the Government of providing council housing at less than open market rents.

#### HRA4 - Major Repairs Reserve

	2013/14	2014/15
	£'000	£'000
Balance at 1 April	20	20
Amount transferred to the reserve during the year	1,950	2,016
Financing of capital expenditure	(1,950)	(2,036)
<b>Balance at 31 March</b>	<b>20</b>	<b>-</b>



## HRA5 - Capital Transactions

### (i) Capital Expenditure and Financing

	2013/14	2014/15
	£'000	£'000
Capital Expenditure - Enhancements	2,304	2,069
Capital Expenditure – Revenue Expenditure Funded from Capital Under Statute (REFCUS)*	331	-
<b>Total Capital Expenditure</b>	<b>2,635</b>	<b>2,069</b>
<b>Sources of Finance:</b>		
Major Repairs Reserve	1,619	2,035
Major Repairs Reserve – REFCUS	331	-
Grants	65	(7)
Revenue contribution to capital expenditure	620	41
<b>Total Financing</b>	<b>2,635</b>	<b>2,069</b>

\*REFCUS is expenditure which would normally be classified as revenue but is treated as capital as a result of regulations. Expenditure in 2013/14 and previous years on disabled adaptations to Council Dwellings was incorrectly treated as REFCUS. Previous years have not been restated on the grounds that the error is not material to users of the Statement of Accounts.

### (ii) Capital Receipts

	2013/14	2014/15
	£'000	£'000
Capital receipts from disposals of land, houses and other property		
Sale of dwellings – Usable Receipts	488	1,495

## HRA6 - Rent Arrears

	2013/14	2014/15
	£'000	£'000
Gross rent arrears at 31 March	484	553
Provision for doubtful debts	(188)	(290)
<b>Net Rent Arrears at 31 March</b>	<b>296</b>	<b>263</b>

## HRA7 - Pension Costs

The following figures represent the cost of pensions attributable to the HRA and explain the HRA share of contributions to or from the Pensions Reserve. Further details of the treatment of pension costs are shown in Note 35 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note.

	2013/14 £'000	2014/15 £'000
<b>HRA Income and Expenditure Statement</b>		
<b>Net Expenditure on HRA Services</b>		
Service cost comprising		
Current service cost	296	223
Administration expenses	2	5
<b>HRA Share of Operating Income and Expenditure</b>		
Net interest cost	364	299
<b>Net Charge to the Income and Expenditure Statement</b>	<b>662</b>	<b>527</b>
<b>Movement on the HRA Statement</b>		
<b>Adjustments between accounting basis and funding basis under statute</b>		
Reversal of net charges made for retirement benefits	(662)	(527)
<b>Employer's Contribution to the Scheme</b>	<b>493</b>	<b>480</b>
<b>HRA share of contributions to or from the Pensions Reserve</b>	<b>(169)</b>	<b>(47)</b>

## COLLECTION FUND

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities such as the Council to maintain a separate fund. The statement below shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and National Non-Domestic Rates (NNDR or "Business Rates").

2013/14	Note		2014/15	2014/15
£'000			£'000	£'000
		<b>Amounts required by statute to be credited to the Fund</b>		
46,105	1	Council Tax receivable (net of discounts)		46,599
27,914	2	NNDR receivable		30,628
41	2	NNDR transitional protection payments		-
		Contributions to Previous Year's Collection Fund Deficit		
	3	NNDR		450
<b>74,060</b>		<b>Total</b>		<b>77,677</b>
		<b>Amounts required by statute to be debited to the Fund</b>		
		Precepts and Demands Council Tax		
33,523		Essex County Council	33,574	
4,364		Essex Police Authority	4,457	
2,049		Essex Fire Authority	2,052	
5,547		Brentwood Borough Council	5,496	45,579
	2	Shares of NNDR Income		
11,468		Brentwood Borough Council	11,381	
2,580		Essex County Council	2,561	
287		Essex Fire Authority	284	14,226
		NNDR		
14,335	2	Central Share payment to Government		14,226
		Transitional protection payments		255
105		Costs of Collection		105
		Impairment of Debts		
		Council Tax		
28		Write-offs	17	
507		Allowance for Impairment	(115)	(98)
		NNDR		
694		Write-offs	548	
302		Allowance for Impairment	39	587
	3	Distribution of Previous Year's Collection Fund Surplus		
2,000		Council Tax		300
<b>77,789</b>		<b>Total</b>		<b>75,180</b>

## Movement on the Collection Fund

2013/14	Note		2014/15	2014/15
£'000			£'000	£'000
(3,729)		Total Movement on Fund Balance in the year		2,497
		<b>Council Tax</b>		
(1,913)		Movement on Fund Balance in the year	818	
2,525		Opening Fund Balance	612	
612		Closing Fund Balance	1,430	
	2	<b>NNDR</b>		
(1,816)		Movement on Fund Balance in the year	1,679	
-		Opening Fund Balance	(1,816)	
(1,816)		Closing Fund Balance	(137)	

## Notes to the Collection Fund

1. Council Tax income comes from charges made on domestic properties. Each property is placed in one of eight valuation bands depending on its capital value. The Council works out the Council Tax charge by estimating the amount of income it and the preceptors need for the coming year, and dividing this amount by the Council Tax base. The Council Tax base is the total number of properties in each band, adjusted for discounts, exemptions and reliefs, and by a proportion of the Band D charge, multiplied by the collection rate assumption for the year (98.0% for 2014/15). In 2014/15 the Council Tax base (number of band D equivalent properties) was 30,893.40. The basic amount of council tax for a property in band D (£1,465.58 for 2014/15) is multiplied by the appropriate proportion for the particular band to give the individual amount due from the property. The number of properties by band is as follows.

Band	Range of Property Values	Number of properties	Proportion of Band D charge	Number of Band D equivalent properties
A	Up to £40,000	352.05	6/9	234.70
B	£40,001 - £52,000	1,597.11	7/9	1,242.20
C	£52,001 - £68,000	4,574.93	8/9	4,066.60
<b>D</b>	<b>£68,001 - £88,000</b>	<b>6,796.10</b>	<b>9/9</b>	<b>6,796.10</b>
E	£88,001 - £120,000	4,943.13	11/9	6,041.60
F	£120,001 - £160,000	3,962.91	13/9	5,724.20
G	£160,001 - £320,000	3,469.80	15/9	5,783.00
H	More than £320,000	502.50	18/9	1,005.00
<b>Total</b>		<b>26,198.53</b>		<b>30,893.40</b>

2. The Gross Non-Domestic Rateable Value for the Brentwood Borough Council area at 31 March 2015 was £75,569,309 (£75,053,580 at 31 March 2014) and the standard NNDR multiplier for the year was 48.2p (47.1p in 2013/14), whilst the small business multiplier was 47.1p (46.2p in 2013/14).

3. Distribution of Previous Year's Collection Fund Surplus or Deficit

Council Tax (Surplus)	2013-14	2014-15	NNDR (Deficit)	2013-14	2014-15
	£'000	£'000		£'000	£'000
Essex County Council	1,481	221	Essex County Council	-	41
Essex Police Authority	186	29	Government	-	225
Essex Fire Authority	90	13	Essex Fire Authority	-	4
Brentwood Borough Council	243	37	Brentwood Borough Council	-	180
<b>Total</b>	<b>2,000</b>	<b>300</b>	<b>Total</b>	<b>-</b>	<b>450</b>

## **BRENTWOOD BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT 2014/15**

### **1. Scope of Responsibility**

Brentwood Borough Council is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded and accounted for and used properly. 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 must put in place proper arrangements for the governance of its affairs and ensure that there is a sound system of internal control which facilitates the effective exercise of its functions and management of risk.

The 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 by contacting the Finance Director at Brentwood Borough Council. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

### **2. Purpose of the governance framework**

The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled and the activities through which it accounts and engages with the community. It enables the Council to monitor the achievement of its strategic priorities and to consider whether or not those objectives have led to the delivery of appropriate cost effective services.

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 priorities 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 and

priorities; to evaluate the likelihood of those risks being realised and their impact should they be realised; and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2015 and up to the date of approval of the annual report and Statement of Accounts.

### **3. Governance framework**

Brentwood Borough Council's governance framework derives from six core principles identified in the CIPFA/SOLACE publication entitled '*Delivering Good Governance in Local Government – Framework*'. The six core principles are:

1. Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing of risk.
5. Developing the capacity and capability of Members and officers to be effective.
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The key elements of each of these core principles, as applied within Brentwood Borough Council, are detailed below.

#### **Principle 1: Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area.**

Brentwood Borough Council is responsible for a number of key services and functions, including:

- Community Grants and Events
- Council Tax, Business Rates (NDR) and Benefits
- Environmental (Street) Services
- Housing
- Leisure and Culture
- Regulation - Planning, Building Control, Environmental Health & Licensing
- Car Parking

- Economic Development
- Land Charges
- Community Safety and CCTV

During 2014/15, the Council operated under the direction of its approved Corporate Plan. The key priorities for the Council outlined in the Corporate Plan for the period 2013 – 2016 are:

- **Street Scene and Environment** - Brentwood is a clean, green and pleasant borough. Maintaining and improving this involves not just the Council but also our communities and many partners. We will find new ways of working with our partners and communities, and improve the way we play our part, to enhance the environment and attractiveness of the borough.
- **Localism** – We believe that through bringing communities together and working effectively in collaboration with a range of groups and organizations we can better ensure the future wellbeing of our borough. We will work with local businesses, community groups and the voluntary sector to develop projects that will enhance and support the local community.
- **A Prosperous Borough** – A new Local Development Plan will shape the way our Borough will change over the next fifteen years. We will work hard to get the best outcome and achieve a good balance for residents, business and the economy in a way that celebrates Brentwood’s unique history and quality of life; both within the borough and influencing the outcome of regional developments that will affect Brentwood residents.
- **Housing, Health and Wellbeing** – Current legislative reforms will lead to significant changes to the way the Council supports people in housing need and in receipt of state benefits. We will develop different ways of working, both in the way we deliver services and with the voluntary sector, to make sure that the more vulnerable residents in Brentwood are protected, and help goes to those most in need of it.
- **A Safe Borough** – In this era of austerity, it has never been more important to work in partnership to tackle the borough’s community safety issues. As the new Police and Crime Commissioners begin their work, we will involve ourselves in new ways of working and continue to work with Safer Brentwood (the statutory Community Safety Partnership for Brentwood). With our partners and communities, we will further reduce incidents of crime and anti-social behaviour in the borough.



- **A Modern Council** – Between 2013 and 2016 the way the Council looks and works will be transformed. We will make it easier for customers to access services and information, cut out bureaucracy that doesn't add value and make sure taxpayers' money is spent even more wisely. We will become more entrepreneurial. We will have services delivered by those best placed to deliver excellence and value for money, whilst holding on to and enhancing our role, duties and powers as Local Council and Community Leader.

The appraisals systems have also been strengthened through new software and procedures in order to achieve the “golden thread” approach to ensure individual and service priorities and ambitions are fully aligned to the Corporate Plan. The “golden thread” will be the essential link between the Council's high level priorities and the individual employee/service contribution towards the achievement of these priorities.

The Council is a key partner for many external organizations. These include:

- Chamber of Commerce – an organization which provides representation for businesses in the borough and looks for opportunities to develop and promote business in the borough.
- Brentwood for Growth - an initiative launched by Brentwood Council, which brings together the borough's blue chip businesses, who are passionate about promoting and strengthening the local economy.
- Brentwood CVS – the Council for Voluntary Service is a local independent voluntary organisation formed and run by the local voluntary groups to promote, support and develop effectiveness of voluntary action.
- Brentwood Community Transport – providing transport for Brentwood residents unable to access public transport.
- Brentwood Renaissance Group – a group of stakeholders meeting to consider improvement of High Street and shopping areas in Brentwood.
- Citizens Advice Bureau – providing advice and empowerment to citizens.
- Community Safety Partnership – Brentwood Community Safety Partnership is the local statutory Community Safety Partnership (CSP) for Brentwood. The statutory partners include Essex Police, Essex County Fire and Rescue, Essex Probation, and Health. The purpose of the Partnership is to provide a strategic and co-operative approach to addressing local crime and disorder within the borough by

reducing the levels of disorder including crime, anti-social behaviour, the misuse of drugs and reducing re-offending.

The Council has a Performance Management Framework. Performance is reported to the Finance and Resources Committee on a quarterly basis with any matters of concern referred to relevant Panels/Committees. Performance is also reported to Heads of Service on a monthly basis and to the Corporate Leadership Board on a quarterly basis prior to committee. In addition, progress on key projects is reported to the Corporate Leadership Board on a monthly basis.

The Council has a Medium Term Financial Plan (MTFP) which forms the framework for the Council's financial planning. The MTFP details the budget setting process to ensure that the Council's resources are managed effectively in order to meet its statutory responsibilities and deliver the aspirations of the Council, over the medium term. The MTFP is monitored by the Corporate Leadership Board and Members of the Finance and Resources Committee.

**Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.**

Brentwood Borough Council has adopted a Constitution which sets out how the Council operates, and how decisions are made and the procedures which are followed to ensure these are fit for purpose. It includes protocols on member/officer relations and communications between the two parties.

The Constitution details the roles and functions of the Committee, Panels and officers. A Forward Plan is prepared for each Committee/Panel which outlines the key decisions which will be made during the year. A list of the Council's Committees for 2014/15 is shown below:

**Annual Council**

- Annual Council

**Committees**

- Asset and Enterprise Committee
- Business and Town Centres Committee
- Community Committee
- Environment Committee

- Finance and Resources Committee
- Housing and Health Committee
- Staff Appointments Committee

#### Ordinary Council

- Extraordinary Council
- Ordinary Council

#### Regulatory Committees

- Audit and Scrutiny Committee
- Licensing Committee
- Licensing/Appeals Sub-Committee
- Planning and Development Control Committee

#### Constitution Working Group

- Constitution Working Group

The Corporate Leadership Board (CLB), consisting of the Chief Executive, Chief Finance Officer, Monitoring Officer and each Head of Service. CLB meets on a regular basis and supports the Council in providing the strategic direction for delivering the policies and priorities. It also considers other governance issues including risk management, performance management and financial management. The purpose of CLB is:

- To provide clear and visible strategic leadership to the Council
- To develop strategies to achieve Members' priorities for the borough and Council
- To provide coherent and sound advice and support to elected Members
- To drive, manage and monitor the Council's work programme, resource planning and performance
- To manage and minimize risks to the Council
- To drive and steer modernisation and change to ensure the Council is efficient and effective
- To shape and drive the culture of the organisation

**Principle 3: Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.**

The Council operates to a prescribed set of organisational values which underpin individual and collective behaviour and are reflected in discussion, communication and decision making processes. The values and behaviours are:

- One team – trust, support, respect, accessible, speak as one.
- Leadership – own the vision and priorities, promote a positive culture and challenge if you're not convinced; take responsibility and ownership and positively promote colleagues, staff and Members of the Council.
- Focus on delivery – accountable, performance focused, outcome led, customer centred, partnership working.
- Learning – no blame culture, innovation and creativity, opportunities, engagement, continuous improvement.

In addition, throughout the year the Council has been engaged in a detailed and ongoing review of its new Constitution, so that the document may continue to be developed in the light of experience and feedback from a range of stakeholders including Members, the Constitution Working Group, Group Leaders, Chairs of Committees and staff. Member training sessions have also been held on the Constitution.

Further, the Council's Independent Persons have been awarded an annual allowance of £500 in recognition of the valuable contribution of their work and input to the Council's governance.

These processes will assist to promote and maintain the high ethical standards of conduct by Members and co-opted Members and staff of the Council.

The conduct of Members and officers is further regulated through a number of plans, policies, procedures and strategies. A copy of the Council's plans, policies, procedures and strategies is available to all staff on the intranet. These documents are in the process of being updated.

A specific example of this is the Council's Anti Fraud and Corruption Strategy. Through this policy, the Council is committed to the prevention, detection, investigation, reporting and action in connection with all fraud and

corruption affecting Brentwood Borough Council, its partners and those involved in supplying services to the Council.

In addition the Chief Executive (Head of Paid Service), Chief Finance Officer (Section 151 Officer) and Monitoring Officer each have specified roles to ensure reports and decisions comply with financial regulations and are lawful.

Each Member receives copies of meeting agendas in advance. As part of the Agenda, it is a requirement for Members to declare any interests at the outset of the meeting.

**Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing of risk.**

A key feature of the formal decision making process is within the format and content of the report and supporting papers which outline the subject matter on which a decision is required. These reports and papers are subject to review by the three Statutory Officers of the Council (Head of Paid Service, Section 151 Finance Officer and Monitoring Officer).

Each report also considers the separate implications arising in the following areas:

- Legal
- Finance
- Staff
- Risk Management
- Asset Management
- Health and Safety
- Equality and Diversity

During 2014-15 the Council held a number of Panels which carry out regulatory or scrutiny functions. This included an Audit and Scrutiny Committee. The main aim of Audit and Scrutiny is to act as a 'critical friend' to the Council in order to promote better services, policies and decisions. Overview and Scrutiny makes a difference by ensuring that local decision-making is better, that local services are improved and that local democracy is strengthened. Scrutiny ensures that the committees and panels are held to account for the decisions that they make and their impact upon the borough and its residents. The Audit and Scrutiny

Committee performs all overview and scrutiny functions on behalf of the Council. No Member may be involved in scrutinising a decision in which he/she has been directly involved.

The Audit and Scrutiny Committee may hold enquiries and investigate the available options for future policy development and may appoint advisers and assessors to assist them. They may go on site visits, conduct public surveys, hold public meetings, commission research and do all other things that they reasonably consider necessary to inform their deliberation. They may ask witnesses to attend to address them on any matter under consideration. Scrutiny is outward looking, and aims to involve all stakeholders as far as possible, taking careful account of the views of service users in particular. The Audit and Scrutiny Committee aims to involve members of the public in every aspect of its work.

Six Audit and Scrutiny Committee meetings took place during the 2014/15 municipal year and one decision was called in.

#### **Call In**

One committee decision was called in:

09.03.14 - consideration was given to the decision made at the 18.2.2015 Asset and Enterprise Committee meeting regarding the lease on Hutton Community Centre.

The Council also has a planning Development Control Committee which makes decisions on planning applications and enforcement items; and a Licensing Committee responsible for the regulation of taxis and private hire vehicles, premises used for licensable activities and other licenses.

The Audit and Scrutiny Committee provides advice to the Council on the effectiveness of the arrangements for the proper administration of the Council's financial affairs. The Audit and Scrutiny Committee also has the specific responsibility to provide robust challenge and review of the Statement of Accounts.

Risk Management is a key consideration across the Council. The objectives of the Council's Risk Management Strategy are to:

#### ***Support the Council's aims to:***

- Deliver services effectively and efficiently.
- Develop its future plans and strategies.

***Enable the Council to:***

- Review its strategic position regularly.
- Escalate those risks to a level where mitigation and responsibility should be taken.
- Identify potential future threats and opportunities.

***Improve our customers' lives by:***

- Ensuring the Council takes appropriate action against risk to minimise impact on customer services.
- Reducing financial impact on the Council by mitigating, reducing, transferring or treating risk.
- Ensuring the Council takes appropriate action to enable events to be co-ordinated and delivered safely and within the financial constraints of the Council.

In attempting to achieve these objectives CLB and the Audit and Scrutiny Committee oversee and manage risk in accordance with the Council's corporate aims and objectives. Their aim is to:

- Regularly review strategic and operational risks.
- Ensure consistency of approach to risk across the Council.
- Act as central point for co-ordination and dissemination of information on risk.
- Update risks and risk management systems in response to new developments, e.g. new strategic risks, major change, legislative change, if required.
- Support managers through sharing expertise on risk and control issues and providing advice and training on best practice.

**Principle 5: Developing the capacity and capability of Members and officers to be effective.**

An induction programme for new Members exists and is successfully used to introduce the newly elected Members who joined during that year. This enabled them to familiarise themselves with the processes within the Council and their duties and responsibilities.

Training has been provided during 2014/15 to implement the new governance arrangements and the different disciplines required for different Committees. Additionally, joint training with other authorities has taken place covering such matters as governance structures, division of functions, decision making, Data Protection and Freedom of Information management, and the requirements imposed by the Regulation of Investigatory Powers Act.

The Council is committed to work-life balance and offers a range of schemes for its staff, including:

- Flexible working hours
- Job sharing
- Part-time working
- Home working
- Flexible retirement
- One2One appraisals

The Council is committed to managing and developing its people, which enables it to be successful in achieving its corporate priorities, as well as developing the capability of individual employees and capacity overall. The Council's Corporate Training Budget enables prioritised employee training to ensure we have the right people with the right skills and knowledge. The Council has recently partnered with a training provider to provide a Strategic Leadership Course for its top tier and middle management level of staff. The course is designed to help the Council shape high performing individuals and teams that can move the Council on to face the challenging agenda ahead.

Key principles of training and development at the Council are:

- All training and development must meet our corporate priorities
- All members of staff should discuss their learning and development with their line manager through performance review, team meetings etc.
- Learning and development must represent value for money to the Council
- Learning and development opportunities are offered to staff in a fair and equitable manner.

The Council is also committed to investment in core systems to help streamline processes and increase the efficiency and effectiveness of the delivery of Council services. This includes the investment and implementation of a new Human Resources system.

**Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability.**

The Council is committed to eliminating discrimination within the workplace and the community and has achieved the "developing" level of the Equality Standard for Local Government. The Council has published an Equality and Diversity Journey and compliance with its Equality Act duties document.



The Council has a Customer Complaints Policy which states that a complaint will be acknowledged within 5 working days, giving details of the contact officer. The key stages of the Policy are:

- In the first instance (Stage 1), all formal complaints will be referred to the appropriate Director or Head of Service concerned, in order that he/she has an opportunity to seek to resolve the matter.
- We aim to respond in writing within 20 working days of receipt of the complaint.
- If after receiving a reply from the relevant Director or Head of Service, the complaint is not satisfied then it is referred to the Complaints Coordinator.
- Any complaint referred to the Complaints Co-ordinator (Stage 2) will be acknowledged within 5 working days and a written response will be sent as quickly as possible, generally within 20 working days of receipt.
- If we are unable to resolve the problem, the Complaints Co-ordinator will arrange, if required, guidance on bringing the matter before the Local Government Ombudsman for independent investigation.

Regular reports on Corporate Complaints are monitored by the Audit and Scrutiny Committee. The process is robust and the Council has never had a finding made of maladministration against it.

All Council meetings are open to the public, except where personal or confidential matters are to be discussed. All agendas and minutes are placed on the Council's public website, and are also available by contacting the Council direct, should electronic access not be possible.

The Council engages in formal consultation on specific issues affecting the residents, businesses and other organisations of Brentwood to ensure the decisions we make represent public opinion and are informed by the feedback received.

#### **4. Review of effectiveness**

Brentwood Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Panel for Complaints against Members, Audit and Scrutiny Committee, Corporate Leadership Board, External Auditors, Internal Audit, performance management and other working groups within the Council who have responsibility for the development and maintenance of the governance environment.

## **Constitution**

This is the key formal document governing the governance framework. All decision making is made in accordance with the requirements of the Constitution and the Schemes of Delegation contained within it. Formal rules governing the way in which the Panels, Committees, officers and Members conduct their business is also contained within the Constitution and include:

- Financial Regulations and Standing Orders
- The Constitution and Standing Orders for the regulation of business
- Codes of conduct for Members and officers

The Monitoring Officer has a duty to monitor and review the Constitution to ensure that its aims and principles are current and effective.

## **Standards**

As part of the ongoing review of the new Constitution, Council in April 2014 agreed a revised Members' Complaint Procedure which introduced a 3 stage process and clarified the roles of the Independent Persons, Monitoring Officer, Group Leaders and Council as follows:

### Filter Stage:

Upon receiving a complaint, the Monitoring Officer in consultation with the Independent Person will decide whether the complaint warrants investigation. Save where the Monitoring Officer accepts there are exceptional circumstances, it is unlikely that a complaint which does not satisfy the new filter / threshold criteria would be investigated.

At the filter stage, the Monitoring Officer, in consultation with the Independent Person, will decide either:

- (a) that the complaint is not suitable for investigation, or
- (b) the allegations are of a criminal nature and therefore the matter should be referred to the Police, or
- (c) that the complaint should be investigated further and should move to the next stage of the complaints procedure.

Throughout the process, the Monitoring Officer will try to seek an informal resolution where possible. The Group Leader will be informed of the complaint and of the Monitoring Officer's decision.

### Investigations and decision making process:

If the Monitoring Officer decides that an investigation is warranted, he/she may investigate or appoint someone to investigate. A hearing would then be conducted by the Monitoring Officer in consultation with the Independent Person at which the parties would submit their evidence in accordance with the principles of natural justice.

### Sanction:

The Monitoring Officer's and Independent Person's findings would be reported to the Group Leader who would decide on an appropriate sanction in consultation with the Independent Person. If the Independent Person is satisfied with the Group Leader's response and the Member complies with the sanction, the Monitoring Officer will take no further action.

If the Independent Person is dissatisfied with the Group Leader's response or the Member does not comply with the agreed sanction, the Independent Person would prepare a report to Council for decision.

The advantages of this revised procedure were seen as an opportunity to clarify the roles of the respective parties, especially the Independent Person, as well as clearly defining the stages of the process - ensuring transparency, ownership and good governance in accordance with the principles of natural justice.

### Audit and Scrutiny Committee

The Audit and Scrutiny Committee met six times during the year. The key items considered by the Committee were:

- Organisational Risks
- Business Continuity Reports
- Fraud Statistics
- Statement of Accounts 2013/14
- External Audit Results Report
- Annual Audit Letter and External Audit Updates
- Internal Audit Progress Reports
- Internal Audit Annual Report 2013/14
- Internal Audit Plan

- Internal Audit Charter
- External Audit Plan
- Annual Certification Report
- Corporate Complaints Monitoring Reports

### Internal Audit

The role of Internal Audit is to provide an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. It is a key part of the Council's internal control system and integral to the framework of assurance that the Audit and Scrutiny Committee can place reliance on to assess its internal control system.

The Internal Audit service is provided to the Council under contract by BDO.

The Internal Audit opinion for the year ended 31 March 2015 is one of **moderate assurance** which means that there is a sound system of internal control in operation in most systems, adequately designed to meet the Council's objectives, and controls are generally being applied consistently.

A summary of the finalised Audit reports is as follows:-

- The review on the main financial system and the review completed on revenues and benefits received an opinion of **substantial assurance** which means that there is a sound system of internal control designed to achieve system objectives.
- Seven audits, including the reviews completed within the Housing Department and the reviews completed on the Council's main capital and transformation projects, received **moderate assurance** which means that there is generally a sound system of internal control designed to achieve system objectives with some exceptions.
- Six audit reviews received a **limited assurance** opinion, which means that the system of internal controls is weakened with system objectives at risk of not being achieved. These audits where a limited assurance opinion was given are as follows:
  - Risk Management: Internal audit found that the Council's Corporate Priorities and Objectives are not linked to the risk registers and the reporting and monitoring arrangements require improvement.

- Payroll: Although internal audit found the transfer of data to the new Payroll system to be adequate, the processes and controls in place require strengthening, for example controls around removing staff from the payroll system who have left the Council, checking establishment lists and also measuring the performance of the external organisation providing the payroll service.
- IT Transformation Programme: Internal audit found that there was a lack of approval and senior management support for the IT Transformation Programme and no IT strategy in place. The programme is not linked to the Council's corporate objectives and the governance and reporting arrangements are not formally documented.
- IT Data Security: Internal audit found that policy documentation relating to IT data security was out of date and controls around new staff (including gaining access and receiving security awareness training) and staff leavers require improvement.
- Partnership Arrangements: Internal audit found that there is no central policy on how partnerships should be governed or monitored.
- Car Park and Golf Club Income: Internal audit identified a lack of controls around the completeness of car park income with reconciliations not being completed between the readings from the car park machines and the amount of cash banked. This issue was rectified with immediate effect.

Where weaknesses have been identified remedial actions have been agreed and the Council has in place robust processes for tracking and reporting on the implementation of the recommendations made to mitigate the associated risks.

- There were no reviews that received a **No Assurance** opinion.

### External Audit

The External Auditor's Audit Results Report for 2013/14 contained the following key messages:

- Ernst & Young issued an unqualified opinion on the 2013/14 financial statements including the Statement of Accounts.
- Ernst & Young concluded that the Council had in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Ernst & Young issued an unqualified opinion on the 2013/14 Whole of Government Accounts submission.

**5. Significant Governance Issues**

Key issues which are currently under review which need to be highlighted within this Statement are:

- **Future funding levels** – Further reductions in Government funding is inevitable. In addition, the changes to Local Government Finance arrangements through the Localisation of Business Rates and Localised Council Tax Support will continue to have significant risk implications to the levels and stability of future funding levels.
- **Savings** – The Council has set challenging savings targets over the coming years and further savings are likely to be required. The Council’s ability to achieve these savings is pivotal in maintaining a strong system of Governance.
- **Change of Political Leadership** – During 2014/15 there was a change of political leadership and direction of the Council.
- **Changes in Senior Officers** – There have been changes to Senior Officers during the year including all three statutory positions of Chief Finance Officer, Monitoring Officer and Head of Paid Service.

Financial challenges will continue to be monitored and addressed as part of the medium term financial planning process to ensure that valuable resources support the delivery of the Corporate Plan.

**Signed:** .....

**Leader of the Council**

.....

**Head of Paid Service**

## Glossary of Terms

Accounting period	The period of time covered by the accounts, normally a period of twelve months starting on 1 <sup>st</sup> April and ending on 31 <sup>st</sup> March the following year. The end of the accounting period is the balance sheet date.
Accounting policies	<p>Those principles, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in the financial statements through:</p> <ul style="list-style-type: none"> <li>• recognising</li> <li>• selecting measurement bases for and</li> <li>• presenting</li> </ul> <p>assets, liabilities, gains, losses and changes to reserves.</p>
Accrual	A sum included in the accounts to cover income or expenditure attributable to an accounting period for goods received or works done, for which payment has not been received or made by the end of that accounting period. In other words, income and expenditure are recognised when they are earned or incurred, not when money is received or paid.
Actuary	A suitably qualified independent consultant employed to advise Essex councils on the financial position of the Pension Fund.
Actuarial gains and losses	Actuarial gains or losses for defined benefit pension schemes arise because events have not coincided with the actuarial assumptions made, or the actuarial assumptions have changed.
Agency	Agreement that the Council can undertake services on behalf of other authorities or the Government in its area.
Appropriation	The transfer of resources between the revenue or capital accounts and reserves held by the Council.
Asset	An item having value measurable in monetary terms. Assets can either be defined as non-current or current. A non-current asset has use and value for more than one year whereas a current asset (e.g. stocks or short term debtors) can more readily be converted into cash.
Audit	An independent examination of an organisation's activities, either by an internal audit section or equivalent or the organisation's external auditor.

<b>Balance Sheet</b>	This is a summary of the financial position of the Council. It shows the long-term and current assets and liabilities of the Council and its reserves.
<b>Billing Authority</b>	This is the Council as the body responsible for billing and collecting the Council Tax from all residential properties within the borough on behalf of itself, Essex County Council, Essex Fire Authority, Essex Police Authority and Parish Councils. The Council is also responsible for the billing and collection of National Non-Domestic Rates (NNDR or Business Rates) from commercial properties in the borough.
<b>Budget</b>	A budget is a financial statement that expresses the Council's service delivery plans and capital programmes in monetary terms.
<b>Capital Adjustment Account</b>	This account represents amounts set aside from revenue resources or capital receipts to finance expenditure on non-current assets, or for the repayment of external loans.
<b>Capital Charge</b>	A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.
<b>Capital Expenditure</b>	Expenditure on the acquisition or refurbishment of non-current assets and other eligible items that will be of benefit to the Council in providing its services for more than one year.
<b>Capital Financing</b>	The raising of money to pay for capital expenditure. Capital financing methods include borrowing, direct revenue funding, use of capital receipts, capital grants, capital contributions and revenue reserves.
<b>Capital Programme</b>	The Council's plans for capital expenditure and funding over future years, including the purchase or improvement of buildings and the acquisition of vehicles and major items of equipment.
<b>Capital Receipts</b>	Proceeds from the sale of assets, which may be used to finance new capital expenditure, set aside for the repayment of external loans or paid to a national pool (if from the sale of HRA dwellings).
<b>Capitalise</b>	To treat expenditure as capital expenditure, including some expenditure which would normally be classed as revenue expenditure (see also REFCUS).
<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>	CIPFA is the lead professional accountancy body for the public sector. CIPFA produces guidance in relation to various matters concerning the public sector including financial and governance issues.
<b>Code of Practice (COP)</b>	Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.



<b>Collection Fund</b>	A fund administered by the Council which accounts for the collection of Council Tax and National Non-Domestic Rates (NNDR or Business Rates). Council Tax is paid into this fund and distributed to the Council, Essex County Council, Essex Police Authority, Essex County Fire Authority and Parish Councils. NNDR is paid over to the Government (less an allowance for the costs of collection) which distributes it nationally on the basis of population.
<b>Comprehensive Income and Expenditure Statement (GI&amp;ES)</b>	A statement which records all the day to day income and expenditure of the Council on General Fund or Housing Revenue Account services provided during the financial year.
<b>Contingent Liability</b>	A possible or present obligation that arises from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. A contingent liability is not recognised in the Balance Sheet but disclosed in a note to the accounts.
<b>Council Tax</b>	A local tax charged to the occupiers of residential properties which is used to help finance the budget requirement of the Council and Preceptors for the year.
<b>Creditors</b>	Amounts owed by the Council, for work done, or goods or services received for which no payments have been made by the Council at the Balance Sheet date.
<b>Current Asset</b>	An asset held which will be used, or received, within the next financial year.
<b>Current Liability</b>	An amount which will become payable within the next financial year.
<b>Debtors</b>	Amounts owed to the Council for goods or services provided, for which no payments have been received by the Council at the Balance Sheet date.
<b>Deferred Liability</b>	A liability which is not fully paid at the current time, but is due for payment either some time in the future, or over a period of time.
<b>Deferred Receipt</b>	Income still to be received where the Council has agreed that amounts are payable beyond the next year, either at some point in the future, or by an annual sum over a period of time.
<b>Defined Benefit Pension Scheme</b>	A pension scheme other than a defined contribution scheme. Usually the scheme rules define the benefits (annual pensions and retirement lump sums) independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Depreciation	A measure of the amount of a non-current asset that has been consumed during the period. Consumption includes any reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through technical or other changes.
Discretionary Benefits	Retirement benefits which the Council has no legal, contractual, or constructive obligation to award but are awarded under discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.
Earmarked Reserve	A reserve held for a specific future purpose, including to carry forward a revenue underspend in one financial year to the next.
Equity Instrument	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (such as an equity share in a company).
Fees and Charges	Amounts paid by the public for a variety of services such as parking, letting of community halls and the hire of sporting facilities.
Finance Lease	Such a lease transfers all the risks and rewards of ownership of a non-current asset to the lessee, and is included as a non-current asset in the Balance Sheet of the lessee. (See, for comparison, "Operating Lease").
Financial Asset	A right to future economic benefits controlled by the Council that is represented by cash, the equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or a contractual right to exchange financial assets and/or liabilities with another entity under conditions that are potentially favourable to the Council.
Financial Instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial Liability	An obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash or another financial asset to another entity, or a contractual obligation to exchange financial assets and/or liabilities with another entity under conditions that are potentially unfavourable to the Council.
Financial Reporting Standards (FRS's)	Issued by the Accounting Standards Board and provide standards for the preparation of financial statements. The Council's accounts are prepared in accordance with FRS's (or SSAP's where these remain in force) where they apply to local authorities.
General Fund (GF)	The main revenue account of a local authority from which revenue payments are made to meet the costs of providing services.

Housing Revenue Account (HRA)	A separate ring-fenced account within the General Fund which contains the expenditure and income arising from the provision of housing accommodation by the Council as landlord.
Impairment	The amount by which the recoverable amount of a non-current asset is lower than the carrying value amount.
Intangible Asset	A non-current asset such as a software licence which has no physical substance.
Interest	An amount received or paid for the use of a sum of money when it is invested or borrowed.
International Financial Reporting Standards (IFRS)	Standards which prescribe or have been adapted to prescribe the way in which a local authority Statement of Accounts is constructed.
International Financial Reporting Interpretations Committee (IFRIC)	A Committee which provides interpretative guidance on the application of IFRSs and International Accounting Standards (IASs)
Inventories	Raw materials and stores which the Council has bought and holds in stock for use as required.
Lease	A method of financing capital expenditure where a rental charge is paid for an asset for a specified period of time.
Major Repairs Allowance (MRA)	Government Subsidy to the HRA to fund major repairs to the Council's housing stock.
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to the Council's revenue accounts and set aside as a provision for repaying borrowing or other credit liabilities.
National Non-Domestic Rates (NDR)	A tax on local businesses paid into a national pool and then redistributed to councils as a Government grant to help finance services.
Net Assets	The difference between long-term and current assets and liabilities, equivalent to total reserves on the Council's Balance Sheet.
Non-Current Assets – Intangible	Assets such as software licences that do not have physical substance but are identifiable and controlled by the Council and will bring benefits to the Council for more than one financial year.

Non-Current Assets – Tangible	Assets that have physical substance and are held for the provision of services or for administration purposes on a continuing basis.
Non-Operational Assets	Non-current assets not directly used or consumed in the delivery of services or for the administration of the Council. Examples include assets that are surplus to requirements, pending sale or redevelopment, and assets under construction.
Operating Lease	An agreement for the rental of an asset where the rewards and risks of ownership of the asset remain with the lessor. The annual rentals are charged to the Comprehensive Income and Expenditure Statement (see, for comparison, “Finance Lease”).
Operational Assets	Non-current assets held and occupied, used or consumed in the direct delivery of those services for which the Council has a statutory or discretionary responsibility or for the administration of the Council.
Outturn	The actual expenditure and income for the financial year in question.
Precept	The net amount paid to each preceptor from Council Tax income collected and paid into the Collection Fund.
Precepting Authority	Essex County Council, Essex Police Authority, Essex Fire Authority and Parish Councils.
Preceptor	Another word for “Precepting Authority”.
Premium	An amount payable on the premature repayment of a loan, generally equivalent to the difference between the present value of the remaining payments of principal and interest due on the original loan and that calculated based on the rates of interest in force when the repayment is confirmed.
Provision	An amount set aside to provide for a liability that is likely to be incurred but where the exact amount or the date on which it will arise is uncertain.
Public Works Loan Board (PWLB)	A Government agency that provides longer-term loans to local authorities at interest rates marginally above the Government’s own borrowing rate.
Remuneration	All amounts paid or payable to an employee, including sums due by way of expense allowances and the estimated money value of any other benefits otherwise than in cash. It excludes employers’ pension contributions to the Pension Fund.
Related Party Transaction	A transaction where one of the parties involved has control or influence over the financial and operational policies of the other party.
Reserves - Usable	The Council’s accumulated surplus income over expenditure which can be used to finance future spending and is available to meet unforeseen events.

Reserves - Unusable	Reserves which exist for technical accounting reasons and do not represent amounts that can be used to finance expenditure.
Retirement Benefits	Consideration payable after the completion of employment given by an employer in exchange for services rendered by employees. Does not include termination benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.
Revaluation Reserve	An account representing the balance of the net surpluses arising on the revaluation of fixed assets.
Revenue Expenditure	Day-to-day expenditure on items such as salaries and wages, running expenses and capital and interest charges.
Revenue Expenditure Funded from Capital under Statute (REFCUS)	Revenue expenditure which may be properly capitalised under statute or Government direction but which does not result in a non-current asset,
Section 106 Agreement	Section 106 of the Town and Country Planning Act 1990 empowers a local planning authority such as the Council to enter into a legally binding agreement or planning obligation with a land developer to undertake works, provide affordable housing or provide additional funding for services.
Section 151 Officer	Section 151 of the Local Government Act 1972 requires the Council to appoint an officer responsible for the proper administration of the Council's financial affairs. The Director of Strategy and Corporate Services is the Council's Section 151 Officer.
Service Reporting Code of practice (SeRCOP)	CIPFA code which establishes proper practice with regard to consistent financial reporting below the Statement of Accounts level. Given statutory force by regulations made under the Local Government Act 2003.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRENTWOOD BOROUGH COUNCIL**

The Statement of Accounts is subject to audit.

29<sup>th</sup> September 2015

Debbie Hanson  
Ernst & Young  
400 Capability Green  
Luton  
Bedfordshire  
LU1 3LU

This representation letter is provided in connection with your audit of the financial statements of Brentwood Borough Council (“the Council”) for the year ended 31 March 2015. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Brentwood Borough Council as of 31 March 2015 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because of the reasons specified in the Schedule of Unadjusted Differences

#### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

#### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

#### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.



3. We have made available to you all minutes of the meetings of the Council, Finance and Resources, and Audit and Scrutiny committees held through the year (or summaries of actions of recent meetings for which minutes have not yet been prepared) to the most recent meeting on 29 September 2015.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

#### **F. Subsequent Events**

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.

- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

#### **Use of the Work of an Expert**

1. We agree with the findings of the experts engaged to evaluate the value of assets and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

*Yours Faithfully,*

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Finance Director

I confirm that this letter has been discussed and agreed at the Audit Committee on 29 September 2015

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Chairman of Audit, Scrutiny and Transformation Committee

## SCHEDULE OF UNADJUSTED DIFFERENCES

Appendix A to the Audit Results Report details 4 uncorrected audit misstatements. It is not proposed to adjust the accounts for these for the following reasons:

Description	Amount	Reason
Depreciation for the Town Hall has been posted to the incorrect Net Cost of Services (NCS) line. As a result cultural and related services is overstated and other NCS items are understated.	£62,201	This has no overall impact on the Council's reserves.
An invoice raised in April 2015 for recycling service provided in January 2015 was not accrued for as a debtor at year end. We further extrapolated for this error across the untested balance as per line below.	£58,239	The amount will automatically be adjusted in 2015/16.
Testing of debtors above identified one invoice raised in April 2015 which relates to 2014/15 which has not been accrued for. We have extrapolated across the entire population of invoices raised in April to calculate the potential total error.	£99,238	The amount is an extrapolation and as such this may not be a true reflection of the adjustment required.
Actual pension contributions and pensionable pay for 2014/15 were not included in the data submission to Essex County Council Pension Fund. Therefore, the Pension Fund applied the estimated 2015/16 figures in providing the IAS19 figures to the Council. The impact of incorrect pensionable pay on service costs has been estimated by the Council and we have reviewed this and are satisfied that the impact is not material.	£199,000	The amount is an estimate and as such this may not be a true reflection of the adjustment required. This has no overall impact on the Council's reserves.

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**29 September 2015**

**Audit, Scrutiny and Transformation Committee**

**Audit Results Report 2014/15**

*Report of:* Ernst & Young

*Wards Affected:* None

*This report is:* Public

## **1. Executive Summary**

- 1.1 This report presents the Committee with the findings of the External Auditors in respect of the audit of the Council's Statement of Accounts for 2014/15.

## **2. Recommendation(s)**

- 2.1 **That the Audit Results Report 2014/15 at appendix A is agreed.**

## **3. Introduction and Background**

- 3.1 The Council's External Auditors; Ernst & Young have completed their audit of the Council's Statement of Accounts for 2014/15 and their findings are included within the Audit Results Report attached as Appendix A.
- 3.2 Members are asked to review the Audit Results report and agree its contents.

## **4. Reasons for Recommendation**

- 4.1 A system of sound financial control and governance arrangements underpins all of the services and priorities of the Council.

## **5. Implications**

### **Financial Implications**

**Name & Title:** Chris Leslie, Finance Director (Section151)

**Tel & Email** 01277 312542 / christopher.leslie@brentwood.gov.uk

- 5.1 The financial implication are considered it the report at Appendix A.

**Legal Implications****Name & Title:** Chris Potter, Monitoring Officer**Tel & Email** 01277 312860 / christopher.potter@brentwood.gov.uk

5.2 All relevant legal considerations have been taken fully into account in compiling this report.

**6. Appendices to this report**

Appendix A – Audit Results Report

**Report Author Contact Details:****Name:** Chris Leslie, Finance Director (Section 151)**Telephone:** 01277 312542**E-mail:** christopher.leslie@brentwood.gov.uk

# Brentwood Borough Council

## Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

14 September 2015

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Building a better  
working world

Appendix A

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Section 1

# Executive summary

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# Executive summary – key findings

## Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit, Scrutiny and Transformation Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

### Financial statements

As of 14 September 2015, we expect to issue an unqualified opinion on the financial statements, subject to the completion of the outstanding work detailed on page 10. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well.

### Value for money

We have completed our work and have concluded that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

### Whole of Government Accounts

- ▶ We expect to report that the Council is below the specified audit threshold of £350 million to the National Audit Office (NAO) regarding the Whole of Government Accounts.

### Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Section 2

# Extent and purpose of our work

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# Extent and purpose of our work

## The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

- ▶ Our audit was designed to:
  - ▶ Express an opinion on the 2014/15 financial statements and the consistency of other information published with them
  - ▶ Report on an exception basis on the Annual Governance Statement
  - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion)
  - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office. As the Council is below the specified audit threshold of £350 million, there is no requirement for detailed work other than to submit the assurance statement to the NAO (WGA audit team) confirming the Council is below the threshold.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

# Addressing audit risks

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# Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

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Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p><b>Management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<ul style="list-style-type: none"> <li>▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Reviewed accounting estimates for evidence of management bias;</li> <li>▶ Evaluated the business rationale for any significant unusual transactions; and</li> <li>▶ Reviewed capital expenditure on property, plant and equipment to ensure it met the relevant accounting requirements to be capitalised.</li> </ul>	<ul style="list-style-type: none"> <li>▶ We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing.</li> <li>▶ Our testing did not identify any expenditure which had been inappropriately capitalised.</li> </ul>

# Addressing audit risks – other audit risks

- ▶ We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other audit risks		
<p><b>Asset valuations</b></p> <p>Fixed assets represent a significant balance in the Council's accounts. The Council has changed its valuer in each of the last two years. There have been asset valuation errors identified in the 2012/13 and 2013/14 accounts.</p> <p>The Council has appointing a new valuer again for 2014/15.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>▶ The Council's instructions to the valuer;</li> <li>▶ Management's consideration of the reasonableness of the valuations received; and</li> <li>▶ Reviewing the information provided by the valuer.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Our audit work did not identify any issues or errors.</li> </ul>

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Section 4

# Financial statements audit – issues and findings

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# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit, Scrutiny and Transformation Committee meeting:
  - ▶ Receipt of a Letter of Representation
  - ▶ Clearance of a few outstanding queries
  - ▶ Manager and Director review of audit work and financial statements
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

## Financial close process

The audit has progressed well this year with no significant control findings or weaknesses identified. Working papers provided for the audit and the finance team's responses have been clear and helpful. This has enable us to complete our work in a short period of time than in previous years.

## Uncorrected misstatements

- ▶ We have identified four misstatements within the draft financial statements, which management has chosen not to adjust.
- ▶ We ask the Audit, Scrutiny and Transformation Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation.
- ▶ Appendix A to this report sets out the uncorrected misstatements.

## Corrected misstatements

- ▶ Our audit identified a number of further misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details of the main adjustment are provided at Appendix B.

## Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
  - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
  - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
  - ▶ Any significant difficulties encountered during the audit; and
  - ▶ Other audit matters of governance interest

We have no matters we wish to report.

# Financial statements audit – application of materiality

## Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
Planning materiality	<p>We determined planning materiality to be £1 million (2014: £1.1 million), which is 2% of gross expenditure reported in the accounts of £50.6 million adjusted for HRA depreciation and impairment expenditure.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Tolerable error	<p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the lower level of the available range because there have been material corrected and uncorrected errors in prior years' accounts.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £51,000 (2014: £54,000).</p>

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# Financial statements audit – application of materiality (cont.)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas,. The areas identified and audit strategy applied include:

Area	Strategy applied
Remuneration disclosures, including severance payments, exit packages and termination benefits	<p>Our audit strategy was to check the bandings reported in the financial statements, test the completeness of the disclosures and make sure that the disclosures were compliant with the Code.</p> <p>We checked transactions back to the payroll system and supporting documentation.</p>
Related party transactions	<p>Our audit strategy was to obtain and review declarations from senior officers and members of the Council for any material disclosures and make sure that the disclosure was compliant with the Code.</p> <p>We carried out a sample check of Companies House searches on contracts from the Council’s contract register to identify whether any key decision-makers in the Council had an interest in the company, to test the completeness of the disclosure.</p>
Members’ allowances	<p>Our audit strategy was to test the completeness of the disclosure and make sure that it was compliant with the Code by sample checking transactions back to the payroll system and the Council’s Constitution.</p>

# Financial statements audit – internal control, written representations and whole of government accounts

## Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. The controls tested were for Accounts Payable and Housing Benefits. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any specific representations.

## Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ As the council is below the specified audit threshold of £350 million, there is no requirement for detailed work other than to submit the assurance statement to the NAO (WGA audit team) confirming the Council is below the threshold.

Section 5

# Arrangements to secure economy, efficiency and effectiveness

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# Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Brentwood Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

## Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'

Since issuing our Audit Plan in February 2015, we have identified a significant risk in relation to this criteria. The significant risk reflects the level of reliance placed on funding from the New Homes Bonus (NHB) in the Council's medium term financial strategy (MTFS). This has also been identified as a risk in a number of other councils which receive significant levels of funding through the NHB, where this has been built into the base budget.

- ▶ To address the specific risk we have identified, we have undertaken a more detailed review of the Council's MTFS and the key assumptions within this, including the use of NHB. We have also looked at the level and planned use of reserves and the Council's track record in delivering previous budgets and savings plans, as well as progress on addressing the budget gaps identified in the current MTFS. Our key findings in relation to these areas are set out on the next page of this report.
- ▶ As a result of our work, we have concluded that the Council has continued to respond well to the financial challenges it, along with other public sector bodies, is facing.
- ▶ We have therefore concluded that the Council has adequate arrangements in place for securing financial resilience.

## Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criteria and have no issues to report.
- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

# Arrangements for securing financial resilience

As noted in our conclusion, the Council has continued to respond well to the financial challenges it is facing. The size of that challenge is however increasing and there are a number of uncertainties that could have a significant impact on the Council's future financial stability. We have set out below further details on how the Council has responded to the challenges it is facing along with our understanding of the current financial position.

## Current budget gap

- ▶ In its MTFS issued in March 2015, the Council identified a cumulative budget gap of £0.829 million over the next three years. The MTFS update in June 2015, reduced this cumulative gap to £0.514 million, with no gap identified for 2015/16. This appears to be a relatively manageable budget gap compared to the Council's gross expenditure in 2014/15 of £46.4 million.

The Council has continued to take proactive steps to identify savings and income generation opportunities and senior leadership are confident that they have already identified ways in which the gap of £0.185 million in 2016/17 can be met.

## MTFS and key assumptions

- ▶ The MTFS is necessarily based on a number of assumptions, including estimates of the future levels of Government funding from areas such as Revenue Support Grant (RSG) and the New Homes Bonus (NHB). The reduction of any Government funding source in future years, would present a risk to achievement of the Council's future budgets. The Council would need to make further savings in the base budget to enable any resultant gap to be addressed. The Council clearly recognises the risks in relation to the uncertainty of future Government funding and in particular the NHB.
- ▶ The MTFS currently includes £3.4 million of NHB over the period 2016/17 to 2017/18, which has been used to fund the base budget of ongoing spend. This includes £250k annual increase in NHB funding in both 2016/17 and 2017/18. As a result, £750k of the total NHB funding included in the base budget over this period would be at risk if 'new' NHB funding was stopped after 2015/16.
- ▶ The MTFS assumes that the fixed support element of Government funding through RSG will reduce by 33% in 2016/17 and 29% in 2017/18. This is broadly in line with the levels of reduction experienced in recent years.

- ▶ The Council has assumed a 0.5% per year growth in the council tax base over the same period, but has assumed that there will be no increase in the council tax level over this period. It has also assumed that the council tax freeze grant of £58,562 will stop after 2015/16.
- ▶ A provision for pay and inflation increase has been made of 2.2% until 31 March 2016, which is part of the 2 year pay settlement, reducing then to 1%. This seems prudent in light of the fact that the Government expect pay awards in the public sector to be limited to 1% for the next four years. Future levels of general inflation, although currently remaining low, are however less certain.

## Reserves and balances

- ▶ At the end of 2015, the level of General Fund balances was £4.51 million. Of this £0.35 million is forecast to be spent or to remain as an allocation during 2015/16, a further £1.35 million is allocated for future year costs or against specific risks. This leaves £2.8 million uncommitted or unallocated. This is above the recommended minimal level of £2.2 million. This balance provides additional contingency should future savings not be achieved.
- ▶ In addition to the General Fund balance, the Council also has earmarked reserves of £2.6 million. Many of these reserves are allocated towards specific items of spend (e.g. Community Alarms reserve £0.3 million and Duchess of Kent/Nightingale reserve of £0.34 million) but not all are specifically allocated and so could be released to support budgets in the short term if needed.

## Track record in delivering previous budgets and savings

- ▶ The Council has a strong track record of delivering its budget and planned savings.
- ▶ The 2014/15 budget included around £0.45 million of savings or additional income, which were successfully delivered. This resulted in a reported breakeven on spend on services. In 2013/14, an underspend was reported and also reflected the delivery of savings and additional income of £0.513 million. This consistent performance indicates that the Council has a good system of budgetary control.
- ▶ As part of the 2015/16 budget the Council has identified increased income and savings of £0.9 million.

Section 6

# Independence and audit fees

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# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 26 February 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit, Scrutiny and Transformation Committee on 29 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit, Scrutiny and Transformation Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 26 February 2015.

## Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	90,675	90,675	
Certification of claims and returns	30,680	30,680	

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Section 7

# Challenges for the Coming Year

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# Challenges for the coming year

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p>	<p>The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none"> <li>• HRA infrastructure</li> <li>• Footways</li> <li>• Unadopted roads on industrial or HRA estates</li> <li>• Cycleways</li> <li>• Street Furniture</li> </ul> <p>We will discuss the potential impact for the Council as part of our planning for 2015/16.</p>

Section 8

# Appendices

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# Appendix A – uncorrected audit misstatements

- ▶ The following misstatements, which are greater than £51,000, have been identified during the course of our audit and in our professional judgement warrant communicating to you as those charged with governance.
- ▶ These items have not been corrected by management.

## Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
CIES – Cultural and related services CIES – various services headings	Depreciation for the Town Hall has been posted to the incorrect Net Cost of Services (NCS) line. As a result cultural and related services is overstated and other NCS items are understated.	F		(£62,201) £62,201
B/S – Debtors, Other Local Authorities CIES – Environment & Regulatory	An invoice raised in April 2015 for recycling service provided in January 2015 was not accrued for as a debtor at year end. We further extrapolated for this error across the untested balance as per line below.	F	£58,239	(£58,329)
B/S - Debtors CIES – various service headings	Testing of debtors above identified one invoice raised in April 2015 which relates to 2014/15 which has not been accrued for. We have extrapolated across the entire population of invoices raised in April to calculate the potential total error.	P	£99,238	(£99,238)
CIES – various service headings MiRS – General Fund MiRS – HRA MiRS – Pension Reserve B/S - Pensions Liability	Actual pension contributions and pensionable pay for 2014/15 were not included in the data submission to Essex County Council Pension Fund. Therefore, the Pension Fund applied the estimated 2015/16 figures in providing the 2014/15 IAS19 figures to the Council. The impact of incorrect pensionable pay on service costs has been estimated by the Council. We have reviewed this calculation and are satisfied that the impact is not material.	P	£199,000 (£199,000)	£199,000 (£164,000) (£35,000)
Cumulative effect of uncorrected misstatement			£157,477	(£157,477)

## Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

# Appendix B – corrected audit misstatements

- ▶ The following corrected misstatements, greater than £0.5 have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

## Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
CIES – HRA expenditure	HRA revaluation loss on garages was shown as	F		£624,091
CIES – Non Distributed Costs	Corporate & Democratic Core expenditure in the			(£624,091)
HRA – Depreciation and impairment	HRA and included in Non Distributed Costs in the CIES. This should have been included in depreciation and impairment of non current asset in the HRA, and in HRA expenditure in the CIES.			£624,091
HRA – Corporate and Democratic Core				(£624,091)
Cumulative effect of uncorrected misstatement				£0

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### Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRENTWOOD BOROUGH COUNCIL**

### **Opinion on the Authority's financial statements**

We have audited the financial statements of Brentwood Borough Council for the year ended 31 March 2015 under the Audit Commission Act 1998 (as transitionally saved). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, related notes 1 to 37, the Housing Revenue Account Income and Expenditure Statement, related notes HRA1 to HRA 7, the Collection Fund and the related notes 1 to 3.

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 2014/15.

This report is made solely to the members of Brentwood Borough Council, as a body, 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 Finance Director and auditor**

As explained more fully in the Statement of the Finance Director's Responsibilities set out on page 13, the Finance Director 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 2014/15, 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 Finance Director; and the



overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2014/15 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 Brentwood Borough Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2014/15 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 comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012);
- 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 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 its 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 2015.

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 October 2014, we are satisfied that, in all significant respects, Brentwood Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

### **Certificate**

We certify that we have completed the audit of the accounts of Brentwood Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Debbie Hanson**

for and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

30 September 2015

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**29 September 2015**

## **Audit, Scrutiny and Transformation Committee**

### **Internal Audit Progress Report**

**Report of:** *Greg Rubins – Head of Internal Audit*

**Wards Affected:** *All*

**This report is:** *This report is public*

#### **1. Executive Summary**

1.1 This report details the progress to date against the 2015/16 internal audit plan that was agreed with in the Audit and Scrutiny Committee in March 2015.

1.2 The report also includes an update on the progress of the implementation of the recommendations raised in 2013/14 and 2014/15.

1.3 The following reports received limited assurance and therefore are included as full reports as supplementary papers to this progress report:

- Payroll (from 2014/15)
- IT Transformation Programme (from 2014/15)
- Accounts Payable

A Counter Fraud Risk Assessment has also been completed and the full report has also been included as a supplementary paper for your information.

#### **2. Recommendation(s)**

**2.1 To receive and note the contents of the reports.**

#### **3. Introduction and Background**

3.1 The 2014/15 audit plan is now complete.

3.2 The Audit and Scrutiny Committee approved the 2015/16 annual audit plan on 9 March 2015. The progress against this plan is reported at ever Audit, Scrutiny and Transformation Committee.

#### **4. Issue, Options and Analysis of Options**

4.1 Not applicable.

#### **5. Reasons for Recommendation**

5.1 To monitor the progress of work against the internal audit plan.

#### **6. Consultation**

6.1 Not applicable.

#### **7. References to Corporate Plan**

7.1 Good financial management underpins all priorities within the Corporate Plan.

#### **8. Implications**

##### **Financial Implications**

**Name & Title:** Chris Leslie, Finance Director

**Tel & Email:** 01277 312542 / christopher.leslie@brentwood.gov.uk

8.1 There are no direct financial implications arising from this report.

##### **Legal Implications**

**Name & Title:** Chris Potter, Monitoring Officer

**Tel & Email:** 01277 312860 / christopher.potter@brentwood.gov.uk

8.2 There are no direct legal implications arising from this report

#### **9. Appendices to this report**

Appendix A – Internal Audit Progress Report

Appendix B – Payroll

Appendix C – IT Transformation Programme

Appendix D – Accounts Payable

Appendix E – Counter Fraud Risk Assessment

**Report Author Contact Details:**

**Name:** Greg Rubins, Head of Internal Audit  
**Telephone:** 023 8088 1892  
**E-mail:** greg.rubins@bdo.co.uk

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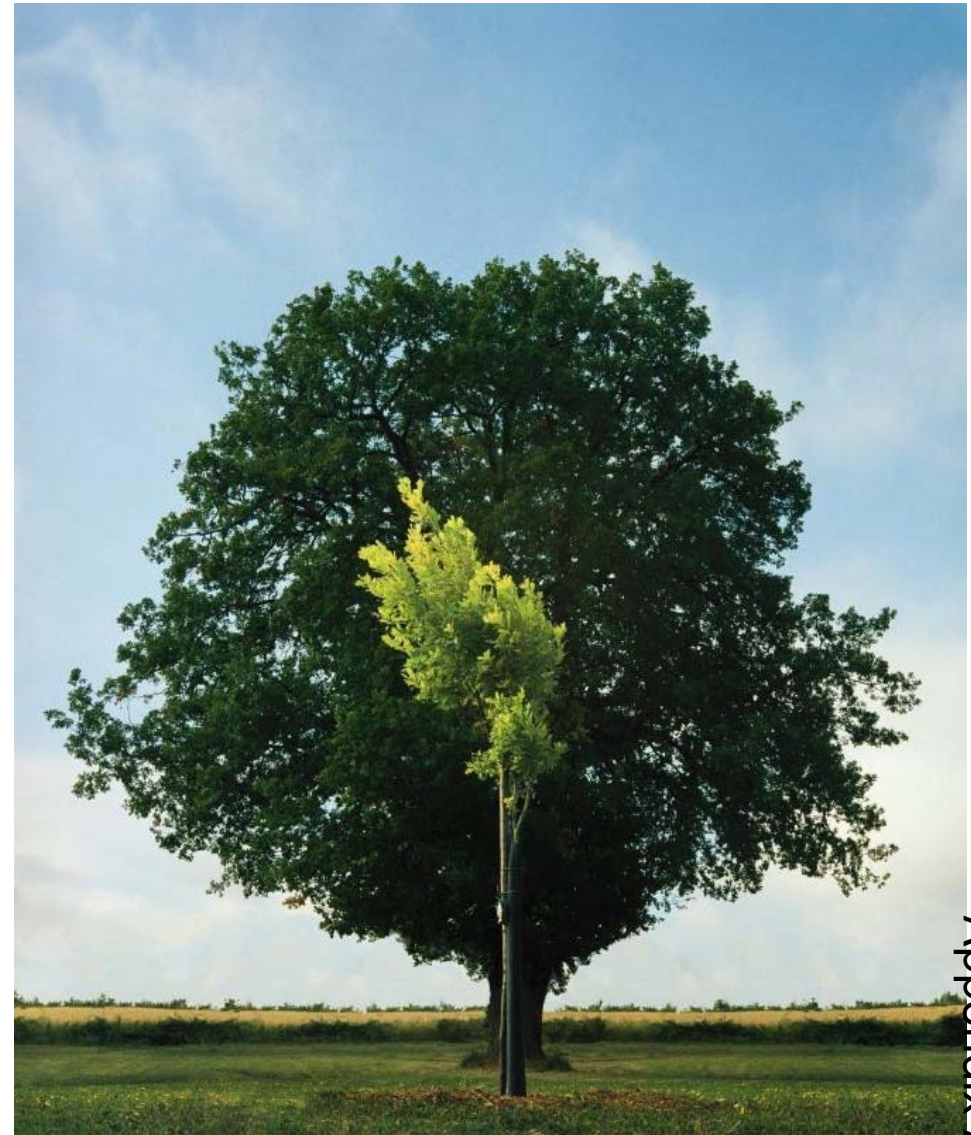


# Brentwood Borough Council

## INTERNAL AUDIT PROGRESS REPORT

September 2015

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Appendix A

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# PROGRESS AGAINST PLAN

## Internal Audit

This report is intended to inform the Audit, Scrutiny and Transformation Committee of progress made against the 2015/16 internal audit plan which was approved by this Committee in March 2015. The audit plan for 2014/15 is now complete and this report also includes details of the final internal audit reports from the 2014/15 audit plan.

This report summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

## Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in section 2 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

## Work outside of the Internal Audit Plan

In June 2015 the Council requested that we complete a review of the Accounts Payable function as a result of a recent fraud that occurred in that department. This review was added into the audit plan for 2015/16 at an additional 12 days.

## Overview of 2015/16 work to date

Since the previous Audit, Scrutiny and Transformation Committee in June, we have completed and finalised the reports for:

- Accounts Payable
- Counter Fraud Risk Assessment

The following reports from the 2014/15 audit plan have also been finalised:

- IT Transformation Project
- Payroll

All of the above reports, with the exception of the Counter Fraud Risk Assessment, were given limited assurance and therefore the full reports have been presented to the Audit, Scrutiny and Transformation Committee as an appendix to this progress report.

The Counter Fraud Risk Assessment has also been included as an appendix to this progress report.

# PROGRESS AGAINST 2015/16 PLAN

Area	2015/16 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
<b>A Modern Council</b>					
Planning	20	Q2	In progress		
Customer Services	15	Q3			
Corporate Plan and Priorities	20	Q3	Planning		
Financial systems	50	Q4			
Review of Accounts Payable Arrangements	12	Q1	Final report	Moderate	Limited
Human Resources	25	Q4			
Risk Management	15	Q4			
IT Security and Governance	20	Q3			
Disaster Recovery and Business Continuity	15	Q3			
Counter Fraud Risk Assessment	10	On-going	Final report (note that 5 days are remaining for 2015/16)	N/A - assurance rating not assigned for this report	N/A - assurance rating not assigned for this report
202					

# PROGRESS AGAINST 2015/16 PLAN

Area	2015/16 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
<b>Street scene and environment</b>					
Safe and clean environment	15	Q1/2	Draft report		
	15				
<b>Housing, Health and Wellbeing</b>					
Housing systems	15	Q4			
Affordable Housing	15	Q3			
Revenues Shared Service Arrangement	15	Q3	Planning		
	45				
<b>A Safe Borough</b>					
Localism and building community capacity	20	Q4			
	20				

# PROGRESS AGAINST 2015/16 PLAN

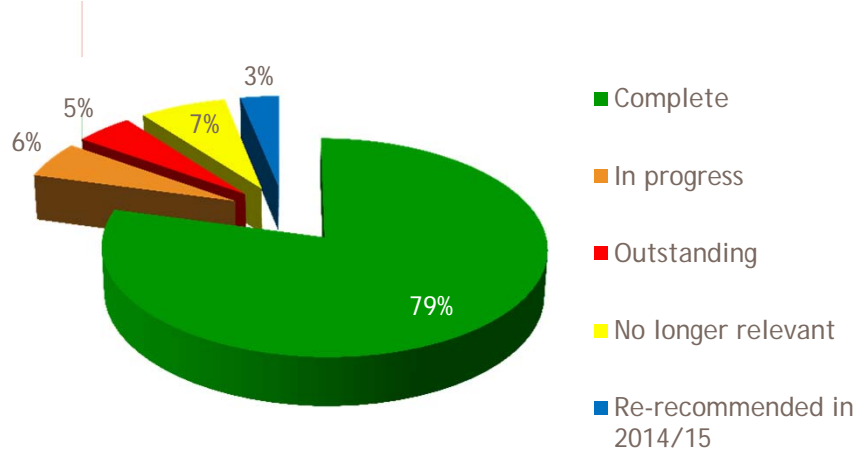
Area	2015/16 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
<b>A Prosperous Borough</b>					
Capital Projects	20	Q4			
Local Development Plan/Regeneration	20	Q4			
	40				
<b>Planning, Reporting, Follow-up and Contingency</b>					
Planning/ liaison/ management	20				
Recommendation follow up	10				
Contingency	10				
Total	40				
Total	362				

# FOLLOW UP ON RECOMMENDATIONS - 2013/14

## Follow up of prior year recommendations

We have followed up and gained evidence on the progress made against the high and medium recommendations raised during 2013/14 by the previous internal auditors, which are due to be completed before this Audit and Scrutiny Committee.

The diagram on the right shows the percentage of recommendations in progress and implemented. We will continue to monitor the status of these recommendations. There remains 2 high priority recommendations which are in progress . We have re-recommended 4 recommendations in 2014/15.



	Number	Percentage
Complete	99	79%
In progress	7	6%
Outstanding	6	5%
No longer relevant	9	7%
Re-recommended in 2014/15	4	3%
<b>Total prior year recommendations</b>	<b>125</b>	<b>100%</b>

# 2013/14 high priority recommendations in progress

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Audit	Recommendation made	Priority Level	Council Comments	Manager Responsible	Due Date	Internal Audit Comments
Planning Applications & Enforcement	Procedures (1) - The Planning Charters should be reviewed and updated in line with current legislation and the latest planning procedures. An up to date Validation Checklist should be produced and used by all staff responsible for validating and processing a planning application. The checklist should be signed and dated when the application has been assessed as valid. The procedures should be periodically reviewed and updated if necessary with the date of review recorded on the document.	H	The new administrative processes have been implemented as far as the core planning application processing is concerned. The renewed focus on these has contributed to much improve performance in processing times. However, there are several areas of less priority that have suffered as a consequence. For example, back scanning of applications has been delayed and needs to be addressed corporately.	Carole Vint (formally Tony Pierce)	30/04/13	<p>From discussions it was confirmed that a Planning Charter will not be implemented due to the lack of flexibility of the charter in a fast moving legislative environment. The Government Planning Portal is used instead which is referenced on the Brentwood website.</p> <p>The Validation Checklist is still in the process of being produced.</p> <p>We will consider this recommendation during our internal audit review within Planning for 2015/16.</p>
Planning Applications & Enforcement	Procedures (2) - The Council should continue the efforts to fill the vacant posts and prioritise existing resources appropriately.	H	The Council should continue the efforts to fill the vacant posts and prioritise existing resources appropriately.	Carole Vint (formally Tony Pierce)	30/08/12	<p>There continues to be vacancies in this area. Filling the vacancies has become more difficult now that HR has been outsourced.</p> <p>We will consider this recommendation during our internal audit review within Planning for 2015/16.</p>

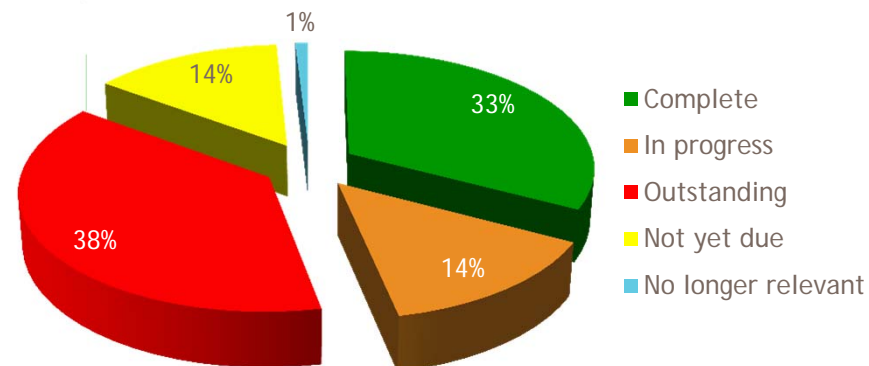


# FOLLOW UP ON RECOMMENDATIONS - 2014/15

## Follow up of current year recommendations

We are constantly monitoring the recommendations raised during 2014/15 and have followed up on the recommendations that have become due since the completion of our review.

The diagram on the right shows the status of the recommendations raised, in progress and implemented. We have raised 26 high priority recommendations during 2014/15, 5 of which has been implemented, 9 of which are in progress, 4 are not yet due and 8 are outstanding or have not yet been verified as being implemented. The high priority recommendations that are in progress of being implemented and which have not yet been implemented are shown over the page.



	Number	Percentage
Complete	35	33%
In progress	15	14%
Outstanding	41	38%
No longer relevant	1	1%
Not yet due	15	14%
<b>Total current year recommendations</b>	<b>107</b>	<b>100%</b>

# 2014/15 high priority recommendations in progress

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Comments
Customer Services	In order to realise tangible savings in the current financial year, the customer services team will need to carry out an exercise to record any savings that have been made to date as a result of the contact centre and put in place a monitoring framework to capture future savings.	High	Lorraine Jones Customer Contact Manager	31/08/14	The savings have not been achieved for 2014/15 and won't be realised for a few years. The new Head of Customer Services has developed a new plan and a Customer Services Strategy and is taking a more structure approach to Customer Services and the savings that can be realised. A full review of all service areas is being undertaken in 2014/15 to establish how the Customer Services function and the service areas can work together going forward. Until this review and all service areas are on board the savings achieved cannot be seen. The Customer Services Department will be the main point for recording the savings and efficiencies across all departments. This is on-going and will not realistically be seen as implemented until the full service review is completed in November 2015.
Customer Services	In order that the contact centre is able to achieve year on year savings, the Council will need to have a channel shift strategy in place with specific goals for reducing contact across each channel. This will support the contact centre to set and deliver achievable targets. We can provide good practice examples from other Councils.	High	Lorraine Jones Customer Contact Manager	31/09/14	Customer Access Strategy to be reported to Finance & Resources 14.01.2015. Customer Access Strategy Implementation Plan to include development of Channel Shift Strategy with targets. The Full strategy will not be finalised until the full service review has been undertaken, which is due to be completed in November 2015.
Housing System	The Council should look to ensure that there is a long term resolution to the senior management of the housing department as soon as practicable.	High	Christopher Leslie (formally Jo-Anne Ireland)	31/03/15	The Council have not yet implemented a long term resolution to the senior management of the housing department.

# 2014/15 high priority recommendations in progress

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Comments
Housing System	<p>We recommend that the housing team agree a schedule of maintenance with the grounds maintenance team. This should detail the number of man hours scheduled per block for each task per week, allowing a charge to be accurately calculated for each block which can be substantiated if challenged. This would require a review of the outside spaces associated with the blocks.</p> <p>As part of this, the full work log of tasks carried out by the grounds maintenance team should be reviewed to confirm all costs are appropriate to be recharged to leaseholders.</p>	High	John Grisley Interim Principle Officer	31/03/15	<p>In the process of being Implemented.</p> <p>We confirmed that there is a three week rota in place for the schedule of maintenance with the grounds maintenance team. However, the Team Leader for Estates Management could not provide evidence that the rota includes the number of man hours scheduled per block for each task per week.</p> <p>To be followed up in October 2015.</p>
Partnerships	<p>We recommend that the Council design a central governance policy for partnerships, detailing what is expected in terms of governance for any particular partnership arrangement.</p> <p>As a minimum this should cover:</p> <ul style="list-style-type: none"> <li>• Ensuring that partnerships are only entered into where the partnership delivers against one of the Council's objectives and priorities, and delivers value for money in terms of funding and officer time involved.</li> <li>• The requirements for formal documentation between partners.</li> <li>• Authorisation of the payment of funding for a partnership arrangement.</li> <li>• Performance monitoring against measurable targets.</li> <li>• Provision for annual review of involvement and additional monitoring of under performing partnerships.</li> </ul> <p>This could also include policies around the different level of monitoring required for projects with higher or lower levels of funding and public profile.</p>	High	Kim Anderson Partnership, Leisure & Funding Manager	30/06/15	<p>In the process of being Implemented.</p> <p>This has been started - governance policy, level of authority to sign off on partnership and monitoring arrangements - depending on level of partnership/funding involved will determine level of monitoring. Corporate Plan is being revised so don't want to do this until that has been updated as need priorities to reconcile.</p> <p>To be followed up in October 2015.</p>

# 2014/15 high priority recommendations in progress

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Comments
Risk Management	<p>The review of the Strategic Risk Register and the discussion of risks should be a standing item on the agenda for CLB. This should be discussed at least bi-monthly.</p> <p>The review of the Operational Risk Register and the discussion of risks should be a standing item on the agenda for SMT. This should be discussed at least bi-monthly.</p> <p>CLB should review the Operational Risk Register on a quarterly basis.</p>	High	Ramesh Prashar/Sue White	01/06/15	<p>This is in the process of being implemented</p> <p>We confirmed that at present the SMT group does not meet and the future of the group is under discussion by CLB.</p> <p>Strategic &amp; Operational risks were reviewed by CLB on 9 June and will be reviewing them again in August.</p> <p>To be followed up at the end of September 2015.</p>
Performance Management	The Council should ensure that all key performance indicators are in line with the Corporate Plan, resulting in corporate priorities being achieved. Where key targets are varied from the Corporate Plan these should be agreed with the relevant portfolio holder member.	High	Phil Ruck Contract and Corporate Projects Manager	31/01/15	The responsible officer is in the process of updating and revamping the performance indicator dashboard and revisiting key performance indicators.
Performance Management	Targets within the Performance Indicator Dashboard should be set at a level that should be both achievable and challenging to ensure that the Council not only meet targets but begin to perform above targets. In addition, where applicable, timescales should be set for each performance indicator within the dashboard. These timescales could be staggered to show short term and medium term targets which will make the performance indicator more achievable and also more likely to be achieved by staff.	High	Phil Ruck Contract and Corporate Projects Manager	31/01/15	The responsible officer is in the process of updating and revamping the performance indicator dashboard.

# 2014/15 high priority recommendations in progress

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Comments
Repairs and Maintenance	<p>It is recommend that the Council formally documents the repairs and maintenance processes and controls, so that the improvements and knowledge built up under the new contracts and processes can be passed on once the Property Manager position is permanently filled.</p> <p>For the out of scope works invoices, we suggested that the Property Manager signs the invoices confirming that they have been agreed to an approved schedule of works completed prior to the invoice being approved for payment on E-financials.</p> <p>For all out of scope works exceeding £250, it should be ensured that an order number has been raised on Orchard prior to the works being carried out.</p> <p>We can provide further assistance on the design of the controls in the process.</p>	High	Keith Carter Interim Property Manager	31/01/15	The processes and controls are in the process of being documented.

# 2014/15 high priority recommendations outstanding

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Comments
Housing System	Orchard should be programmed so that when repairs or scheduled maintenance are being ordered over £500, the user is prompted to consider if a Section 20 consultation is required prior to producing an order number for works.	High	Keith Carter Interim Property Manager	31/03/15	No response received to date. To follow up.
Property Management	It is recommended that the procedure document is updated to reflect current procedures with the new contractors. The new procedure document should document the number of days target for each stage of the repairs and maintenance process so that a quick turnaround can be achieved. This will also allow individual issues in the process to be identified and monitored towards the achievement of the KPI.	High	John Grisley Interim Principle Officer	31/03/15	No response received to date. To follow up.
Performance Management	The Contract and Corporate Projects Manager's team should review the performance indicators on a quarterly basis and ensure that any areas which are underperforming are tracked on a regular basis. This will ensure that actions are being implemented to meet the performance indicators. Responsible officers for under performing indicators should be required to attend the Finance and Resource Committee to discuss areas where key targets are not being met.	High	Phil Ruck/Greg Campbell	31/03/15	No response received to date. To follow up.

# 2014/15 high priority recommendations outstanding

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Comments
Payroll	Ensure that the hierarchy report is circulated on a quarterly basis and remind Heads of Services the importance of positively confirming the accuracy of these. Ensure that reports of starters and leavers are circulated on a monthly basis. We will follow up to ensure all responses are received for March 2015 and that the control has been completed for quarter one of the 2015/16 year.	High	Phil Ruck	31/07/15	To follow up.
Payroll	Continue to embed the new starters and leavers process which has recently been implemented. We will follow up to ensure this process has been implemented.	High	Phil Ruck	31/07/15	To follow up.
Risk Management	The Risk Registers (both strategic and operational) should be linked to the Corporate Plan. The Risk Registers should be set out to show the risks associated with each Corporate Objective. For example, showing the risks under each Corporate Objective rather than by Department.	High	Ramesh Prashar/Sue White	01/07/15	To follow up.

# 2014/15 high priority recommendations outstanding

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Comments
IT Transformation Programme	<p>We are aware of plans for a comprehensive review of the IT &amp; Transformation Programme (ITTP). Once revised, the plan should be presented to CLB for formal approval and evidence of approval retained.</p> <p>Senior management support and commitment to the programme should be sought at the appropriate level. Responsibility and accountability for programme delivery should be clearly defined.</p> <p>The approved programme should be made available to all relevant staff.</p>	High	Tim Huggins/Phil Ruck	30/06/15	No response received to date. To follow up.
IT Transformation Programme	<p>The Council should ensure that the needs, expectations and requirements of stakeholders are managed during the consultation process such that they are aligned with overall Corporate Objectives of the Council.</p> <p>The ITTP should be revised following the consultation process to ensure that it supports the delivery of the Council's Corporate Plan.</p>	High	Tim Huggins/Phil Ruck	31/06/15	The Corporate Plan is under review and therefore this recommendation has not yet been implemented.



# KEY PERFORMANCE INDICATORS

## Performance measures for internal audit

<i>Coverage</i>	
Audits completed against the Annual Audit Plan.	All audits have been completed for 2014/15. The 2015/16 audit plan has commenced.
Actual days input compared with Annual Audit Plan.	All days for 2014/15 were in line with the plan. The 2015/16 audit plan is in progress but is on track to be completed within the days set.
<i>Reporting</i>	
Issuance of draft report within 3 weeks of fieldwork `closing` meeting.	All draft reports issued to date for 2015/16 were issued within 3 weeks of discussing the findings with the client.
Finalise internal audit report 1 week after management responses to report are received.	All draft reports for 2015/16 have been finalised within 1 week of management responses being received.
<i>Relationships and customer satisfaction</i>	
Customer satisfaction	Good feedback has been received on all audits completed.
Annual survey to achieve score of at least 70%.	A year end survey for 2014/15 has been complete and good feedback was received. The 2015/16 survey will be completed in April 2016.
<i>Staffing &amp; training</i>	
At least 60% input from qualified staff.	The audits completed to date have been done so by 100% qualified staff.
<i>Audit Quality</i>	
Reliance on work by EY where appropriate.	EY have been able to rely on the work performed to date.
Positive result from any external review.	Not applicable at this stage.

# KEY PERFORMANCE INDICATORS

Performance measures for management and staff

<i>Response to reports</i>	
Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt.	No issues to note to date.
<i>Implementation of recommendations</i>	
Audit sponsor to implement all audit recommendations within the agreed timeframe.	See page 9 of this progress report. Not all recommendations have been implemented by the agreed timeframe.
<i>Co-operation with internal audit</i>	
Internal audit to confirm to each meeting of the Audit Committee whether appropriate co-operation has been provided by management and staff.	Appropriate co-operation has been provided by management and staff to date.

# SECTOR UPDATE

## Publications and articles

- The following articles have recently been published:

- Faster closedown - meeting the challenge: <http://www.cipfa.org/policy-and-guidance/articles/faster-closedown-meeting-the-challenge>
- English devolution - an opportunity to realign public services: <http://www.cipfa.org/policy-and-guidance/articles/devolution-in-england>
- Treasury and Capital Management bulletin issued April 2015: <http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/treasury-and-capital-management-panel/newsletters-and-bulletins>

- The Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015: the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 has been made which preserves the relevant parts of the Audit Commission Act 1998 for 2014/15 audits. Further details can be found here: [http://www.legislation.gov.uk/uksi/2015/841/pdfs/ukxi\\_20150841\\_en.pdf](http://www.legislation.gov.uk/uksi/2015/841/pdfs/ukxi_20150841_en.pdf)
- From 31 March 2015 the Audit Commission ceased to exist. Public Sector Audit Appointments Limited (PSAA) has replaced the Audit Commission. Their website can be found here: [www.psa.co.uk](http://www.psa.co.uk)

- The following CIPFA publications have recently been issued:

- Council Tax Demands and Precepts 2015/16: This publication describes the local levies made by authorities to fund expenditure following the implementation of the Local Government Finance Act 1992. It includes the number of chargeable dwellings by band; the average council tax per dwelling; the average Band D equivalent council tax; authorities' budget requirements and levels of precepts.  
<http://www.cipfa.org/policy-and-guidance/publications/c/council-tax-demands-and-precepts-201516-estimates-pdf>
- Benefits for Persons from Abroad: This is a detailed guide aimed at practitioners, providing comprehensive and technical information on the complex rules on claims for Housing Benefit (HB) and Council Tax Support (CTS) from persons from abroad.  
<http://www.cipfa.org/policy-and-guidance/publications/b/benefits-for-persons-from-abroad-online>
- A Practical Guide to Outsourcing in the Public Sector: This guide sets out the key issues that public sector organisations need to consider at each stage of the outsourcing process. It also provides an up-to-date summary of recent developments, including key provisions of the revised EU procurement rules, which came into effect in the UK on 26 February 2015.  
<http://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-to-outsourcing-in-the-public-sector-book>
- A Practical Guide for Local Authorities on Income Generation : As government funding support falls away, this revised guide can offer practical help to authorities to retain service funding.  
<http://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-for-local-authorities-on-income-generation-2015-edition-online>
- Transforming Services : Approaches, Examples, Lessons: This publication draws together a number of examples of transformation and change in the public sector. Some of the examples suggest new sources for delivery and resourcing, while others are more about rethinking existing services and resources to deliver something new or with a better outcome.  
<http://www.cipfa.org/policy-and-guidance/publications/t/transforming-services-approaches-examples-lessons-online>

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blog: <http://bdolocalgov.wordpress.com/>

# APPENDIX I - DEFINITIONS

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LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
<b>High</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

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# Brentwood Borough Council

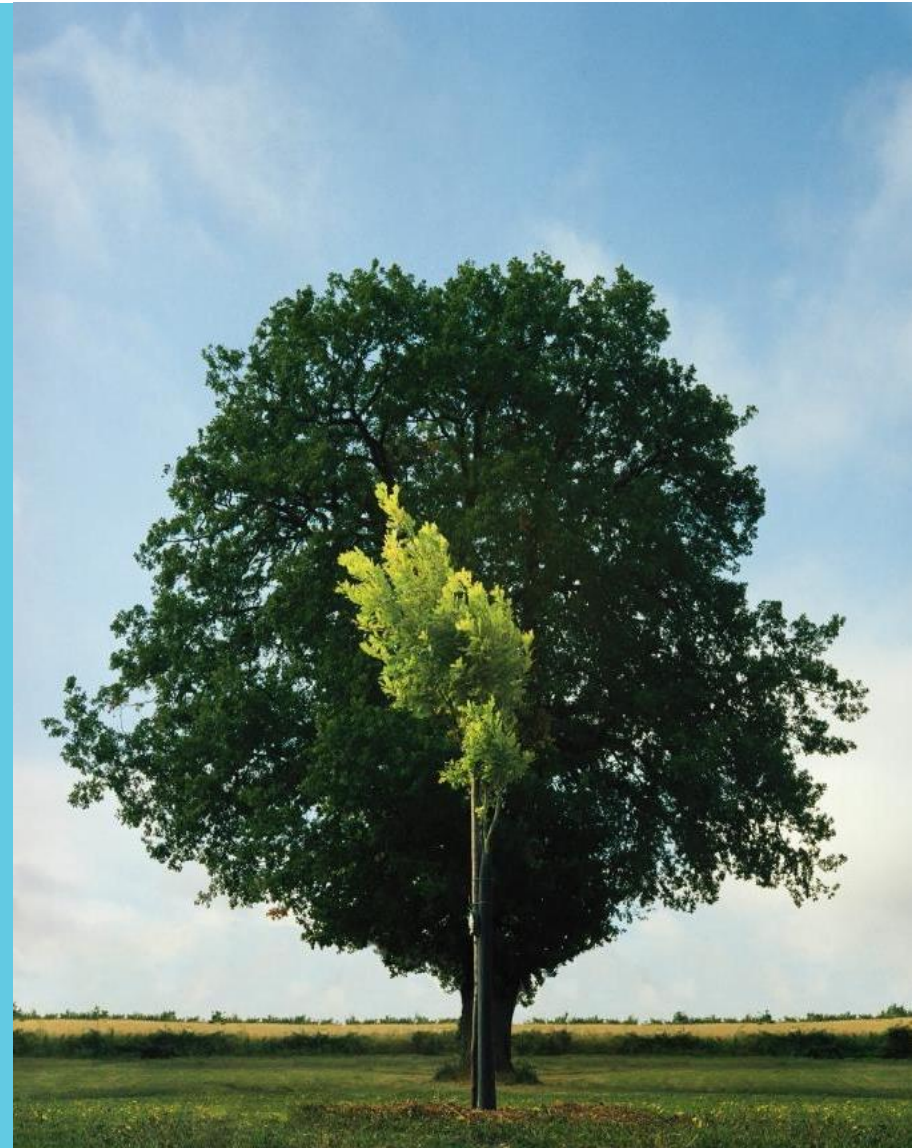
## INTERNAL AUDIT REPORT

Payroll System

Audit 10.2015

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LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Limited	Limited



Appendix B

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REPORT STATUS	
Auditors:	Richard Haynes Leon Penwill
Dates work performed:	January 2015 - March 2015
Final Meeting Date:	16 April 2015
Draft report issued:	22 April 2015
Final report issued:	14 July 2015

DISTRIBUTION LIST	
Christopher Leslie	Interim S151 Officer
Phil Ruck	Business Development Manager

## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.



# EXECUTIVE SUMMARY




## CLIENT STRATEGIC RISKS

Risk	1	<p>Finance pressures</p> <ul style="list-style-type: none"> <li>Unplanned expenditure</li> <li>Expenditure incurred where no budgetary provision exists</li> </ul>
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## LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

Design	Limited	System of internal controls is weakened with system objectives at risk of not being achieved.
Effectiveness	Limited	Evidence of non compliance with some controls, that may put some of the system objectives at risk.

## SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)

High		2
Medium		2
Low		1
<b>Total number of recommendations: 5</b>		

## OVERVIEW

From April 2014 the Council's payroll function was outsourced to Midland HR and from January 2015 the full outsourcing of the Council's HR functions was also transferred to Midland HR. The contract runs until 2017 and is managed by the Business Development Manager. Brentwood employs approximately 350 staff at a cost of circa £11m per year.

Our review found the following areas of good practice:

- We reviewed the controls that were in place to manage the transfer of payroll data between the old payroll system and the Midland HR system. There was evidence of one control where a dummy payroll run was made alongside the February 2014 payroll run, with minor reconciling differences. This was signed by the project manager authorising the implementation of the system. However there was little evidence of further controls ensuring the whole data transfer was successful. No significant issues have been noted from our work suggesting no significant problems in the process. We were unable to perform our own detailed testing as reports from Midland HR were not available.
- We tested two months payroll BACS reports, these were either approved by the Acting Chief Executive or Business Development Manager prior to being paid. The reports pack includes a variance analysis comparing the current month payroll expenditure to the prior month, which is scrutinised prior to the payment run being approved.

We also some areas for improvement or development:

- We were unable to test the leavers processes and controls as the Council were unable to produce a report of leavers at the time of the audit. We discussed the leavers process with both the Business Development Manager and the Systems Accountant, and noted that the current process was disjointed and may result in necessary actions not being completed for every leaver, such as revocation of systems access. Following discussions with management a quarterly establishment list check has been implemented from March 2015 and a new leavers process has been implemented. (High recommendations)
- Through discussions with the Business Development Manager it was apparent that the contract KPIs agreed as part of the contract were not providing the Council sufficient information to adequately monitor the contract performance of Midland HR, predominantly on the HR side. We have noted the Business Development Manager is already involved in discussions with Midland HR to improve the KPIs and reporting. (Medium Recommendation)
- We were unable to test the effectiveness of key controls in the following areas due to a lack of supporting information being available from Midland HR; authorisation of vacancies by the Acting Chief Executive, authorisation of new starters by Heads of Service, authorisation of expenses and overtime payments by Managers and Heads of Service, and leaver notifications. We have recommended that management request reports from Midland HR providing assurance over key controls operating at Midland HR. (Medium Recommendation)

Overall the new system has the potential to streamline processes and improve accountability of Managers and Heads of Service for the payroll costs incurred in their departments, however there were weaknesses in the design of the controls at the Council. These weaknesses have started to be addressed since the audit work was completed.

# DETAILED FINDINGS AND RECOMMENDATIONS

## Contract Monitoring and Reporting

Ref.	Finding	Sig.	Recommendation
0.A	<p>Through discussions with the Business Development Manager it was apparent that the contract KPIs agreed as part of the contract were not providing the Council sufficient information to adequately monitor the contract performance of Midland HR for the HR side of the contract.</p> <p>There was adequate KPI data available for payroll.</p> <p>We are aware that the Business Development Manager is already undertaking discussions with Midland HR around improving the KPIs such that the contract can be monitored effectively, including data around the number of enquiries and the response times.</p>	M	<p>Review the KPIs in place with Midland HR and hold discussions around how improvements can be made in the types of KPIs being reported.</p> <p>We are happy to discuss the agreement of improved KPIs further with management.</p>

### MANAGEMENT RESPONSE

Agreed.

### RESPONSIBILITY AND IMPLEMENTATION DATE

*Responsible Officer: Phil Ruck*  
*Implementation Date: 31 July 2015*

0.B	<p>The lack of availability of documentation and audit trail for key controls at Midland HR was discussed with the Business Development Manager.</p> <p>We were informed there was the capacity for the Council to request reports detailing the operational effectiveness of controls operating at Midland HR.</p> <p>At the time of the audit the council had not received data around the effectiveness of key controls operating at Midland HR.</p>	M	<p>The Council should request reporting of operational effectiveness of key controls at Midland HR.</p>
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### MANAGEMENT RESPONSE

This is an issue of access within a system and availability of review during the audit and does not represent a lack of controls within the process - which is agreed were not made visible during the review.

### RESPONSIBILITY AND IMPLEMENTATION DATE

*Responsible Officer: Phil Ruck*  
*Implementation Date: 31 March 2016*

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Payroll data has not been transferred accurately and completely to the Midland HR system			
Ref.	Finding	Sig.	Recommendation
1.A	<p>Through discussions with the Business Development Manager there were several controls that were implemented around ensuring the data transfer between the two systems was successful, including the reconciliation of a parallel dummy payroll run and review of employee data reports from both systems.</p> <p>Due to a change in personnel it was not possible to locate evidence for all the controls that were implemented, except for the final approval of the implementation of the new system following the successful dummy payroll run in February 2014.</p> <p>From discussions with officers and work carried out around the reconciliation of payroll to the ledger, there have not been any apparent significant issues with payroll following the transfer of payroll.</p> <p>We were unable to complete further work as reports from the Midland HR system at the time of the transfer of data were not available.</p>	N/A	N/A
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
N/A		N/A	

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Payments are made to employees that do not exist or that are no longer employed by the council

Ref.	Finding	Sig.	Recommendation
2.A	<p>At the time of the audit work there was no formal monitoring of new employees added to the payroll, or controls to ensure that all leavers have been removed from payroll that should have been.</p> <p>This could result in employees that do not exist or leavers that remain on the payroll after the leaving date not being detected.</p> <p>Following discussions with management, a hierarchy report was circulated for March 2015, requiring positive agreement from Heads of Service. It is intended that this will be circulated on a quarterly basis.</p> <p>At the time of writing the report all but two responses had been received for the March 2015 report.</p> <p>In addition to the hierarchy control, management have also begun circulating reports of starters and leavers to Heads of Service on a monthly basis.</p>	H	<p>Ensure that the hierarchy report is circulated on a quarterly basis and remind Heads of Services the importance of positively confirming the accuracy of these.</p> <p>Ensure that reports of starters and leavers are circulated on a monthly basis.</p> <p>We will follow up to ensure all responses are received for March 2015 and that the control has been completed for quarter one of the 2015/16 year.</p>
<b>MANAGEMENT RESPONSE</b>		<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>	
Noted.		<p><i>Responsible Officer: Phil Ruck</i>  <i>Implementation Date: 31 July 2015</i></p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Payments are made to employees that do not exist or that are no longer employed by the council

Ref.	Finding	Sig.	Recommendation
2.B	<p>We were unable to test the leavers process as the Council were unable to produce a report of leavers.</p> <p>We discussed the leavers process with both the Business Development Manager and the Systems Accountant, and noted that the current process was disjointed and may result in necessary actions not being completed for every leaver, such as revocation of systems access.</p> <p>This could result in officers not being removed from the payroll on a timely basis or inappropriate access to the Council's key IT systems.</p> <p>Following discussions with management as part of the audit, a new starters and leavers process has been designed, which includes a form which is completed by Midland HR for leavers. The form is automatically sent to Comms and Assets on completion.</p> <p>At the leaving date an email is sent to IT, the Contact Centre and Corporate Support to complete a checklist confirming the close down of IT and phone access. Emails are repeated daily until the tasks are cleared.</p> <p>At the final stage following completion of the above tasks, a prompt is sent to IT to close down the leavers email, this alert is repeated every seven days until complete.</p>	H	<p>Continue to embed the new starters and leavers process which has recently been implemented.</p> <p>We will follow up to ensure this process has been implemented.</p>
<b>MANAGEMENT RESPONSE</b>		<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>	
Agreed. We have put in place a new process since the inception of this report		<p><i>Responsible Officer: Phil Ruck</i></p> <p><i>Implementation Date: 31 July 2015</i></p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Payroll expenditure is not accurately recorded on the ledger

Ref.	Finding	Sig.	Recommendation
6.A	<p>We reviewed a sample of three payroll reconciliations to the ledger.</p> <p>In all three cases the reconciliation had not been completed within a month of month end, additionally none of the reconciliations showed evidence of review.</p> <p>This could result in payroll expenditure not being accurately recorded on the ledger, or issues not being identified and dealt with on a timely basis.</p> <p>Through discussions with the HRA accountant we identified that there had been some issues with the coding of payroll expenditure from Midland HR, resulting in some reconciling differences . These had mostly been resolved by year end, but some issues remained with the smaller areas such as staff receiving maternity pay.</p>	L	<p>We recommend that the payroll control account reconciliation is undertaken within one month of month end.</p> <p>The reconciliation should be initialled and dated by the reviewer to evidence review.</p> <p>The finance team should continue to work with Midland HR to resolve the remaining coding issues.</p>
<b>MANAGEMENT RESPONSE</b>		<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>	
Agreed		<p><i>Responsible Officer: Phil Ruck</i></p> <p><i>Implementation Date: 30 September 2015</i></p>	

# APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Phil Ruck	Business Development Manager
Phoebe Barnes	HRA Accountant
Chris Houghton	Systems Accountant
Danielle Blayney	Project Management Administrator
Victoria Banerji	Project Management Administrator
Caroline McCaffrey	Planning Development Management
Gary O'Shea	Principle Licensing Officer
David Carter	Environmental Health Manager
Carol Tatton-Bennett	Electoral Services Manager

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BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

# APPENDIX II - DEFINITIONS

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LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
<b>High</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.



# APPENDIX III - TERMS OF REFERENCE

## BACKGROUND

From April 2014 the Council's payroll function was outsourced to Midland HR. Since then the supporting HR services have been steadily transferred to Midland HR, and this is expected to be fully transferred by January 2015.

The contract runs until 2017 and is managed by the Contract and Corporate Projects Manager.

## PURPOSE OF REVIEW

The purpose of the review is to ensure there is sufficient levels of control within the payroll and expenses processes, whilst also ensuring the process is efficient and not over controlled.

Our review will also consider the processes and controls in place over the transfer of data to the midland HR systems, and the budgetary reporting of payroll costs.

## KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- Payroll data has not been transferred accurately and completely to the Midland HR system
- Payments are made to employees that do not exist or that are no longer employed by the council
- Unauthorised changes or temporary adjustments are made to payroll standing data
- Expenses paid are unauthorised or inappropriate
- Deductions are made at the incorrect rates
- Payroll expenditure is not accurately recorded on the ledger
- Costs are not allocated to the correct budget holder or reporting of expenditure is incomplete.

# APPENDIX III - TERMS OF REFERENCE

## SCOPE OF REVIEW

The review will consider the following areas:

- The controls and processes in place to transfer payroll data to Midland HR
- The controls over starters and leavers, as well as any establishment controls
- The processes and authorisation controls over changes to standing payroll data, also covering temporary changes such as overtime
- Controls over the authorisation of employee expenses
- Controls in place to ensure deductions to payroll such as income tax are calculated correctly
- The importing and reconciling payroll expenditure to the main financial system
- The processes for allocating and reporting employee time and cost to budget holders.

## EXCLUSIONS

Our work will be restricted to the areas of consideration within our scope of the review.

## APPROACH

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks. Testing of the effectiveness of controls will be carried out where appropriate.

## MANAGEMENT COMMENTS

No management comments have been raised regarding the areas under review.

## LOCATIONS

Fieldwork will be performed exclusively at Brentwood Borough Council offices.

# APPENDIX III - TERMS OF REFERENCE

## DOCUMENTATION REQUEST

Please provide the following documents in advance of our review (where possible):

- Current payroll process reference material for the midland HR system
- Report of officers' job titles and authorisation levels
- Access to approval for delegated authority
- Documentation on the process for allocating and reporting payroll expenditure to budget holders.

Any documents provided will assist the timely completion of our fieldwork, however we may need to request further documentation and evidence as we progress through the review process.


## KEY CONTACTS

### BDO LLP

Greg Rubins	Audit Partner	e: Greg.Rubins@bdo.co.uk t: +44 (0)23 8088 1892
Liana Nicholson	Audit Manager	e: Liana.Nicholson@bdo.co.uk t: +44 (0)1473 320 715
Richard Haynes	Senior Auditor	e: Richard.Haynes@bdo.co.uk t: +44 (0)1473 320 794
Leon Penwill	Audit Assistant	e: Leon.Penwill@bdo.co.uk T: +44 (0)1473 320 739

### BRENTWOOD BOROUGH COUNCIL

Phil Ruck	Contract and Corporate Projects Manager	e: philip.ruck@brentwood.gov.uk t: +44 01277 312569
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# Brentwood Borough Council

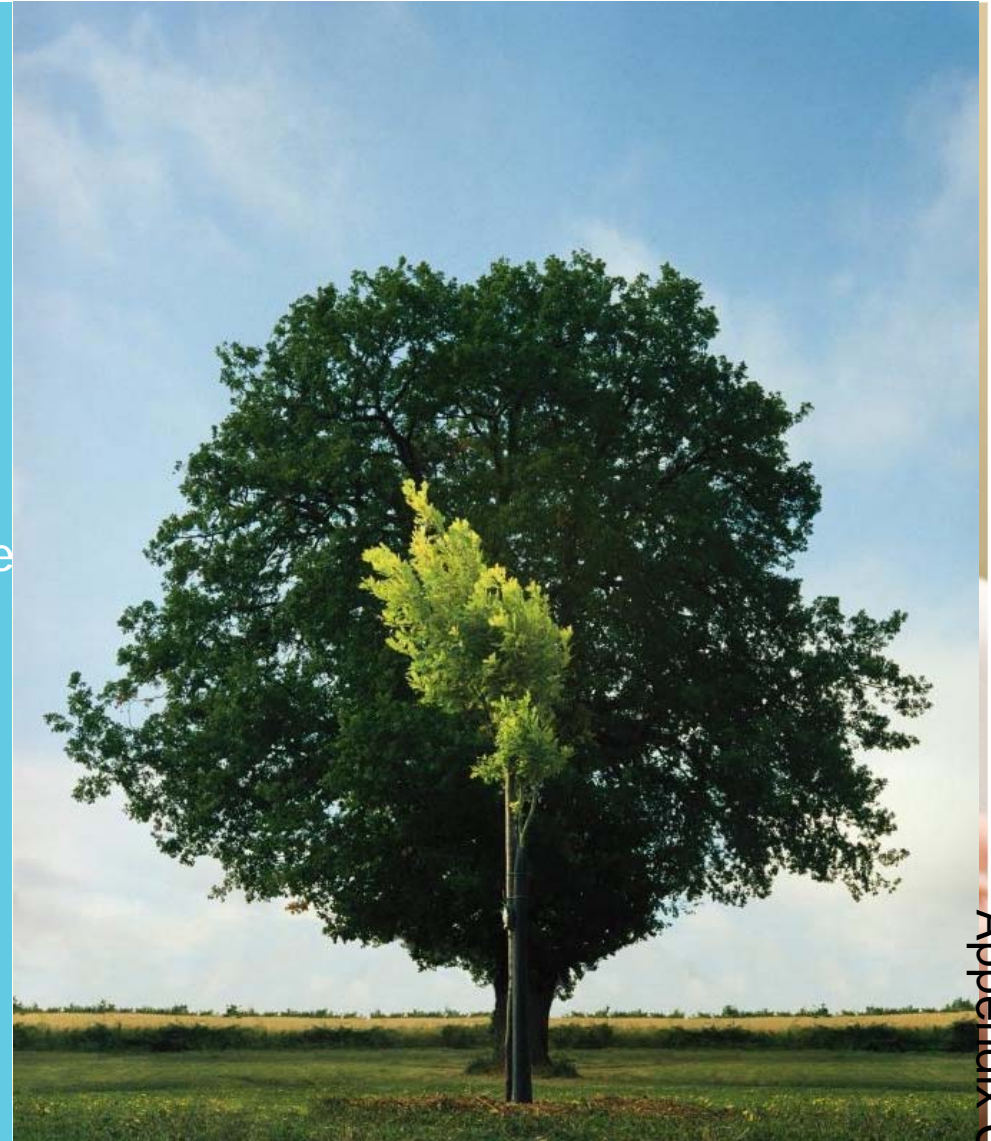
## INTERNAL AUDIT REPORT

### Review of the IT Transformation Programme

Audit 13.2015

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LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Limited	Limited



Appendix C

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REPORT STATUS	
Auditors:	Titi Junaid
Dates work performed:	February - March 2015
Closing Meeting	13 March 2015, Phil Ruck and Tim Huggins
Draft report issued:	13 April 2015
Final report issued:	25 June 2015

DISTRIBUTION LIST	
Phil Ruck	Contracts and Corporate Projects Manager
Tim Huggins	ICT Manager

## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# EXECUTIVE SUMMARY



## CLIENT STRATEGIC RISKS

		Information Management
		<ul style="list-style-type: none"> <li>Lack of resources for IT integration.</li> </ul>
Risk	5 & 9	Lack of strategic direction <ul style="list-style-type: none"> <li>Poor performance management.</li> <li>Poor delivery of priorities.</li> <li>Failure to communicate effectively.</li> </ul>

## LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

Design	Limited	System of internal controls is weakened with system objectives at risk of not being achieved.
Effectiveness	Limited	Non-compliance with key procedures and controls places the system objectives at risk.

## SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)

High		2
Medium		3
Low		0

Total number of recommendations: 5

## OVERVIEW

The Council procured additional IT capacity (for a 3 month period) and appointed an external consultant to carry out a review of systems availability and performance following a major incident which adversely affected its IT infrastructure in May 2014. A 9 month IT and Transformation Programme (ITTP) was developed and presented to the Corporate Leadership Board. The main objective of the ITTP is to deliver a number of ICT projects which were deemed to be of high priority to the Council at that time. Although the Council has a 3 year Corporate Plan (2013-2016) there is no overarching IT Strategic Plan in place to support it. An audit review of the Council's arrangements for the delivery of the IT and Transformation Programme was carried out.

At the time of this review, the Council had embarked on a comprehensive review of its IT strategy and the IT and Transformation programme. Senior appointments have been made and responsibilities for the delivery of the IT programmes have been assigned. The IT departmental structure has been revised to reflect the need for flexible resourcing to meet skills and capacity required to deliver current and future IT projects.

Our audit identified the following areas of weakness:

- We found no evidence of formal approval, leadership and senior management support for the ITTP (high priority recommendation).
- There is currently no IT Strategic Plan. There was no evidence that the ITTP supports the Council's Corporate Objectives (high priority recommendation).
- The governance and reporting arrangements for the ITTP is unclear and not documented. Progress made towards the delivery of the plan was not reported to the Corporate Leadership Board (CLB) (medium priority recommendation).
- The process used to define the ITTP including the prioritisation of key projects is unclear (medium priority recommendation).

The Council is aware of these weaknesses and plans are being made to address them. However because these plans were still in their early stages and do not as yet provide the expected controls we are only able to provide limited assurance that adequate arrangements are in place to deliver the ITTP.

# DETAILED FINDINGS & RECOMMENDATIONS

Risk: Poor delivery of the Transformation Programme due to a lack of Senior Management approval, support or commitment

Ref.	Finding	Sig.	Recommendation
1	<p>Approval and Communication of the ITTP</p> <p>The Council appointed an external consultant and procured additional IT resources to restore IT services and performance levels following a major incident which affected its infrastructure in May 2014 . The consultant who was engaged by the Council for a 3 month period was also charged with developing the ITTP.</p> <p>The ITTP is made up of approximately 60 tasks, jobs and projects in the following categories and has a delivery time scale of 9 months. The IT team is responsible for delivery of:</p> <ul style="list-style-type: none"> <li>• Infrastructure</li> <li>• Customer access</li> <li>• Disaster recovery</li> <li>• Line of business improvements</li> <li>• New ways of working.</li> </ul> <p>The ITTP was verbally presented to the Corporate Leadership Board (CLB) in October 2014 however there was no evidence of its formal approval.</p> <p>There was also no evidence of communication, responsibility, leadership support and senior management buy-in into the programme outside of the IT department. We were informed that the IT service delivery team has faced challenges such as inadequate and inconsistent leadership and a lack of senior management support for the past 3 years.</p>	H	<p>We are aware of plans for a comprehensive review of the IT &amp; Transformation Programme (ITTP). Once revised, the plan should be presented to CLB for formal approval and evidence of approval retained.</p> <p>Senior management support and commitment to the programme should be sought at the appropriate level. Responsibility and accountability for programme delivery should be clearly defined.</p> <p>The approved programme should be made available to all relevant staff.</p>

## MANAGEMENT RESPONSE

The ICT service has, within the last few months, already conducted a staff survey: prepared a draft ICT strategy: started resource planning: reviewed the service desk tasks: Interviewed all Heads of Service; Attended Team meetings of services, put ICT as a regular subject on the CLB agenda. This was planned before the commencement of the audit. Thus we cannot disagree with the findings as it is what we are putting in place - particularly the emphasis on communications and governance

## RESPONSIBILITY AND IMPLEMENTATION DATE

*Responsible Officer: Phil Ruck*  
*Implementation Date: 30<sup>th</sup> June 2015*



# DETAILED FINDINGS & RECOMMENDATIONS

Risk: The Transformation Programme may not support the Council's Corporate Plan			
Ref.	Finding	Sig.	Recommendation
2	<p>Alignment with Corporate Objectives</p> <p>We noted that the ITTP was designed to deliver a number of ICT projects within a 9 month period (June 2014 to March 2015). There was however no evidence of its alignment with the Council's 2013-2016 Corporate Plan. At the time of the audit there was no IT Strategic Plan.</p> <p>We are aware of the Council's plan for a comprehensive consultation and feedback exercise in order to engage stakeholders including service users and Heads of Services in the development of a revised ITTP and an IT Strategic Plan.</p>	H	<p>The Council should ensure that the needs, expectations and requirements of stakeholders are managed during the consultation process such that they are aligned with overall Corporate Objectives of the Council.</p> <p>The ITTP should be revised following the consultation process to ensure that it supports the delivery of the Council's Corporate Plan.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
The corporate plan is now being reviewed. The ICT plan is being developed alongside this.		<p><i>Responsible Officer: Phil Ruck</i></p> <p><i>Implementation Date: 30<sup>th</sup> June 2015</i></p>	

# DETAILED FINDINGS & RECOMMENDATIONS

Risk: Poor delivery of the Transformation Programme due to inadequate governance arrangements			
Ref.	Finding	Sig.	Recommendation
3	<p>Governance and Reporting Arrangements</p> <p>We are aware that the ITTP is yet to be fully implemented and that plans for its delivery have changed and evolved since the October 2014 presentation to CLB. At the time of the audit, the plan had not been updated or revised.</p> <p>There was no evidence that progress made towards the delivery of the ITTP was being monitored and reported to senior management or to CLB.</p> <p>We are however aware that plans are in place to regularly report progress made towards the implementation of the revised ITTP to CLB. It is expected that the ITTP progress report will be a standing agenda item at CLB meetings.</p>	M	<p>The governance and reporting arrangements for the ITTP during its implementation should be clarified and documented in compliance with the project management methodology adopted.</p> <p>Financial management and reporting arrangements should also be documented. Progress made towards the delivery of the plan should be regularly monitored and reported through the programme management structure.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
We agree with and are working towards the recommendation		<p><i>Responsible Officer: Phil Ruck</i></p> <p><i>Implementation Date: 30<sup>th</sup> June 2015</i></p>	

# DETAILED FINDINGS & RECOMMENDATIONS

Risk: Poor or ineffective delivery of the Transformation Programme due to a lack of capacity, resources or skills within the IT team			
Ref.	Finding	Sig.	Recommendation
4	<p>Prioritisation of key projects</p> <p>A review of the ITTP Critical Network showed that it is made up of tasks, jobs and projects which are expected to be completed within a 9 month period. The priorities given to these tasks, jobs and projects were however not evident.</p>	M	<p>These jobs and tasks on the ITTP should be removed from the programme and incorporated into the IT departmental work plans.</p> <p>Projects within the programme should be identified and prioritised based on clearly identifiable criteria. The Council's approved project management methodology should be adopted for the delivery of individual projects.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
We agree with the recommendation and have already started to work on this (this work commenced prior to the audit )		<p><i>Responsible Officer: Phil Ruck</i></p> <p><i>Implementation Date: 30<sup>th</sup> June 2015</i></p>	

# DETAILED FINDINGS & RECOMMENDATIONS

Risk: Poor or ineffective delivery of the Transformation Programme due to a lack of capacity, resources or skills within the IT team

Ref.	Finding	Sig.	Recommendation
5	<p>Resource Management and Allocation</p> <p>The ITTP was scheduled for completion in March 2015. Although there was a budget for the transformation programme, there was no evidence of detailed costing or allocation of resources to individual projects.</p> <p>There was no evidence that a detailed assessment of the IT resources required to deliver the ITTP was carried out although it was acknowledged that there was insufficient capacity within the team at the time it was presented to the CLB.</p> <p>The IT department now has a small team of highly skilled professionals. A new structure was established following the recent organisation restructure. The new structure included flexible resourcing because it was acknowledged that specialist skills may be required for specific projects within the ITTP.</p> <p>We are aware that plans to revise the ITTP will include an assessment of the resources required to deliver the projects within the programme and an assessment of how these resources will be allocated and funded.</p>	M	<p>The Council should ensure that the revised ITTP that is currently being developed is based on a detailed and realistic assessment of the structure, capacity and skills set required for delivering of the programme.</p> <p>Evidence of the resource assessment and allocation carried out as part of the new IT programme development process should be retained.</p>
<b>MANAGEMENT RESPONSE</b>		<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>	
We agree with the recommendation and have already started to work on this (this work commenced prior to the audit)		<p><i>Responsible Officer: Phil Ruck</i></p> <p><i>Implementation Date: 30<sup>th</sup> June 2015</i></p>	

# APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Philip Ruck	Contracts and Corporate projects Manager
Tim Huggins	ICT Manager

# APPENDIX II - DEFINITIONS

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LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

# APPENDIX III - TERMS OF REFERENCE

## BACKGROUND

The Council's 2013-2016 Corporate Plan, which was approved in 2012, sets out the vision and priorities for Brentwood Borough Council in the forthcoming years. In order for these goals to be realised, there is a need for an excellent, relevant and cost effective IT infrastructure to support the Council's IT operations. The IT Transformation Programme was established in 2014 to provide a strategy for the development and improvement of IT infrastructure, operations, projects and activities. There is a need for the Executive Board and Senior Management to provide leadership, organisational structures and processes which will ensure that IT services support and enable the achievement of the corporate goals.

## PURPOSE OF REVIEW

The purpose of this review is to provide independent assurance as to whether appropriate arrangements are in place for the delivery of the Council's IT Transformation Programme.

## KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

- Poor or ineffective delivery of the Transformation Programme due to a lack of capacity, resources or skills within the IT team
- Poor delivery of the Transformation Programme due to a lack of Senior Management approval, support or commitment
- Poor delivery of the Transformation Programme due to inadequate governance arrangements
- The Transformation Programme may not support the Council's Corporate Plan.

# APPENDIX III - TERMS OF REFERENCE

## SCOPE

The review will cover the following areas:

- Structure, capacity and skillset of the IT team
- Approval and communication of the Transformation Programme
- Integration and alignment of the Transformation Programme with the Council's Corporate Plan
- IT governance arrangements including leadership, accountability and responsibility arrangements
- The process used to define the IT Transformation Programme including prioritisation of key projects
- Resource management and allocation
- Progress management and reporting arrangements.

## EXCLUSIONS

The audit will focus on the IT Transformation Programme and the arrangements, processes and structure in place for ensuring its delivery. The design of controls around IT operations, information governance and corporate governance are considered to be out of scope. However, Internal Audit will bring to the attention of Management any issues relating to other areas that come to their attention during the course of the audit.

## APPROACH

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks.

## MANAGEMENT COMMENTS

No management comments have been raised regarding the areas under review.

## LOCATIONS

Fieldwork will be performed primarily at Council's offices but other sites will be visited if required.



# APPENDIX III - TERMS OF REFERENCE

## DOCUMENTATION REQUEST

Where available, please ensure that electronic copies of the following documents have been forwarded to us in advance of the review:

- IT Transformation Programme and documents to support its development
- Corporate Strategy/Plan
- Planning documentation which links the Corporate Plan and other governance documents to the IT Transformation Programme
- IT department's organisational chart
- IT risk register

These documents will assist the timely completion of our fieldwork, however this list does not necessarily constitute a complete list of all documentation and evidence that we may need as part of our review.

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## KEY CONTACTS

### BDO LLP

Greg Rubins	Audit Partner	t: 0238 088 1892 e: greg.rubins@bdo.co.uk
Liana Nicholson	Audit Manager	t: 01473 320715 e: liana.nicholson@bdo.co.uk
Titi Junaid	Senior IT Auditor	t: 0207 893 2741 e: titi.junaid@bdo.co.uk

### Brentwood Borough Council

Philip Ruck	Contract and Corporate Projects Manager	t: +44 (0) 1277 312569 e: philip.ruck@brentwood.gov.uk
Tim Huggins	ICT Manager	t: +44 (0) 1277 312719 e: tim.huggins@brentwood.gov.uk

# APPENDIX III - TERMS OF REFERENCE

PROPOSED TIMETABLE



Audit Stage	Date
Commence fieldwork	02/02/2015
Number of audit days in plan	20
Planned date for closing meeting	13/03/15
Planned date for issue of report to the Council	20/03/15
Planned date for receipt of management responses	03/04/15
Planned date for issue of proposed final report	10/04/15
Planned Audit Committee date for presentation of report	28/07/15

SIGN OFF



On behalf of BDO LLP:	On behalf of Brentwood Borough Council:
Signature: .....	Signature: .....
Title: .....	Title: .....
Date: .....	Date: .....

The proposal contained in this document is made by BDO LLP ("BDO") and is in all respects subject to the negotiation, agreement and signing of a specific contract. It contains information that is commercially sensitive to BDO, which is being disclosed to you in confidence and is not to be disclosed to any third party without the written consent of BDO. Client names and statistics quoted in this proposal include clients of BDO and BDO International.

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# Brentwood Borough Council

## INTERNAL AUDIT REPORT

Accounts Payable

Audit 1.2015

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LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Moderate	Limited



Appendix D

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REPORT STATUS	
Auditors:	Tejal Patel, Assistant Manager
Dates work performed:	May 2015
Final Meeting Date:	13 May 2015 with Jane Mitchell and Ramesh Prashar
Draft report issued:	8 June 2015
Final report issued:	29 June 2015

DISTRIBUTION LIST	
Chris Leslie	Finance Director
Jane Mitchell	Payments and Procurement Officer

## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# EXECUTIVE SUMMARY




## CLIENT STRATEGIC RISKS

Risk	1	Finance pressures <ul style="list-style-type: none"> <li>Target levels for income are not achieved.</li> </ul>
This review relates to the risk that the Council does not achieve targets set for income.		

## LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Limited	Non-compliance with key procedures and controls places the system objectives at risk.

## SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)

High		2
Medium		4
Low		1
Total number of recommendations: 7		

## OVERVIEW

The Council is required to operate a sound system of control over their financial processes to prevent and detect error or fraud. In March 2015 false bank account details were provided to the Council purporting to come from a key supplier. A supplier invoice for approximately £42,000 was subsequently paid into the fraudster's bank account. At the Council's request, this review assessed the controls operating in Accounts Payable with particular regard to processing changes to standing data and payments to third party suppliers.

Our review found the following areas of good practice:

- The Finance policies, new supplier form and changes to supplier details forms are currently in the process of being revised.
- Finance procedures for key financial processes have been documented and made available to all Finance staff on the accountancy drive.
- Approval of invoices for payment are made via automatic controls on the Council's e-financials system which were reviewed in more detail as part of the Main Financial Systems review in 2014/15.

We also found some areas for improvement or development:

- Although a review of all supplier information has been initiated, not all suppliers have been directly contacted to ensure details are correct.
- Where changes to suppliers are made a supplier change document should be completed, authorised, and kept with the supplier notification of change.
- All Finance procedures should be consolidated into procedure documents for key financial processes and a fraud policy detailing what steps to undertake in an instance where fraud maybe suspected has not been documented.
- Supplier changes reports, run to verify any changes to suppliers, are not always evident before a payment batch is released and there is no evidence of segregation of duties in regards to checking the reports.
- The new supplier form at the time of review did not include who has requested and approved the new supplier to be added onto the system.

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Other potentially fraudulent changes to supplier standing data have not been identified and validated.

Ref.	Finding	Sig.	Recommendation
1	<p>The Accounts Payable Team have undertaken a review of all supplier bank details since January 2015. The exercise was undertaken on the 22<sup>nd</sup> April 2015 and included ensuring that appropriate supporting documentation was evident for all supplier details.</p> <p>We obtained a system generated report of all supplier changes from January 2015 and selected a sample of 20 suppliers to ensure that supporting documentation was evident for all supplier bank account details and the changes requested, including a completed change form. From our testing we found the following:</p> <ul style="list-style-type: none"> <li>• The council had confirmed with suppliers the correct bank account details for 10 out of 20 suppliers. For the remaining 10, invoices or internal emails were used to validate the bank account details.</li> <li>• For 5 out of 20 changes, supporting evidence in the form of letters, invoices or emails from the suppliers was not evident. For the other 15 suppliers supporting documentation was evident.</li> <li>• For 19 out of 20 supplier changes, a change form was not evident.</li> </ul> <p>If the Council does not ensure that supplier information is confirmed or received first hand from the supplier and that appropriate new supplier and verification forms are completed there is an increased risk of fraudulent payments resulting in financial loss.</p>	<p>H</p> <p>H</p>	<p>The Council should ensure that key supplier information is verified with the supplier itself in order to ensure that correct information is in place for all suppliers.</p> <p>The Council should ensure that appropriate supplier information is evidenced for all suppliers. This includes changes to supplier detail verification forms as and when required for all changes. Furthermore, the forms should be appropriately authorised.</p>
<b>MANAGEMENT RESPONSE</b>		<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>	
<p>New procedures have been introduced and implemented for supplier changes. These include the requirement for all changes to be confirmed directly with the supplier and evidenced. All changes have to be authorised by the Senior Payments &amp; Procurement Officer using a newly-designed form which is filed along with evidence of the change.</p>		<p><i>Responsible Officer: Jane Mitchell (Payments and Procurement Officer)</i></p> <p><i>Implementation Date: 12 June 2015</i></p>	



# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Financial processes are not well documented and/or communicated and officers are not aware of their duties and responsibilities, including those for when fraud is suspected.

Ref.	Finding	Sig.	Recommendation
2	<p>The Council has Accounts Payable procedures in place documenting the key processes. These include the review of supplier bank account details and changes to supplier details. These procedures are available to all staff via the intranet and shared accountancy folder. Some of the procedures in place are currently under review. With regards to supplier information and change of details, the Council has the following two procedures in place: changing supplier details on e-Financials and setting up new suppliers. However, a fraud policy has not been documented.</p> <p>Our review of the procedures for setting up new suppliers found that they document how new suppliers to the Council are verified to ensure they are bona-fide, prior to any payments being made to them. The procedures state that only members of the Accounts Payable team have access to the supplier entry mechanism on e-Financials and that departments needing a new supplier are required to complete a new supplier form. The procedures further describe what areas are reviewed by Accounts Payable and how the changes are made onto the e-Financials system.</p> <p>However, we noted that the new supplier procedures did not include the requirement for approval within Accounts Payable prior to input onto the system and version control was not evident on both procedures. Moreover, although adequate steps have been described and detailed regarding all finance procedures we found that there were currently a total of 39 separate procedure documents and that they had not been grouped into key financial process procedure documents for example all procedures relating to Accounts Payable in one document.</p> <p>If procedures are not adequately detailed and consolidated there is a risk that procedures may not be appropriately followed resulting in financial errors or fraud.</p>	<p>M</p> <p>L</p> <p>M</p>	<p>The Council should review the 'setting up new suppliers' procedures to ensure that approval of new supplier is evident in the process.</p> <p>All finance procedures should be consolidated into separate key financial process procedure documents to ensure a central point of reference with regards to each process. Version control should be utilised to ensure that the document is reviewed and updated on a regular basis.</p> <p>The Council should ensure that a fraud policy is documented and in place to make certain that staff are aware of steps to be undertaken in an instance of fraud or error.</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Financial processes are not well documented and/or communicated and officers are not aware of their duties and responsibilities, including those for when fraud is suspected cont.

Ref.	Finding	Sig.	Recommendation
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
	1. As noted in the finding, procedures for setting up new suppliers have been reviewed and implemented. These include the requirement for approval by Accounts Payable prior to input into the system, which can only be done by Accounts Payable officers.		<p><i>Responsible Officer: Responsible Officer: Jane Mitchell (Payments and Procurement Officer)</i></p> <p><i>Implementation Date: 18 June 2015</i></p>
	2. Agree with the recommendation. All accounts payable procedure notes will be consolidated into one document.		<p><i>Responsible Officer: Responsible Officer: Jane Mitchell (Payments and Procurement Officer)</i></p> <p><i>Implementation Date: 30 September 2015</i></p>
	3. There is a Fraud Response Plan for Managers on the Council's Intranet.		<p><i>Responsible Officer: Responsible Officer: Jane Mitchell (Payments and Procurement Officer)</i></p> <p><i>Implementation Date: 18 June 2015</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Changes made to supplier standing data are not verified, recorded and independently reviewed.

Ref.	Finding	Sig.	Recommendation
3	<p>Changes to supplier bank details are made via receipt of a change of details notification. This is verified by Accounts Payable by calling the supplier to check that the changes are valid. The number to call is obtained via the supplier website or an old invoice. Once the change of supplier bank details is verified the changes are made onto the system. However, this process was not followed for the fraud incident. Furthermore, twice a week before the payment run a supplier details and changes report is run. The changes report highlights any changes to details which are reviewed to ensure appropriate supporting documentation is in place before payments are made. The payments report is filed with the payment run documentation. The Council has put in place a checklist to evidence that these checks have been undertaken.</p> <p>We selected a sample of 20 payment runs from January 2015 to April 2015 to determine whether supplier changes reports were in place and had been verified and checked appropriately. From our testing we found the following:</p> <ul style="list-style-type: none"> <li>• A checklist was evident for all 20 payment runs confirming the review of new suppliers and changes to suppliers</li> <li>• An R99 report was evident for all 20 payment runs confirming the review of supplier bank details</li> <li>• A R46 report was only evident for 7 out of 20 payment runs confirming the review of changes to supplier details.</li> </ul> <p>Furthermore, there was no evidence of verification by a second person to ensure that appropriate checks had been undertaken, therefore no segregation of duties. If the Council does not ensure that appropriate reports are produced for each payment run and verified independently there is a risk that fraudulent payments could be made resulting in financial loss.</p>	M	<p>The Council should ensure that R46 changes to supplier information report is run and evidenced with the payment batch reports before any payments are made on each occasion. Reports should be further verified independently in order to ensure segregation of duties.</p>
<b>MANAGEMENT RESPONSE</b>		<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>	
<p>New manual procedure has been introduced for checking that all changes in supplier information are bona fide before each payment run. The procedure includes a requirement for the changes to be verified by a second officer to ensure segregation of duties.</p>		<p><i>Responsible Officer: Jane Mitchell (Payments and Procurement Officer)</i>  <i>Implementation Date: 30 June 2015</i></p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Changes made to supplier standing data are not verified, recorded and independently reviewed.

Ref.	Finding	Sig.	Recommendation
4	<p>Supplier details are added onto the system once a new supplier form is completed by staff requesting a new supplier. Currently, the form is under review to ensure that an appropriate paper trail is in place and that the new supplier is authorised prior to it being added onto the system.</p> <p>We obtained and reviewed the new supplier form and from our testing we found that the form adequately sets out the required information to input onto the system. However, we noted that the form does not evidence who has authorised the new supplier to be added onto the system. We also selected a sample of 20 new suppliers at the Council from January 2015 and confirmed that a new supplier form was in place for all items tested.</p>	M	The Council should update the new supplier form to ensure that there is a clear audit trail for who has requested and authorised the new supplier to be added onto the system.

## MANAGEMENT RESPONSE

The recent changes to the New Supplier Form do include details of which officer within the Council has requested the supplier to be added to the database. The revised procedures include this requirement. The procedures also include training to ensure all Accounts Payable officers understand the relevance of this requirement and comply with the procedure.

## RESPONSIBILITY AND IMPLEMENTATION DATE

*Responsible Officer: Jane Mitchell (Payments and Procurement Officer)*  
*Implementation Date: 30 June 2015*

# APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Ramesh Prashar	Financial Services Manager
Jane Mitchell	Payments and Procurements Officer

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

# APPENDIX II - DEFINITIONS

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LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

# APPENDIX III - TERMS OF REFERENCE

## BACKGROUND

On 25 March 2015 the Accounts Payable (AP) team at Brentwood Borough Council received a fraudulent email purporting to be from a key supplier, informing them that their bank account details had changed. The amendment was processed without any further validation, and a supplier invoice for approximately £42,000 was subsequently paid into the fraudster's bank account. At the council's request, this review will assess the controls operating in AP with particular regard to processing changes to standing data and payments to third party suppliers.

## PURPOSE OF REVIEW

The purpose of this audit is to assess the design and operating effectiveness of controls around the Accounts Payable function at Brentwood Borough Council, with a focus on the management of standing data and supplier payments

## KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- Other potentially fraudulent changes to supplier standing data have not been identified and validated
- Financial processes are not well documented and / or communicated and officers are not aware of their duties and responsibilities, including those for when a fraud is suspected
- Changes made to supplier standing data are not verified, recorded and independently reviewed
- Payments to suppliers are not made in accordance with procedures and scheme of delegation.

## SCOPE OF REVIEW

The review will consider the following areas:

- Confirmation that the AP team has reviewed all changes made to supplier bank details since January 2015
- Review of the financial procedure documents in place, ensuring they reflect good practice and that users are aware of them
- How changes to supplier data are processed and reviewed
- Controls around payments to suppliers.

# APPENDIX III - TERMS OF REFERENCE

## EXCLUSIONS

Our work will be restricted to the areas of consideration within our scope of the review.

## APPROACH

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks. Testing of the effectiveness of controls will be carried out where appropriate.

## LOCATIONS

Fieldwork will be performed exclusively at Brentwood Borough Council offices.



# APPENDIX III - TERMS OF REFERENCE

## DOCUMENTATION REQUEST

Please provide the following documents in advance of our review (where possible):

- Financial Policy documents and standing orders
- AP process maps and procedure documents
- User and access rights reports for all key financial systems
- Authorised Signatory and delegated authority reports, showing authorisation levels and responsibilities of all officers
- Report of all purchase order and non-purchase order invoices paid for the period April 2014 to date
- Report of all changes made to supplier standing data made 1 January 2015 to date.

Any documents provided will assist the timely completion of our fieldwork, however we may need to request further documentation and evidence as we progress through the review process.


## KEY CONTACTS

### BDO LLP

Greg Rubins	Audit Partner	e: Greg.Rubins@bdo.co.uk t: +44 (0)23 8088 1892
Liana Nicholson	Audit Manager	e: Liana.Nicholson@bdo.co.uk t: +44 (0)1473 320 715
Tejal Patel	Assistant Manager	e: tejal.x.patel@bdo.co.uk t: 0207 893 2109

### BRENTWOOD BOROUGH COUNCIL

Chris Leslie	Finance Director	e: christopher.leslie@brentwood.gov.uk t: +44 01277 312542
Jane Mitchell	Payments and Procurement Officer	e: jane.mitchell@brentwood.gov.uk t: 01277 312 853



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# Brentwood Borough Council

## INTERNAL AUDIT REPORT

### Fraud Risk Assessment

July 2015

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Appendix E

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REPORT STATUS	
Auditor:	James Shortall, Counter Fraud Specialist
Dates work performed:	March - May 2015
Final Meeting Date:	11 June 2015 with Rick Steels and Chris Leslie
Draft report issued:	11 June 2015; final management comments received 24 July 2015
<b>Final report issued:</b>	<b>24 July 2015</b>

DISTRIBUTION LIST	
Rick Steels	Revenues and Benefits Manager
Chris Leslie	Finance Director
Steve Summers	Head of Customer Services
Chris Potter	Monitoring Officer and Head of Support Services
Phil Ruck	Business Development Manager
Ashley Culverwell	Head of Borough Health, Safety and Localism
Kim Anderson	Partnership, Leisure and Funding Officer
Helen Gregory	Head of Housing

### Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# EXECUTIVE SUMMARY

This Fraud Risk Assessment (FRA) has been undertaken to assist Brentwood Borough Council ('the Council') identify areas of control weakness within the organisation, with a view to informing the appropriate allocation and direction of resources as part of a risk based approach to counter fraud activity. We have considered the Council's overall organisational resilience, as well as fraud controls across the Council's main functions and services, reporting on these by exception within the detailed findings and recommendations section. Using the open access benchmark tool maintained by the Centre for Counter Fraud Studies at the University of Portsmouth, the Council's fraud resilience has scored at 27 out of 50, compared to a benchmark of 35 for a sample of 72 local authorities surveyed by the National Fraud Authority in 2012. Despite this, the positive engagement from staff interviewed is encouraging, as are the areas of good practice that were noted:

- The Revenues and Benefits team are proposing investment in collaborative, data-led approaches to identifying and reducing fraud with the potential to achieve savings of at least £300k per annum
- The Finance department actively engages with the Audit Commission's National Fraud Initiative and used external expertise to improve invoice processing controls
- The Council uses the full range of sanctions to prosecute offenders, including criminal prosecution; similarly, both criminal and civil remedies are used to recover losses
- Formal and informal information sharing and working arrangements exist between council services and external agencies including the DWP, Social Services and the police
- Investigators within Revenues and Benefits are appropriately qualified and maintain their currency through refresher training
- An automated 'work-flow' process for expenses and overtime was introduced in October 2014 which replaces the previous paper-based system. The process covers the payment of members' expenses as well as those for staff.

The need to improve the strength and communication of the Council's counter fraud culture was a recurrent theme, resulting from a widely held perception among staff that the only significant fraud risk facing the Council is benefit fraud. Fraud, bribery and corruption do not appear to be on the agenda for senior management, as illustrated by their absence from operational and strategic risk registers and their lack of consideration at Council member meetings. Fraud awareness training, including bespoke guidance for finance and the grants teams in particular, but also to wider staff groups on an induction and refresher basis, is also required.

By unfortunate coincidence, during our fieldwork the Council's Accounts Payable (AP) team discovered that it had been the victim of a bank mandate fraud resulting in a loss of £42k. An immediate internal audit review of AP controls specifically relating to the management of supplier standing data and payment gave limited assurance over their operational effectiveness. A total of seven recommendations were raised in the full report, currently in draft. A concurrent internal audit review of the Payroll function, also in draft, highlighted two significant control weaknesses in the starters and leavers processes that, respectively, heighten the risk of fictitious employees being added to the payroll, and of overpayments being made to those who have left the Council. This assessment has also highlighted a number of other areas for improvement:

- 13 amendments required to the Council's anti fraud and corruption policy have been identified, detailed at pages four and five
- Fraud, corruption and bribery are not subject to effective risk management, such as inclusion in risk registers and discussion at senior management level
- There is no clear programme of work to develop an anti-fraud culture across the Council, and there are no mechanisms in place to evaluate the extent to which such a culture exists or is developing
- Policy and systems weaknesses are not routinely considered when reporting instances of fraud and, outside of the Revenues and Benefits Service, not all instances are fully investigated and reported on at all
- Fraud reporting procedures for staff are unclear and not contained within a single document
- The effectiveness of counter fraud work is not reviewed against agreed performance indicators
- There is no formal programme of anti-fraud, bribery and corruption training for all staff
- There is no Council-owned policy and procedures covering Right To Buy (RTB)
- No positive ID checks are made of housing tenancy or RTB applicants, either during the application process or when collecting keys to a property
- The Council's register of interests is not subject to periodic audit or similar assurance procedures.

We understand that the Council is in the process of redesigning its counter fraud arrangements and this provides an ideal opportunity to address these areas and develop a robust and cost-effective counter fraud culture.

# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Overall resilience to fraud

Ref.	Findings
1	<p>To assess the effectiveness of the Council’s counter fraud arrangements at the corporate level, a set of 29 questions was posed to key staff from across various departments and services; a list of staff who participated is at Appendix I. The questions measure an organisation’s resilience to fraud in five key areas:</p> <ol style="list-style-type: none"> <li>i. Strategic approach</li> <li>ii. Risks and costs</li> <li>iii. Organisational structure</li> <li>iv. Taking action</li> <li>v. Performance management</li> </ol> <p>Based on the responses given, detailed at Appendix III, and further interviews with key staff, the following findings have been raised:</p> <ul style="list-style-type: none"> <li>• The Council’s Anti-Fraud and Corruption Policy, published November 2012, is out of date and requires a number of amendments (refer to questions 1-3), specifically:             <ol style="list-style-type: none"> <li>i. A document control page should be added to record key details including purpose, authorship, version, responsible officer, date of ratification, and date of review.</li> <li>ii. The definition of fraud provided at para. 2.1, with its focus on ‘financial statements or other records’ is too narrow and does not reflect the three main ways by which fraud may be committed under the Fraud Act 2006, namely false representation; abuse of position and failure to disclose. In simple terms, fraud is a deliberate act of deception intended for personal gain or to cause a loss to another; widening the definition along these lines will make it easier to understand and apply in practice.</li> <li>iii. References to corruption should be removed, as this activity is categorically distinct from fraud. Corruption describes a continuum of activity of which the most easily identifiable is bribery; thus the Council should have separate policies for ‘fraud’ and ‘bribery and corruption’.</li> <li>iv. Para. 3.2 refers to concerns generally unrelated to fraud and would be better placed within the Council’s ‘whistle blowing’ policy.</li> <li>v. There is insufficient information on how to report suspected fraudulent activity, with para 3.3 referring readers to a separate policy, <i>Whistle blowing</i>. This section should be expanded to outline the action taken if fraud is discovered or suspected, including the Council’s reporting process, contact details of responsible officer(s) and external reporting to Action Fraud (either via telephone on 0300 123 2040 or online at <a href="http://www.actionfraud.police.uk">www.actionfraud.police.uk</a>) as a matter of course, but especially so should staff wish to remain anonymous. On this last point, the policy should make clear reference to the protections afforded under the Public Interest Disclosure Act.</li> <li>vi. Under section 4.0, <i>Responsibilities and Protection</i>, the role of Human Resources should be included, which may include liaison with nominated counter fraud investigators and the conduct of investigations and sharing of information. It should be explained that appropriate protocols will be put in place to cover this</li> <li>vii. The policy should be updated to reflect the current configuration of the Council’s counter fraud team, which has been under review.</li> <li>viii. Under section 4.5, <i>Responsibilities of Employees</i>, it should be stated that staff who are involved in or manage internal control systems should receive adequate training and support to carry out their duties. It should be explained that if an employee suspects fraud has taken place they should ensure they report their concerns in accordance with the methods described above for para 3.3.</li> <li>ix. Under a heading of ‘Information management and technology’ or similar, a separate section should explain the relevance of the Computer Misuse Act 1990 and that the fraudulent use of IT will be reported by the head of information security (or equivalent) to those responsible for investigating fraud.</li> </ol> </li> </ul>

Contd.

# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Overall resilience to fraud

Ref.	Findings continued
1	<p>x. The range of sanctions available to the Council when dealing with fraudsters, and the conditions under which these may be used, are not clarified. Reference should be made to the relevant provisions within the Revenues and Benefits Service’s <i>Sanctions and Prosecution Policy</i>, which should be replicated here so as to apply to <i>all</i> fraudsters, whether external or internal to the Council, not just to members of the public engaged in benefit fraud.</p> <p>xi. We found the existence, content and location of the policy was generally not well understood by staff interviewed for this assessment. The policy should be actively cascaded and advertised to all staff groups.</p> <p>xii. The policy needs a clearer introductory statement of intent that articulates a zero-tolerance approach to wrongdoing.</p> <p>xiii. Explicit reference should be made to the mechanisms available, such as civil action, for the recovery of losses due to fraud, bribery and corruption, together with a clear statement on the Council’s commitment to recovery action.</p> <ul style="list-style-type: none"> <li>• Fraud, bribery and corruption risks are not included in the Council’s operational or strategic risk registers (question 4). The Council needs to understand the financial and reputational risks posed by fraud, bribery and corruption and systematically record, mitigate and monitor these.</li> <li>• Estimating the underlying cost of fraud is key to developing a focussed and sufficiently resourced response to it. The extent to which the Council seeks to estimate the financial cost of fraud is limited to the Revenues and Benefits Service, focussing on fraudulent claims and overpayments to the general public, which does not cover the Council’s operations in totality (question 5).</li> <li>• Similarly, the Revenues and Benefits Service is the only Council department that has used estimates of fraud losses to support a business case for investment in capacity-building to mitigate such losses (question 6). It should be noted that research has shown that such returns on such investment can be as high as 12:1; furthermore, in times of increasing pressure on public expenditure, cutting the cost of fraud may be one of the least contentious ways in which to achieve savings.</li> <li>• The amount of discussion about fraud at senior levels can indicate both how aware of the problem an organisation is and how seriously it treats it. Discussions with key staff revealed that fraud, bribery and corruption matters tend not to be formally discussed by Council members (question 8), possibly reflective of a cultural perception that fraud is an external problem confined principally to the Revenues and Benefits service. For example, one member of staff declared there was no fraud happening at the Council, a statement that appears at best naïve, not only in light of the results of this assessment which, coincidentally, included the uncovering of a bank mandate fraud the day before - see page 7 , but also in the context of government estimates that at least £2.2 billion is lost per annum to fraud in the local government sector (source: National Fraud Authority, 2011).</li> <li>• The Council does not have a clear work programme designed to improve organisational resilience to fraud, increase the deterrent effect and ultimately, develop a strong anti fraud, bribery and corruption culture (question 13).</li> <li>• Respondents noted that, with the exception of the Revenues and Benefits Service, the Council has not clearly articulated that it has a zero-tolerance approach to fraud, bribery and corruption (question 14). Recommendations have been made, above, to improve the Council’s anti-fraud strategy and the management of fraud risks; however, the desired deterrence effect will result from a sustained commitment to tackling the problem which is expressed through management and staff behaviours as much as though policies and statements.</li> </ul>

# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Overall resilience to fraud

Ref.	Findings continued	Priority	Recommendation
1	<ul style="list-style-type: none"> <li>Respondents were near unanimous in confirming that the Council does not evaluate the maturity of its anti-fraud, bribery and corruption culture, and that it does not attempt to create a strong deterrent effect (questions 15 and 16).</li> <li>Perceptions about the risks they face are a key component in the cost/benefit calculations of potential fraudsters. However, the promotion of counter fraud activity, policy and prosecutions, across the Council and to external stakeholders including the general public, is limited to the Revenues and Benefits Service (question 17).</li> <li>Although policies and procedures are reviewed for compliance with regulations and legislation prior to ratification, there is no systematic consideration of fraud, bribery and corruption risks when such documents are conceived and drafted (question 18). With regard to systems, however, a significant commitment to improving the control environment at the Council was made with the introduction of a 'work-flow' expenses system in October 2014 as a replacement for paper-based processes.</li> <li>Identifying and learning the lessons from fraud is an essential part of any investigation; however, it was found that, outside of the Revenues and Benefits Service, this is not routinely done (question 19).</li> <li>No formalised performance management procedures, such as KPI reporting, are in place to monitor and improve the effectiveness of counter fraud work at the Council.</li> </ul>	High	Fraud, bribery and corruption risks should be identified, recorded, mitigated and monitored using established risk management processes, including their inclusion on risk registers. This exercise, which includes this assessment, should be used to develop an annual counter fraud, bribery and corruption work plan, to address identified risks.
		High	Cases of fraud perpetrated against the Council, whether from an external or internal source and irrespective of department or service, must be properly investigated and reported on, with learning points fed into staff training and development
		Medium	The Council should address the suggested areas of improvement to its counter fraud, bribery and corruption policy and procedures, noted above, and articulate a robust and coherent anti-fraud message that extends beyond benefit fraud.
		Low	Total losses to fraud should be estimated and used to inform investment decisions in counter fraud, bribery and corruption activities
		Low	Key Performance Indicators or similar metrics should be developed to manage the performance of counter fraud, bribery and corruption activity

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
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<i>Fraud will be added to the risk register to raise corporate awareness and development. The Council's policies will be reviewed and updated to reflect these recommendations.</i>	<i>Responsible Officer: Chris Leslie, Finance Director Implementation Date: December 2015</i>
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# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Finance			
Ref.	Findings	Priority	Recommendation
2	<p>Discussion with key finance staff during this assessment highlighted two specific initiatives to help prevent fraud: annual participation in the Audit Commission's National Fraud Initiative; and the commissioning of independent data analytics expertise to identify duplicate invoices. However, it was noted that there is no formal training in anti-fraud, bribery and corruption delivered to staff.</p> <p>During our fieldwork the Council inadvertently made an invoice payment of approximately £42k to a fraudster, who had previously submitted to the Accounts Payable (AP) team an email requesting a change of bank details for a known supplier. The request had been completed by AP staff without a follow-up telephone call to the supplier to confirm the change; as is common with such 'mandate fraud', the deception came to light only when the genuine supplier contacted AP to query where their payment was, by which time the monies had gone.</p> <p>We advised the Council perform an immediate validation of all changes made to supplier standing data received since January 2015, prioritising those made in the last 30 days, and recommended that our internal audit team conduct an in-depth review of AP procedures, focussing on the management of standing data and controls around payments to suppliers. The review found that suppliers had been contacted directly to confirm changes of bank details in only half the cases sampled. In total, two high, four medium and one low risk recommendations have been raised in the report.</p> <p>Further, an internal audit review of the Payroll function, currently in draft pending management responses, found there to be significant control weaknesses over starters and leavers, with the risk that fictitious employees could be added to the payroll, and overpayments made to those who have left.</p>	<p>High</p> <p>Medium</p>	<p>Implement the recommendations made within the <i>Accounts Payable (Audit 1. 2015)</i> and <i>Payroll (Audit 10. 2015)</i> reports.</p> <p>Provide anti-fraud, bribery and corruption training to staff in finance, housing and grants teams.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p><i>Training will be given by an external provider to increase staff knowledge.</i></p>		<p><i>Responsible Officer: Chris Leslie, Finance Director</i> <i>Implementation Date: December 2015</i></p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Housing Tenancy and Right to Buy (RTB)

Ref.	Findings	Priority	Recommendation
3	<p><u>Housing Tenancy</u></p> <p>Senior management staff stated that amendments made last year to the allocations policy, specifically around credentials and eligibility, had led to a reduction in the social housing waiting list of approximately 600 applicants.</p> <p>All applications for the letting of social housing are subject to separate review by the Housing Officer and Allocations Manager as a standard operating procedure, prior to authorisation. Police and Social Services are contacted to verify the information provided. Additionally, any specific medical criteria within an application are verified by an independent GP. Despite these segregation of duties, however, the allocations process remains vulnerable to abuse due to the lack of applicant ID checks performed. It was confirmed that someone collecting the keys to a property would not have to provide positive ID in order to do so, and that prior to this, no ID checks would have been carried out to confirm that the personal details on the application form were genuine.</p> <p>It was noted that from May 2015 the Housing team will be conducting initial visits within the first four weeks of a new tenancy to identify and address any issues and concerns; clearly, however, a more robust pre-tenancy process will prove more efficient in identifying and preventing potential cases of fraud.</p> <p><u>RTB</u></p> <p>There is at present no formal policy at the Council covering RTB in general, only a standard form and local government guidance. RTB applicants are not interviewed as part of the process, nor is their ID verified; thus an applicant could be approved to purchase a significant Council asset without ever being met with in person.</p> <p>An RTB applicant is required to have been a public sector tenant for at least five years, which the Council verifies by contacting the landlord. The application ('RTB1') form requires little detailed personal and / or background information, a weakness raised in January 2015 by the RTB Officer at a sector anti-fraud workshop; however, the form is in a standard format mandated by the Department for Communities and Local</p> <p style="text-align: right;"><i>Contd.</i></p>	<p>High</p> <p>Medium</p> <p>Medium</p> <p>Medium</p>	<p>Produce an RTB policy and associated procedures that incorporate anti-fraud, bribery and corruption and AML measures, including the requirement for applicants to declare the source of funding for purchases and to meet with Council staff to verify their identity. Robust ID checks should be incorporated into housing tenancy allocations.</p> <p>Ensure cases of fraud, bribery and corruption are investigated fully, with written reports addressing the causes and key learning points to help drive improvement</p> <p>Improve the sharing of tenancy information across the Council such that key information contained in hard copy housing files is readily available via Orchard to staff who need it</p> <p>Introduce a verification of occupancy within the Council's routine maintenance inspection regime.</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Housing Tenancy and Right to Buy (RTB) contd.

Ref.	Findings continued	Priority	Recommendation
3	<p>Government. The form asks for information where funding for an applicants purchase is coming from, but this field is not mandatory and can be left blank. This raises anti-money laundering (AML) as well as fraud, bribery and corruption concerns. If an applicant is in receipt of full benefits, however, the form is passed to the fraud team within the Revenues and Benefits Service for a meeting attended by the RTB Officer.</p> <p>In May 2014 an RTB request was received that arose from the handling officer's suspicions due to the familiarity of the tenant's name in connection with a previous issue some years prior, although no narrative notes had been recorded on Orchard, the Council's tenancy management system, to this effect. Checking the applicant's hard copy housing file, the RTB officer found the last entry, from 2011, was a notice seeking repossession of the property as the tenant had provided fraudulent information on at least three housing application forms in relation to owning another property. The repossession was not carried out, which is understood to be the result of staff leaving the Council and a failure to properly hand over the case, and the tenant accrued the five years of occupancy required to be eligible for RTB and submitted their application. Inexplicably, the application was allowed to proceed following Council legal advice; subsequent repossession of the property was sought through the courts and was achieved after four months, in April 2015. It was confirmed that no formal report was made into the causes of this case and the lessons to be learnt from it.</p> <p>The RTB team is taking steps to address these evident control deficiencies by sharing concerns with and seeking guidance on good practice from other local authorities, notably Slough Council on policy matters and Epping Council on a more robust RTB application process, such that a robust policy and accompanying procedures can be introduced.</p>		

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MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Overall we consider the report to be a fair assessment. Will we deliver the recommendations as per below:</p> <ol style="list-style-type: none"> <li>1. Produce an RTB policy and associated procedures that incorporate anti-fraud, bribery and corruption and AML measures, including the requirement for applicants to declare the source of funding for purchases and to meet with Council staff to verify their identity. Robust ID checks should be incorporated into housing tenancy allocations.</li> <li>2. Ensure cases of fraud, bribery and corruption are investigated fully, with written reports addressing the causes and key learning points to help drive improvement.</li> </ol>	<p><i>Responsible Officer: Helen Gregory, Head of Housing</i></p> <p><i>Implementation Dates:</i></p> <ol style="list-style-type: none"> <li>1. Drafted and tenant group consulted prior to submission to Housing Committee on 9 December 2015</li> <li>2. Immediate implementation, with lessons learned discussed in team meetings</li> </ol>

# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Housing Tenancy and Right to Buy (RTB) contd.

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
<p>3. <i>Improve the sharing of tenancy information across the Council such that key information contained in hard copy housing files is readily available via Orchard to staff who need it.</i></p> <p>4. <i>Introduce a verification of occupancy within the Council's routine maintenance inspection regime. There is a need to consider the most efficient method of completing this; we will consider options and look to implement next April 2016.</i></p>	<p>3. <i>Immediate implementation.</i></p> <p>4. <i>April 2016, following options appraisal</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Revenues and Benefits Service			
Ref.	Findings	Priority	Recommendation
4	<p>Fraudulent exploitation of the 24 exemptions and 12 discounts to Council Tax (CT) and Business Rates (BR) represent a significant area of financial risk to the Council, the single person discount of 25% especially so. The Compliance Team checks a random 5% sample of discounts and exemptions daily to verify these have been applied correctly; however, they are looking for system and clerical errors, rather than fraud.</p> <p>To address this issue the Council is considering investing in data analytics software ('Equifax') to cross-reference applications for discounts and exemptions with information held in a range of other databases, such as Social Services, the Electoral Register and academic institutions (to confirm whether in full time higher education, for example). The software assesses each application, allowing for data-led, targeted investigations of applicants deemed higher risk. Equifax is a joint project across all 14 authorities in the area, plus the County Council. Review of the business case shows forecast savings to the tax base of approximately £300k or 3% of revenue, although this is likely to be a conservative estimate. Data analytics is a fast-growing and powerful fraud reduction tool whose effects can be magnified by a collaborative approach; the Equifax initiative is therefore considered a potentially significant demonstration of an effective 'invest to save' approach to counter fraud.</p> <p>It is acknowledged that the majority of fraud expertise and experience resides within the Revenues and Benefits Service; beyond the department, however, staff awareness of and training in anti-fraud, bribery and corruption is limited, and would benefit from an increased sharing of knowledge and best practice across the organisation.</p>	Medium	The Revenues and Benefits Service to lead on work across departments to deliver a formal and regular programme of anti-fraud, bribery and corruption training to staff. Priority staff groups for bespoke training are finance (see reference 2) and grants teams (see reference 5).
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p><i>The Revenues &amp; Benefits service's Housing Benefit Fraud Investigation team will move to a Single Fraud Investigation Service (SFIS) administered by DWP from 1<sup>st</sup> September 2015. To mitigate the loss of the fraud investigators, two new compliance roles have been created to ensure customer compliance with awards of Council Tax exemptions and discounts and Business Rates discounts and reliefs. Any potential fraud identified by the Compliance team will be referred to the Basildon fraud investigation team for further action. This leaves the service with no expertise in Fraud Investigation and therefore it will be unable to deliver any anti-fraud, bribery or corruption training for the rest of the Council. Revenues &amp; Benefits, however, is now in a shared service partnership with Basildon Borough Council and therefore delivery of this training may be available through an expansion of the partnership scope.</i></p>		<p><i>Responsible Officer: Rick Steels, Revenues and Benefits Manager Implementation Date: 1<sup>st</sup> October 2015</i></p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Grants			
Ref.	Findings	Priority	Recommendation
5	<p><u>Community Fund</u></p> <p>The Brentwood Community Fund awards sums of up to £3,500 - from a total annual 'pot' of £50,300 - to support small-scale projects that link to one or more of the Council's community-based priority areas: localism (volunteering); housing, health and wellbeing; 'a prosperous borough'; and 'a safe borough'. Applications are appraised by a panel of three officers in accordance with prescribed guidance; successful bidders must agree to Terms and Conditions that include the submission to the Council of a monitoring form and associated receipts, to show that the project has delivered its remit and that appropriate expenditure has been incurred; funding may be withheld or clawed back for projects that fail to demonstrate this. Due to resource constraints the Council is unable to verify the extent of a project's delivery as described in the monitoring form, which is taken largely on trust. It is accepted that the monetary value of the fund, whether considered per project or in aggregate, is small.</p> <p><u>Independent Living Grants</u></p> <p>The Council awards approximately £150k per annum for elderly and / or disabled residents to facilitate their independent living through adaptations and renovations to their homes. The maximum size of a single grant is approximately £20,000. Needs assessments are carried out on behalf of the Council by a home improvement agency established in partnership with Papworth Trust. The agency conducts home visits and obtains quotes and schedules of work from approved contractors which it checks for reasonableness before returning the application to the Council case officer and Grants Team Leader for approval. Monies are paid to the applicant, who personally commissions the work required.</p> <p>The above process has been mapped by the Council and the partnership with the Papworth Trust is subject to a formal service specification; however, it was noted that the Grants team does not receive anti-fraud, bribery and corruption training and that awareness of these risks is acknowledged to be low, despite the prevalence of cash transfers to the general public and the significant number of third parties involved.</p>	Low	<p><i>A recommendation to deliver anti-fraud, bribery and corruption training should to Council staff has been made at reference 2.</i></p> <p>The Grants team should inspect a small number of community fund projects, selected using a risk-based approach, to verify information provided on the monitoring form.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p><i>Accepted; higher value community fund grants will be targeted to ensure projects have delivered as agreed.</i></p>		<p><i>Responsible Officer: Kim Anderson, Partnership, Leisure and Funding Officer</i></p> <p><i>Implementation Date: December 2015</i></p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

Area: Members interests and expenses			
Ref.	Findings	Priority	Recommendation
6	<p>A register of interests is kept for the Council and nine parish councils in the area. In accordance with the Localism Act 2011, members must within 28 days of election and / or appointment (and re-election / re-appointment) record in the register details of any Disclosable Pecuniary Interest and, under the Council's constitution, Other Pecuniary Interests and Non-Pecuniary Interests that they or their partner or spouse may have. New interests must be notified in writing to the Council's Monitoring Officer, who sends an annual reminder to members that they should ensure the register is kept up to date. Members are required by law not to take part in meetings in which they have a pecuniary interest, and to declare prior to the start of a meeting any hitherto undeclared interests, pending their formal entry into the register.</p> <p>While acknowledging that maintenance of an accurate register is the ultimate responsibility of individual members, it is noted that there is at present no independent assurance over the effectiveness of this process, which the Council may wish to seek in light of the first known prosecution under the Localism Act, in April this year, of a councillor from East Dorset District Council, for his taking part and voting in a meeting in which he had a pecuniary interest.</p>	Medium	Conduct a periodic sample audit of the members' register of interests to provide assurance that disclosable pecuniary and other pecuniary interests and Non-Pecuniary Interests are being declared in accordance with the Localism Act 2011 and the Council's constitution.
<b>MANAGEMENT RESPONSE</b>		<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>	
<p><i>Accepted; periodic audit checks are now being undertaken and will continue. An annual reminder has gone out to councillors - this is normally done in June after Annual Council in May, when changes are most likely.</i></p>		<p><i>Responsible Officer: Chris Potter, Monitoring Officer and Head of Support Services</i>  <i>Implementation Date: Completed</i></p>	

# APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Rick Steels	Revenues and Benefits Manager
Chris Potter	Monitoring Officer and Head of Support Services
Phil Ruck	Business Development Manager
Ashley Culverwell	Head of Borough Health, Safety and Localism
Kim Anderson	Partnership, Leisure and Funding Officer
Helen Gregory	Head of Housing
Linda Philips	Right to Buy Officer
Sue White	Risk and Insurance Officer
Chris Leslie	Finance Director

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BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.



# APPENDIX II - TERMS OF REFERENCE

## BACKGROUND

Brentwood Borough Council ('the council') has proposed a business case to strengthen resources within a counter fraud and compliance team (currently the Controls Team), which would require the inclusion of qualified and experienced fraud investigation staff to allow for complete and detailed investigation to be undertaken where necessary. A full counter fraud risk assessment is deemed a key prelude to these developments, in order that the potential scale of fraud within the council can be identified.

## PURPOSE OF REVIEW

The purpose of conducting a fraud risk assessment (FRA) is to identify areas of risk in key departments and develop strategies to mitigate these risks. The outcome of the FRA should be used to review and inform service and corporate risk registers.

## SCOPE OF REVIEW

The review will consider the following fraud risk areas:

- Council Tax and Business Rates
- Employee fraud
- Insurance claims
- Grants
- Councillors' expenses
- Abuse of position
- Housing Tenancy
- Right to Buy
- Management override of controls, including manipulation of performance data and financial journals

# APPENDIX II - TERMS OF REFERENCE

## EXCLUSIONS

Our work will be restricted to the areas of consideration within the scope of our review. Our review will not cover detailed testing of controls identified.

## APPROACH

Our approach will be to conduct interviews with key staff to identify fraud risks in each department and the current controls in place to mitigate these risks, such that areas of significant control weakness and fraud risk can be highlighted.

## LOCATIONS

Fieldwork will be performed exclusively at Brentwood Borough Council offices.

# APPENDIX II - TERMS OF REFERENCE

## DOCUMENTATION REQUEST

Please provide the following documents in advance of our review (where possible):

- Counter Fraud Policy
- Sanctions and Prosecutions Policy
- Whistle-blowing policy

Any documents provided will assist the timely completion of our fieldwork, however we may need to request further documentation and evidence as we progress through the review process.

## KEY CONTACTS

### BDO LLP

Greg Rubins	Audit Partner	e: greg.rubins@bdo.co.uk t: 02380 881 892
Liana Nicholson	Audit Manager	e: liana.nicholson@bdo.co.uk t: 01473 320 715
James Shortall	Counter Fraud Specialist	e: james.shortall@bdo.co.uk t: 02380 881 767

### BRENTWOOD BOROUGH COUNCIL

Rick Steels, Revenues and Benefits Manager	Audit Sponsor	e: rick.steels@brentwood.gov.uk t: 01277 312 885
Steve Summers, Head of Customer Services	Key contact, Council Tax and Business rates and employee fraud	e: steve.summers@brentwood.gov.uk t: 01277 312 629
Chris Leslie, Financial Services Manager	Key contact, insurance claims and grants; Councillors' expenses and abuse of position	e: christopher.leslie@brentwood.gov.uk t: 01277 312 542

# APPENDIX II - TERMS OF REFERENCE

## KEY CONTACTS CONTD.

### BRENTWOOD BOROUGH COUNCIL

Helen Gregory, Interim Head of Housing	Key contact, housing tenancy and Right To Buy fraud	e: helen.gregory@brentwood.gov.uk t: 01277 312 586
Ashley Culverwell, Head of Borough Health, Safety and Localism	Key contact, licensing fraud	e: ashley.culverwell@brentwood.gov.uk t: 01277 312 506

## PROPOSED TIMETABLE

Audit Stage	Date
Commence fieldwork	16 March 2015
Number of audit days in plan	20
Planned date for closing meeting	10 April 2015
Planned date for issue of the draft report	17 April 2015
Planned date for receipt of management responses	1 May 2015
Planned date for issue of proposed final report	8 May 2015

# APPENDIX III - FRAUD RESILIENCE QUESTIONNAIRE

Self Assessed Fraud Resilience Questionnaire			
#	Question	✓/✗	Evaluation
1	Does the organisation have a written counter fraud and corruption strategy?	✓/✗	A revision to the Council's counter fraud strategy, first published in November 2012, was submitted to members for approval on 24 March 2014; however, consideration of the document was deferred pending changes to the constitution. It was noted that of the nine staff interviewed for this assessment, only the Head of Support Services was aware of the current status and location of the strategy.
2	Does the strategy have a clear objective of better outcomes (i.e. reduced losses to fraud) and not just activity (i.e. the number of investigations, prosecutions, etc.)?	✗	Our review of the document has raised a number of improvements to consider; these are detailed at pages 5-6, above.
3	Has the strategy been directly agreed by those with executive authority for the organisation?	✗	
4	Are fraud, bribery and corruption risks included in the organisation's Risk Register (or equivalent)?	✗	The Council's strategic and operational registers reviewed as part of this assessment did not include any references to fraud, bribery or corruption. One member of staff suggested the level of fraud within the Council was so low as to not warrant its inclusion as a risk.
5	Does the organisation seek to estimate the total economic cost of fraud to it?	✓/✗	This activity is limited to the Revenues and Benefits team, which provides quarterly reports to the Audit and Scrutiny Committee on fraud referrals, the number of successfully concluded cases, levels of overpayment, and recovery rates. No estimates are produced for the economic cost of all fraud to the Council in totality, however.
6	Does the organisation use estimates of losses to make informed judgements about levels of budgetary investment in work to counter fraud and corruption?	✓/✗	As above, loss estimation is carried out within the Revenues and Benefits Service only, which has set itself a target of recouping 60% of benefit fraud, with forecast savings included in a Business Case to support further investment in the Council's counter fraud function.

# APPENDIX III - FRAUD RESILIENCE QUESTIONNAIRE

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Self Assessed Fraud Resilience Questionnaire			
#	Question	✓/✗	Evaluation
7	Do those tasked with countering fraud and corruption have any special authority to pursue their remit?	✓	Fraud investigators within Revenues and Benefits have 'authorised officer' status and are Professionalism in Security (PINS) qualified, which confers powers of investigation and intelligence gathering.
8	Are reports about work to counter fraud and corruption discussed at Board ('Member') level?	✗	Discussion with key staff found that fraud and corruption tend not to be discussed by Council members, which is not surprising given that fraud risks are not recorded in operational or strategic risk registers (see question four). It is noted that reports relating to benefit fraud are presented on a quarterly basis to the Audit and Scrutiny committee.
9	Have all those working to counter fraud and corruption received the specialist professional training and accreditation for their role?	✓	As noted above, the Council's Revenues and Benefits Service investigators are trained to the PINS standard, which was developed by the Department of Work and Pensions (DWP) for those working to counter benefit fraud.
10	Do those working to counter fraud and corruption regularly update and refresh their skills?	✓	Yes; this is a requirement of PINS accreditation. Further, joint working with DWP investigators enables the Council's team to exchange guidance and good practice.
11	Are checks undertaken on the propriety of new staff (beyond simply reference checks)?	✓	Disclosure and Barring Service (DBS; formerly CRB) checks are undertaken for staff who engage directly with the public, such as Housing Officers, Sheltered Scheme Managers and Revenues and Benefits teams. HR recruitment form VC1 prompts for whether a DBS check is required, which is for individual managers to determine.

# APPENDIX III - FRAUD RESILIENCE QUESTIONNAIRE

Self Assessed Fraud Resilience Questionnaire			
#	Question	✓/✗	Evaluation
12	Are there relationships in place with relevant external agencies or organisations (e.g. the police, specialist legal firms who could advise on civil litigation, etc.)? Formal? Informal?	✓	Both formal and informal relationships exist between council services and the police, DWP and Social Services. In-house legal counsel is available, with specialist advice sought externally when required.
13	Does the organisation have a clear programme of work attempting to create a real anti-fraud and corruption culture?	✗	No; however this assessment should be viewed as a necessary starting point.
14	Has the organisation made clear that it has a zero-tolerance approach to fraud and corruption?	✓/✗	<p>Only one respondent felt that the Council had clearly articulated a zero-tolerance approach to the problem of fraud, bribery and corruption that applies to the whole organisation.</p> <p>The Revenues and Benefits Service summarises on the Council's website the benefit fraud cases it has prosecuted in the previous financial year, with links to the service's sanctions policy (refer to question 25, below).</p> <p>Similarly, the Housing team has a webpage describing Housing fraud and how to report it, although there is no reference to specific sanctions or historical cases.</p> <p>The Council's <i>Anti Fraud And Corruption Policy and Guidance</i> should be more explicit in articulating a zero-tolerance approach - see page 6.</p>
15	Are there arrangements in place to evaluate the extent to which a real anti-fraud and corruption culture exists or is developing throughout the organisation?	✗	This exercise may be considered to be an important first step in developing an effective anti-fraud culture within the Council, whose members and employees have tended to regard fraud as a Revenues and Benefits issue only.
16	Does the organisation attempt to create a strong deterrent effect?	✗	No respondents felt that the Council attempts to create a strong deterrent effect.

# APPENDIX III - FRAUD RESILIENCE QUESTIONNAIRE

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Self Assessed Fraud Resilience Questionnaire			
#	Question	✓/✗	Evaluation
17	Does the organisation seek to publicise: <ul style="list-style-type: none"> <li>i. the hostility of the honest majority to fraud and corruption?</li> <li>ii. the effectiveness of preventative arrangements?</li> <li>iii. the sophistication of arrangements to detect fraud and corruption?</li> <li>iv. the professionalism of those investigating fraud and corruption and their ability to uncover evidence?</li> <li>v. the likelihood of proportionate sanctions being applied?</li> <li>vi. the likelihood of losses being recovered?</li> </ul>	✓/✗	The Council's Revenues and Benefits Section publicises the work of its Fraud Investigation Team, covering the six areas described here, via the Council website, internal staff bulletin and local press releases. However, as noted earlier, Council activities relate to benefits and Council Tax fraud only, and not to fraud and corruption in a wider, organisational sense.
18	Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?	✓/✗	Staff interviewed stated that the Council drafts its policies to ensure compliance with legislation and, where possible, best practice. However, there is no automatic consideration of fraud in this process to 'design out' the risk. It is noted that the Council's upgraded overtime and expenses system, which came on line in October 2014, represent a significant commitment to improve resilience to fraud in this area.
19	Where an investigation into fraud take place do reports cover identified policy and systems weaknesses?	✗	Interviews with key staff found that policy and systems weaknesses were not routinely considered following fraud investigations.
20	Does the organisation have a formal or informal policy setting out how it tries to detect possible fraud?	✓/✗	See responses to questions 1-3, above.
21	Are analytical intelligence techniques used to examine data and identify potential fraud and corruption?	✓	The Finance team has used data analytics to identify duplicate invoices, as well as participating in the annual National Fraud Initiative (NFI) to help uncover fraud trends and potential areas of weakness.  Furthermore, the Revenues and Benefits Service is currently exploring the use of data analytics county-wide as part of a collaborative project with neighbouring local and county authorities, and has identified significant potential savings from a data-led approach to examining claims.




# APPENDIX III - FRAUD RESILIENCE QUESTIONNAIRE

Self Assessed Fraud Resilience Questionnaire			
#	Question	✓/✗	Evaluation
22	Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?	✗	The Council's <i>Anti Fraud and Corruption Policy and Guidance</i> and <i>Anti-Bribery Policy</i> refer staff to a different document, the <i>Whistle blowing Policy</i> , for detail on the process for reporting suspected wrongdoing. Recommendations have been raised at pages 5-6, above.
23	Is the organisation's investigation work carried out in accordance with clear guidance?	✓	The Revenues and Benefits Service fraud team conducts investigations in accordance with PINS training, which links to key legislative guidance including Police And Criminal Evidence Act 1984 and Criminal Procedure and Investigations Act 1996.
24	Do those undertaking investigations have the necessary powers, both in law, where necessary, and within the organisation?	✓	Yes; see above.
25	Does the organisation have a clear and consistent policy on the application of sanctions where fraud or corruption is proven to be present?	✓/✗	The Council's Revenues and Benefits Service has produced a comprehensive <i>Sanctions and Prosecution Policy</i> aimed at the general public, Council employees and Council members. The policy is clear on the circumstances under which a range of sanctions would be imposed, and also covers the reporting and publicity of these. However, the policy relates to benefits offences only. The Council's <i>Anti Fraud and Corruption Policy and Guidance</i> , which covers employees and members found to be engaged in 'theft and dishonesty', is far less detailed. It does not describe the full range of possible sanctions nor the criteria under which they would be sought. A recommendation has been raised to address this - refer to page 6, above.

# APPENDIX III - FRAUD RESILIENCE QUESTIONNAIRE

Self Assessed Fraud Resilience Questionnaire			
#	Question	✓/✗	Evaluation
26	Are all possible sanctions - disciplinary / regulatory, civil and criminal - considered?	✓	This was confirmed through reference to Council policies and interviews with key staff.
27	Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?	✗	A recommendation to address this has been raised at page 6, above.
28	Does the organisation use the criminal and civil law to the full in recovering losses?	✓	Both criminal and civil legal remedies are used to recover losses suffered principally through benefit, Council Tax and Housing tenancy fraud.
29	Does the organisation regularly review the effectiveness of its counter fraud work against agreed performance indicators?	✗	This does not happen at present.



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**29 September 2015**

**Audit & Scrutiny Committee**

**Strategic & Operational Risk Review**

**Report of:** *Chris Leslie, Finance Director (Section 151)*

**Wards Affected:** *None*

**This report is:** *Public*

## **1. Executive Summary**

- 1.1 The Insurance & Risk Management Strategy has been reviewed and is submitted to the Committee for approval.
- 1.2 The report updates members of the Audit, Scrutiny and Transformation Committee on new, closed or changes to strategic risks.

## **2. Recommendation(s)**

- 2.1 To agree the revised Insurance & Risk Management Strategy (Appendix A).**
- 2.2 To agree the updated Strategic Risk Register (Appendix B).**

## **3. Introduction and Background**

- 3.1 The governance arrangements set out in the 'Insurance & Risk Management Strategy' (Appendix A) require the Audit Committee to review the strategic risks every quarter.
- 3.2 The strategic risk register is attached at Appendix B. The strategic risk register is monitored and reviewed on a quarterly by the Corporate Leadership Board who consider the risks, the mitigations and agree the content. It will be the responsibility of the Audit Committee to review the strategic risks and confirm they are confident that the risks associated within this register are those which are strategic and relevant to the organisation at this point in time and the considered future.
- 3.3 At the Audit Committee meeting on 29 June, further training for Members on Risk Management was requested and a session has been arranged for

Thursday 6 October 2015. This training will be undertaken by Matthew Hillyer, Strategic Risk Consultant, Zurich Municipal and will cover the following:-

- An overview of strategic risk management and why it is important.
- Information about risk management processes, practices and methodologies at Brentwood.
- A chance to consider strategic risks from a Member perspective.
- An opportunity to discuss and develop their roles and responsibilities as Members regarding risk management (and linking it to wider governance responsibilities).

3.4 A risk management training session has also been arranged for the Senior Leadership Team.

#### **4. Issue, Options and Analysis of Options**

##### **Insurance & Risk Management Strategy**

4.1 The annual review of the Insurance and Risk Management Strategy has been carried out. A clearer role for the Senior Management Team around the communication of risk within their area and reported quarterly at SMT has been included under point 6 - Roles and Responsibilities.

The Council's risk tolerance has now been included, with the risk ranking table reconfigured to reflect this.

##### **Strategic Risks**

4.2 In accordance with the Council's Insurance and Risk Management Strategy, risk owners have reviewed their risks and risk scores, with the results discussed and agreed at CLB on 13 August 2015.

4.3 Attached to this report at Appendix C is a summary showing the current status of each risk and any movement in risk score compared with previous monitoring periods, together with explanatory commentary on the key issues for each risk.

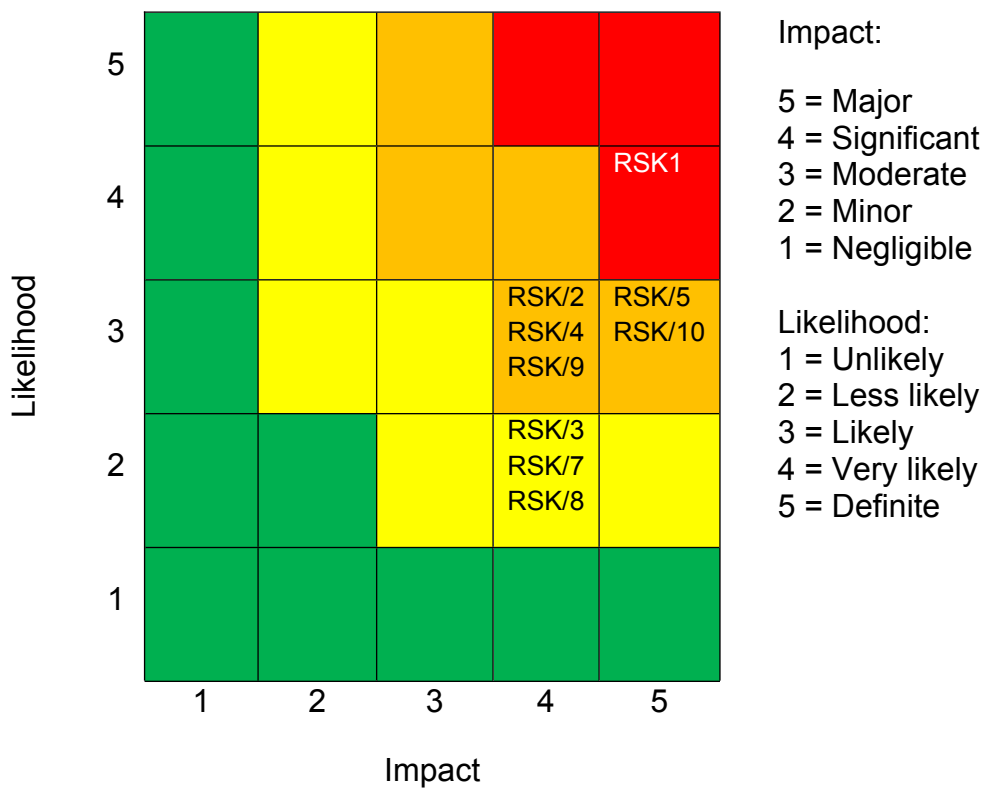
4.4 As a result of the current risk review 1 risk has increased and 8 scores have remained unchanged.

4.5 Risk Score Increased

- Red risk RSK1 – Finance Pressures (Row No. 2)  
This risk has been increased due to announcements from central government and challenging savings targets.

**Risk Matrix**

4.6 The nine risks are plotted on the risk matrix below. The current assessment identifies that one risk will remain in the red area of the risk matrix.



**5. Reasons for Recommendation**

- 5.1 Risk Management continues to be embedded quarterly within the Senior Management Team reports, where Heads of Service discuss the top level risks for their service areas to ensure that the risks are updated to reflect the ongoing changes.
- 5.2 In addition the Risk & Insurance Officer will work with managers to ensure that any new or emerging risks are identified, assessed and managed appropriately.

## **6. Consultation**

6.1 None.

## **7. References to Corporate Plan**

7.1 Effective risk management arrangements will support the Council to achieve its corporate priorities. The process will enable identification of risks and issues enabling informed decision making to removed or reduce them in order for the priorities to be achieved.

## **8. Implications**

### **Financial Implications**

**Name & Title: Chris Leslie, Finance Director (Section 151)**

**Tel & Email: 01277 312 542 / christopher.leslie@brentwood.gov.uk**

8.1 There are no financial implications arising from this report.

### **Legal Implications**

**Name & Title: Christopher Potter, Monitoring Officer and Head of Support Service**

**Tel & Email: 01277 312860 / christopher.potter@brentwood.gov.uk**

8.2 Effective risk management provides a means of identifying, managing and reducing the likelihood of legal claims or regulatory challenges against the Council.

## **9. Appendices to this report**

Appendix A – Insurance & Risk Management Strategy

Appendix B – Strategic Risk Register

Appendix C – Strategic Risk Register Summary Sheet

### **Report Author Contact Details:**

**Name:** Sue White, Risk and Insurance Officer

**Telephone:** 01277 312821

**E-mail:** sue.white@brentwood.gov.uk



## **BRENTWOOD BOROUGH COUNCIL**

### **INSURANCE AND RISK MANAGEMENT STRATEGY**

#### Contents

1. Policy Statement
2. Introduction
3. Aims and Objectives
4. Insurance Framework
5. Risk Management Framework
6. Roles and Responsibilities
7. Risk Analysis
8. Risk Ranking Table
9. Monitoring arrangements for Key Risks
10. Indicators of Success

## 1. Policy Statement

Brentwood Borough Council is committed to the effective management of risk. The Council's employees, partners, stakeholders, residents, assets and ability to deliver its objectives and services are constantly affected by risk. The Council recognises that risk can be both positive and negative. The Council accepts its legal, moral and fiduciary duties in taking informed decisions about how best to control and minimise the downside of risk, whilst still maximising opportunity and benefiting from positive risks. The Council will ensure that Members and staff understand their responsibility to identify risks and their possible consequences.

## 2. Introduction

The Council's priority is to deliver excellent, customer focused, cost effective services by ensuring that the Council's Risk Management framework is in place and operating effectively. The Council's corporate insurance arrangements form part of the overall risk management approach.

This strategy outlines the Council's overall approach to risk retention and transfer including the procurement of corporate insurance cover through relevant policies of insurance to protect against loss or damage to the Council's assets and potential liabilities.

### Risk

Risk is defined in this context as something that might have an impact on achieving the Council's objectives and its delivery of services to the community.

Risk Management can be defined as ***“the culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives”***.

We use the risk management process to identify, evaluate and control risks. Risk management need not mean risk avoidance and may involve taking steps to reduce risk to an acceptable level or transfer risk to a third party. The Council recognises that it has to deliver services in an increasingly litigious and risk-averse society. The Council will therefore use risk management to promote innovation in support of the Corporate Plan.

### Insurance

Insurance is a mechanism for transferring risks to another (the insurer) for a consideration (premium). Premiums are also subject to Insurance Premium Tax (IPT) which is currently levied by the government at a rate of 9.5%. The broad principal of insurance is that the premiums collected from many policyholders pays for the claims of a few, whilst still allowing the insurer to meet their overheads, pay dividends to shareholders, purchase re-insurance to protect themselves against catastrophic losses and to build up their reserves. The Council is not required by

law to purchase insurance to cover its risks, except as set out in the next paragraph.

Under the Local Government Act 1972 it is required to have Fidelity Guarantee Insurance. This protects the Council in the event of a financial loss arising out of the fraud or dishonesty by its employees. The Council also purchases insurance and inspection services where there are other statutory requirements, for example the need, under the various Health and Safety Acts, to have boilers and lifts inspected by an independent and competent person.

Historically the Council has insured risks externally with insurance companies on a 'ground-up' basis, which means only very low levels of excess have been applied.

### **3. Aims and Objectives**

#### Aim

The aim of this Strategy is to improve the Council's ability to deliver a systematic and structured approach to identifying and managing risks across the Council. To ensure that appropriate insurance arrangements are in place to protect the Council against loss or damage to the assets and potential liabilities and to obtain the broadest cover at the best terms available.

#### Objectives

The objectives of this Strategy are:-

- Integrate and raise awareness of risk management for all those connected with the delivery of Council services
- To provide a robust and systematic framework for identifying, managing and responding to risk
- Anticipate and respond to changing social, environmental and legislative requirements.
- Enhance the attractiveness of the Council's risk profile to underwriters.
- Comply with any statutory requirements to have in place particular policies of insurance and associated inspection systems.
- Protect the Council's assets (people and property).
- Protect the reputation of the Council.

These objectives will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the Council for identifying and managing risk.
- Embedding risk management into the Council's decision making process, service delivery, project management and partnership working.
- Providing opportunities for training and shared learning on insurance and risk management across the Council.
- Maintaining documented procedures for the control of risk and the provision of suitable information, training and supervision.
- Maintaining an appropriate incident reporting and recording system, (with investigation procedures to establish cause and prevent recurrence) to provide opportunities for improved risk management across the Council.
- Ensuring robust Business Continuity arrangements are in place.
- Maintaining claims handling protocols that are in line with statutory requirements.

#### **4. Insurance Framework**

Adequate insurance cover is an essential component of effective Risk Management.

Insurance will be procured in accordance with external regulatory requirements applying at the time (e.g. OJEU procedures) and the Council's Financial Regulations. Following a tender exercise in 2013, a new contract was awarded for a five year period with an option to extend the contract for a further two years should it be identified that this provides best value for the Council.

Liability claims will be managed in accordance with the Civil Procedures Rules with strict adherence to the protocol timetable. The Insurance Officer will lead on all investigations and provide the liaison between employees, solicitors and insurers.

Analysis of claims will lead to risk improvements in the areas of training, security and systems of work.

#### **The Annual Review Process**

The annual review process requires the Council to provide the Insurer with information on changes to sums to be insured for the following insurance year, which runs from 1 April to 31 March. These sums include information on the value of the Council's property estate, computer equipment, vehicles, etc. On receipt of

this information and the Council's claims history over the year, the Insurer will then assess the Council's risk profile and present a report detailing proposed premiums for the following insurance year categorised by policy type.

On receipt of this report the Council reviews the figures for accuracy, and assesses whether the report is a fair representation of the Council's risk profile based on claims experience. A meeting is then convened between the Council and the Insurer to discuss the report.

Thereafter, should an agreement be reached the contractual relationship between the Council and the Insurer will continue until the next annual review.

## **5. Risk Management Framework**

Risk Management is a central part of the Council's strategic management. It is the process by which risks are identified, evaluated and controlled.

The risk management process will add value to the Council's decision making process and is key to the organisation's strategic development, playing a fundamental role in reducing the possibility of failure and increase the Council's successes.

In broad terms risks are split into three categories:

- Strategic – those risks relating to the long term goals of the Council
- Operational – risks related to the day-to-day operation of each individual service
- Project – consideration of the risks occurring as a result of the Council's involvement in specific initiatives

The Strategic Register is owned by the Corporate Leadership Board, with ownership for risks being assigned to individual officers and Operational Registers are maintained by the relevant Department.

The Council is committed to establishing a systematic and consistent approach to risk identification, analysis, control, monitoring and review and consists of five stages:-

- Identify Risks – this involves the identification of risks, describing and recording them.
- Evaluate Risks – the identified risks are each assessed in terms of their likelihood and potential impact and determined against a profiling matrix.
- Manage Risks – this involves the identification and implementation of control measures to mitigate the impact risk, the cost effectiveness of implementing these measures and the estimation and evaluation of residual risk. There are four basic ways of treating risk, which are:-

Retain	Accept the risk exposure as part of the risk appetite
Avoid	Stop undertaking the activity which gives rise to that risk
Transfer	Involves another party bearing or sharing the risk i.e. via insurance
Reduce	Control the risk and take action to reduce either likelihood of a risk occurring and/or the consequences if it does occur

- Report – progress in managing risks should be monitored and reported to ensure actions are carried out.
- Review – review the effectiveness of the control and to inform decision making.

## 6. Roles and Responsibilities

Everyone in the Council is involved in risk management and should be aware of their responsibilities in identifying and managing risk. However, the ultimate responsibility for managing risk lies with:

- Members of the Audit & Scrutiny Committee
- Corporate Leadership Board

To ensure the successful implementation of this policy, responsibilities for risk management are detailed below:

### Members of the Audit & Scrutiny Committee

- Approve the Council's Insurance and Risk Management Strategy
- To ensure that strategic risks are being actively managed and report any concerns to full Council

### Corporate Leadership Board (CLB)

- Ensure the Council implements and manages risk effectively through the delivery of the Insurance and Risk Management Strategy and consider risks affecting delivery of service.
- Ensure risk management is considered by CLB on a quarterly basis
- Be responsible for and monitor the Strategic and Operational Risk Registers
- Assign a responsible officer to each significant strategic risk.
- Receive and approve updates on the management action plan and on any new significant emerging risks.
- Support the embedding of risk management within the culture of the Council.

### Senior Management Team (SMT)

- Take responsibility for the promotion of the Insurance & Risk Management Strategy within their area.
- Ensure that operational risk registers are managed, monitored, responded to and communicated effectively in their areas and reported quarterly at SMT.

## Finance Director

- Ensure risk forms part of the overall performance management framework
- Contribute to the formulation and future development of the overall Insurance and Risk Management Strategy
- Provide updates to CLB and Members on significant risks identified and emerging from the risk register and other sources.

## Managers

- Identify, evaluate and control risks facing the Council in achieving its objectives
- Include staff without direct responsibility for owning and managing risk in risk discussions to ensure teams identify potential risks associated with service delivery
- Identify resources to address the highest priority risks and make requests to CLB for funds to avoid, transfer or reduce risk

## Internal Audit

- Maintain an independent role in line with guidance from the Institute of Internal Auditors and others and ensure compliance with the CIPFA Audit Code of Practice.
- Ensuring that internal controls are robust and operating correctly

## **7. Risk Analysis**

Once risks have been identified they need to be assessed systematically and accurately. The process requires managers to assess the level of risk by considering:

The probability of an event occurring – ‘likelihood’ and the potential outcome of the consequences should such an event occur – ‘impact’. Managers will assess each element of the judgement and determine the score. The table below gives the scores and indicative definitions for each element of the risk ranking process:-

Score	Likelihood	Description
1	Unlikely/rarely happens	I would be very surprised to see this happen, but cannot entirely rule out the possibility
2	Less likely/moderate	I would be mildly surprised if this occurred, but cannot entirely rule out the possibility
3	Likely/possible	I think this could maybe occur at some point, but not necessarily in the immediate future
4	Very likely/high	I think this could occur sometime in the coming year or so
5	Definite/very high	I would not be at all surprised if this happened within the next few months

Score	Impact	Description
1	Negligible Impact	<ul style="list-style-type: none"> <li>• Very minor service disruption/little inconvenience</li> <li>• None injury</li> <li>• Financial loss under £5,000</li> </ul>
2	Minor Impact	<ul style="list-style-type: none"> <li>• Minor service disruption/short term inconvenience</li> <li>• Minor injury</li> <li>• Financial loss under £10,000</li> <li>• Isolated service user complaints</li> <li>• Breach of regulations/standards</li> </ul>
3	Moderate Impact	<ul style="list-style-type: none"> <li>• Service disruption</li> <li>• Loss time injury</li> <li>• Financial loss under £50,000</li> <li>• Adverse local media coverage/lots of service user complaints</li> <li>• Breach of law punishable by fines only</li> <li>• Failure to achieve a Service Plan objective</li> </ul>
4	Significant Impact	<ul style="list-style-type: none"> <li>• Significant service disruption</li> <li>• Major/disabling injury</li> <li>• Financial loss under £100,000</li> <li>• Adverse national media coverage</li> <li>• Breach of law punishable by fines or possible imprisonment</li> <li>• Failure to achieve one or more Strategic Plan objective</li> </ul>
5	Major Impact	<ul style="list-style-type: none"> <li>• Total service loss for a significant period</li> <li>• Fatality to employee, service user or other</li> <li>• Financial loss in excess of £100,000</li> <li>• Ministerial intervention in running service</li> <li>• Breach of law punishable by imprisonment</li> <li>• Failure to achieve a major corporate objective in the Strategic Plan</li> </ul>

The risk ratings for each part of the assessment are then combined to give an overall ranking for each risk. The ratings can be plotted onto the risk matrix, see below, which assists in determining the risk priority.



## 8. Risk Ranking Table

Brentwood Council has introduced a best practice five stage approach to Risk Management.

Likelihood / Probability	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	1	2	3	4	5
	Negligible	Minor	Moderate	Significant	Major
Negative Impact / Severity					

Risk Tolerance		
Red (High Risk)	20 – 25	Must be managed down as a priority
Amber (Medium Risk)	12 - 16	Seek to influence medium term/monitor
Yellow (Accept Risk)	6 - 10	Acceptable, but continue to monitor
Green (Low Risk)	1 - 5	Continue to monitor

## **9. Monitoring arrangements for Key Risks**

The reason for monitoring key risks is to create an early warning system for any movement in risk.

Risk registers are living documents and therefore must be regularly reviewed and amended. The Insurance and Risk Management Strategy requires risks recorded on the Strategic Risk Register and Operational Risk Registers to be monitored on a quarterly basis by the relevant risk owner.

Monitoring reports are presented for approval to the Corporate Leadership Board prior to final ratification by the Audit Committee.

The questions asked during monitoring are:-

- Is the risk still relevant?
- Is there any movement in the risk score?
- Are there controls still in place and operating effectively?
- Has anything occurred which might change its impact and/or likelihood?
- Have any significant control failures or weaknesses occurred since the last monitoring exercise?
- If so, does this indicate whether the risk is increasing or decreasing?
- If the risk is increasing do I need to devise more controls or think of other ways of mitigating the risk?
- If the risk is decreasing can I relax some existing controls?
- Are controls/actions built into appropriate documented action plans?
- Are there any new or emerging risks?
- Have any of the existing risks ceased to be an issue (and can therefore be archived)?

## **10. Indicators of Success**

- Strategic and Operational Risk Registers monitored on a quarterly basis and report presented to Audit Committee
- Annual review of the Insurance and Risk Management Strategy
- Adhoc reports provided to the Corporate Leadership Board when new, significant risk issues arise

## Strategic Risk Register and Action Plan

<b>Risk Number 1</b>	<b>Risk Owner: Chris Leslie</b>	<b>DATE: August 2015</b>
<b>Business Risk Description: Finance Pressures</b>		

Trigger	Consequences	Existing Controls	Likelihood	Impact	Risk Rating to date
<ul style="list-style-type: none"> <li>Failure or significant reduction of income streams and external funding</li> <li>Significant change in priorities – influenced by either demand, political vision or legislation</li> <li>Unplanned expenditure as a result of urgent works</li> <li>Expenditure incurred where no budgetary provision exists</li> </ul> <p>Target levels for income are not achieved Target efficiency savings are not achieved</p>	<ul style="list-style-type: none"> <li>Council unable to meet budget requirements</li> <li>Staffing and service level reductions</li> <li>Greater use of reserves to maintain a balanced budget</li> <li>Working balance levels fall below the risk assessed level</li> <li>Increased Council Tax</li> <li>Increase in charges</li> </ul>	<ul style="list-style-type: none"> <li>Medium Term Financial Planning is undertaken on an annual basis</li> <li>Monthly Budget Monitoring</li> <li>Half year reports to Members</li> <li>A Funding Volatility Reserve has been created to specifically address the uncertainty of Government funding levels</li> <li>Healthy reserves and working balance levels held</li> </ul>	4	5	20
					Reduce
					<b>Review Date</b>
					October 2015

Effectiveness of controls	Further Action Required	Target Date for completion	Officer(s) Responsible
Savings targets will be monitored throughout the year in addition to monthly budget monitoring on the Collaborative Planning module which requires sign off from Budget Managers and Heads of Service.	Savings for 2016/17 and 2017/18 will begin to be drafted with the aim of having approval by December 2015.	Monthly budget monitoring.  Budget set 2 March 2015.	Chris Leslie, Finance Director

Appendix B

<b>Risk Number 2</b>	<b>Risk Owner: Gordon Glenday</b>	<b>DATE: August 2015</b>
<b>Business Risk Description:</b> Local Development Plan		

Trigger	Consequences	Existing Controls	Likelihood	Impact	Risk Rating to date
<ul style="list-style-type: none"> <li>Failure of Council to adopt a Plan in line with National Planning Policy Framework (NPPF)</li> </ul> <p>Lack of If you would like to discuss this, please do not hesitate to contact me on ext 2821.</p> <ul style="list-style-type: none"> <li>formal agreement through Duty to Cooperate</li> <li>Failure to adopt Community Infrastructure Levy (CIL)</li> <li>Loss/long term absence of staff</li> <li>Recruitment difficulties</li> </ul>	<ul style="list-style-type: none"> <li>Planning applications judged against NPPF 'in favour of sustainable development'</li> <li>Development permitted in locations on an ad-hoc basis</li> <li>Potential appeal costs</li> <li>Staff resource implications to deal with increased applications</li> <li>Lack of necessary infrastructure funding</li> <li>Delay to Plan preparation and lack of necessary expertise &amp; experience</li> </ul>	<ul style="list-style-type: none"> <li>Meeting targets set out in the Plan timetable (Local Development Scheme)</li> <li>Ongoing discussion with neighbouring Local Planning Authorities</li> <li>Recruitment of permanent staff to fill posts in Planning Policy Team (August 2014), reduced reliance on agency &amp; temp staff</li> </ul>	3	4	12
					Reduce
					<b>Review Date</b>
					October 2105

Effectiveness of controls	Further Action Required	Target Date for completion	Officer(s) Responsible
Current adopted Plan timetable now out of date, CIL Preliminary Charging Rates agreed by Strategy & Policy Board (19.03.14) but consultation has yet to take place	<ul style="list-style-type: none"> <li>Agreement of a new Plan timetable</li> <li>Agreement through Duty to Cooperate with neighbouring Local Planning Authorities regarding cross-boundary issues</li> <li>Agreement of key issues to inform proposed spatial strategy for quantum and locations of new development</li> <li>Completion of technical evidence to inform emerging Plan policies</li> <li>Consultation on CIL Preliminary Draft Charging Schedule and further work to enable CIL adoption by April 2016 deadline</li> </ul>	<p>LDP – July 2017</p> <p>CIL – April 2016</p>	Gordon Glenday, Head of Planning Phil Drane, Planning Policy Team Leader

<b>Risk Number 3</b>	<b>Risk Owner: Ashley Culverwell &amp; Phil Ruck (re IT requirements)</b>	<b>DATE: August 2015</b>
<b>Business Risk Description:</b> Disaster Recovery/Continuity Planning		

<b>Trigger</b>	<b>Consequences</b>	<b>Existing Controls</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Rating to date</b>			
<ul style="list-style-type: none"> <li>Failure to respond effectively to an incident/event (e.g IT loss, virus/flu pandemic)</li> <li>Failure to provide critical services</li> <li>Failure to identify critical suppliers</li> <li>Lack of resilience of local businesses</li> </ul>	<ul style="list-style-type: none"> <li>Ineffective response to an incident causes service disruption</li> <li>Unable to deliver key services</li> <li>Possible loss of income</li> <li>Staff absence</li> <li>Vulnerable residents at risk through lack of service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Most services have Business Continuity Plans in place</li> <li>Civil Contingency Act</li> <li>Insurance cover</li> <li>Alternative fuel stocks/supplies</li> <li>Pandemic flu plan</li> <li>A business continuity guide has been produced for businesses</li> </ul>	2	5	10			
					Retain			
								<b>Review Date</b>
								October 2015

<b>Effectiveness of controls</b>	<b>Further Action Required</b>	<b>Target Date for completion</b>	<b>Officer(s) Responsible</b>
On over-arching business continuity plan is in place plus individual business continuity plans for the majority of services. No testing of those plans has yet taken place.	<ul style="list-style-type: none"> <li>ICT to provide up to date Business Continuity Recovery Plan</li> <li>Internal exercises to test the adequacy of Business Continuity Plans across the Council cannot occur until the BC Plan for ICT has been produced by that service</li> <li>Intranet development for Business Continuity and Emergency Planning information</li> <li>Exercises to test resilience of Gold Command &amp; Emergency Planning measures that are in place – now arranged for 22<sup>nd</sup> October 2015</li> </ul>	Nov 2015	Mark Stanbury, Environmental Health Manager, Sue White, Risk & Insurance Officer Departmental managers Risk Management/CLB
		December 2015	Phil Ruck, Head of Paid Services & Tim Huggins, ICT Manager

<b>Risk Number 4</b>	<b>Risk Owner: Phil Ruck</b>	<b>DATE: August 2015</b>
<b>Business Risk Description:</b> Organisational Capacity		

Trigger	Consequences	Existing Controls	Likelihood	Impact	Risk Rating to date
<ul style="list-style-type: none"> <li>Lack of capacity to effectively govern the organisation</li> <li>Loss/sickness of key staff</li> <li>Failure to focus on staff wellbeing and development</li> <li>Failure to build relationships with residents and business communities</li> </ul>	<ul style="list-style-type: none"> <li>Poor staff morale</li> <li>Poor communications</li> <li>Inability to deliver effective and efficient services</li> <li>Poor delivery of aspirations and priorities</li> <li>Inefficient use of resources</li> <li>Breakdown of Officer and Member relations</li> </ul>	<ul style="list-style-type: none"> <li>MTFP</li> <li>Communications Protocol and Strategy</li> <li>Workforce Strategy</li> <li>Staff Survey (and Action Plan)</li> <li>Peer Review (and Action Plan)</li> <li>Regular meetings between Senior Members and Officers</li> <li>Staff Bulletins and Briefings</li> <li>Review options for alternative service delivery models</li> </ul>	3	4	12
					Reduce
					<b>Review Date</b>
					October 2015

Page 20

Effectiveness of controls	Further Action Required	Target Date for completion	Officer(s) Responsible
<p>As a small Authority – changes in priorities will always present a challenge in terms of flexibility and capacity to deliver.</p> <p>Financial constraints (also set out in RSK 1) places pressure on maintaining effective service delivery</p>	<ul style="list-style-type: none"> <li>Develop a clear and concrete vision for the Council in order that resource requirements can be scoped</li> <li>Continuous programme of service reviews to evaluate alternative options for service delivery</li> </ul>	<p>30/09/2015 (after consultation)</p> <p>Ongoing</p>	<p>Phil Ruck, Head of Paid Service</p> <p>Relevant Managers</p>

<b>Risk Number 5</b>	<b>Risk Owner: Chris Potter</b>	<b>DATE: August 2015</b>
<b>Business Risk Description:</b> Information Management and Security		

Trigger	Consequences	Existing Controls	Likelihood	Impact	Risk Rating to date			
<ul style="list-style-type: none"> <li>Data held by the Council ends up in inappropriate hands</li> <li>Little or no awareness of data collected internally – poor information sharing</li> <li>Lack of resources for IT integration</li> </ul>	<ul style="list-style-type: none"> <li>Breach of corporate governance</li> <li>Increased costs and legal implications</li> <li>Reputation damaged</li> </ul>	<ul style="list-style-type: none"> <li>Data Protection Policy</li> </ul>	3	5	15			
					Reduce			
								<b>Review Date</b>
								October 2015

Effectiveness of controls	Further Action Required	Target Date for completion	Officer(s) Responsible
Weak, arising from a lack of an integrated approach to information management across the Council.	<ul style="list-style-type: none"> <li>Review existing Data Protection Policy</li> <li>Raise awareness of the importance of information to the Council and the individual</li> <li>Produce a co-ordinated approach to information management and security</li> <li>Further training is being rolled out to Members &amp; Officers and dates being arranged.</li> <li>Diarised date in place for required annual renewal of Council's Certificate of Registration with the Information Commissioner's Office (registration number Z2092695) due to expire on 8 February 2016.</li> <li>Diarised date in place for individual Councillor notification with ICO for renewal in April 2016.</li> </ul>	31/11/2015  Beginning of January 2016  April 2016	Christopher Potter, Monitoring Officer and Head of Support Services

<b>Risk Number 7</b>	<b>Risk Owner: Phil Ruck</b>	<b>DATE: August 2015</b>
<b>Business Risk Description:</b> Commercial Activities		

Trigger	Consequences	Existing Controls	Likelihood	Impact	Risk Rating to date
<ul style="list-style-type: none"> <li>Business plans not agreed</li> <li>Individual service income not realised or income generation below projections</li> <li>Business models reveal poor market prospects or fail</li> <li>Income not realized due to weak commercial company arrangements (including poor Governance)</li> </ul>	<ul style="list-style-type: none"> <li>Council unable to meet budget requirements</li> <li>Staffing and service level reductions</li> <li>Spending/service cutbacks</li> <li>Greater use of reserves if required net savings are not achieved</li> <li>Increased Council Tax</li> <li>Increase in charges</li> <li>Ineffective application of business model and company fails (services move back in-house)</li> </ul>	<ul style="list-style-type: none"> <li>Medium Term Financial Planning is undertaken on an annual basis with monitoring arrangements</li> <li>Monthly Budget Monitoring</li> <li>Quarterly monitoring arrangements</li> <li>Regular reports to Asset and Enterprise committee to provide close monitoring</li> <li>Robust business modeling and financial projections</li> </ul>	2	4	8
					Retain
			<b>Review Date</b>		
					October 2015

Effectiveness of controls	Further Action Required	Target Date for completion	Officer(s) Responsible
In early stages but all aspects of this are being closely monitored by all parties (senior officers and Members)	<ul style="list-style-type: none"> <li>More reporting on progress</li> <li>Services to include updates within their service plans</li> <li>Sound legal and financial advice to support the creation of a commercial company</li> <li>Agree commercial vehicle requirements for the Council</li> <li>Develop a business case to support the commercial activity</li> <li>Monitoring activities via a Task Force</li> </ul>	Sept 2015	Phil Ruck, Head of Paid Service
		31/01/2016	Phil Ruck, Head of Paid Service & Steve Summers, Head of Customer Services
		31/12/2015	



<b>Risk Number 8</b>	<b>Risk Owner: Phil Ruck</b>	<b>DATE: August 2015</b>
<b>Business Risk Description:</b> Contract/Partnership Failure		

Trigger	Consequences	Existing Controls	Likelihood	Impact	Risk Rating to date
<ul style="list-style-type: none"> <li>Key partnership fails or services provided via arrangements lacking adequate governance</li> </ul>	<ul style="list-style-type: none"> <li>Lack of accountability</li> <li>Resources wasted</li> <li>Financial losses</li> <li>Objectives not met</li> </ul>	<ul style="list-style-type: none"> <li>SLA's embedded within contract and penalties in place for non performance</li> <li>Regular reporting on contract performance</li> <li>Escalation and governance in place</li> </ul>	2	4	8
					Retain
					<b>Review Date</b>
					October 2015

Effectiveness of controls	Further Action Required	Target Date for completion	Officer(s) Responsible
Controls are governed by contract and are in a good situation	<ul style="list-style-type: none"> <li>Continue to fine tune reporting</li> <li>Hold regular meetings with suppliers</li> <li>Engage relevant HoS (where applicable)</li> <li>New performance reports established and submitted to F&amp;R Committee</li> <li>Continue to challenge existing performance indicators</li> <li>Revised Partnership, Strategy, Policy &amp; Procedures to be ratified at Policy, Finance &amp; Resource Committee on 15 September 2015.</li> </ul>	Ongoing	Phil Ruck, Head of Paid Service

<b>Risk Number 9</b>	<b>Risk Owner: Phil Ruck</b>	<b>DATE: August 2015</b>
<b>Business Risk Description:</b> Lack of Strategic Direction		

Trigger	Consequences	Existing Controls	Likelihood	Impact	Risk Rating to date
<ul style="list-style-type: none"> <li>Lack of long term strategic planning</li> <li>Lack of relationship with residents, business communities and partners</li> </ul>	<ul style="list-style-type: none"> <li>Failure to adapt to policy/legislative changes</li> <li>Poor performance management</li> <li>Poor morale</li> <li>Poor delivery of priorities/aspirations</li> <li>Inefficient use of resources</li> <li>Reputation undermined</li> <li>Failure to communicate effectively</li> <li>Lack of community engagement</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Plan</li> <li>Training and Development for Officers and Members</li> <li>Code of Conduct</li> <li>Consultation/Surveys</li> <li>Project and Performance Management Framework</li> </ul>	3	4	12
					Reduce
					<b>Review Date</b>
					October 2015

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Effectiveness of controls	Further Action Required	Target Date for completion	Officer(s) Responsible
Some improvements required	<ul style="list-style-type: none"> <li>Develop a clear and concrete vision for the Council in order that resource requirements can be scoped and the vision can be communicated internally and externally</li> </ul>	30/09/2015	Phil Ruck, Head of Paid Service

<b>Risk Number 10</b>	<b>Risk Owner: Helen Gregory</b>	<b>DATE: August 2015</b>
<b>Business Risk Description:</b> Failure to spend Capital Receipts		

Trigger	Consequences	Existing Controls	Likelihood	Impact	Risk Rating to date
<ul style="list-style-type: none"> <li>Delays in delivering Affordable Housing programme</li> </ul>	<ul style="list-style-type: none"> <li>In the event that the Receipts are not spent then all or the outstanding balance of the specific identified sums has to be paid to DCLG with interest at 4% above Base Rate from receipt.</li> <li>Reputation damage externally with HCA/EHOG and press coverage.</li> </ul>	<ul style="list-style-type: none"> <li>Monitored by finance team</li> <li>Affordable housing programme</li> </ul>	3	5	15
					Reduce
			Reduce likelihood to 2 following control measures issued to purchase properties		

Effectiveness of controls	Further Action Required	Target Date for completion	Officer(s) Responsible
<ul style="list-style-type: none"> <li>Improve monitoring arrangements to CLB level</li> <li>Immediate action has been implemented to mitigate risk of delays to affordable housing development programme by instructing the asset management team to purchase 2 x 3 bedroom properties</li> </ul>	<ul style="list-style-type: none"> <li>Capital receipts placed on strategic risk register and monitored at CLB meetings</li> </ul>	Sep -15 £168,347.77  Dec-15 £940,485.57  Mar-16 £446,052.23	Helen Gregory, Head of Housing

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BRENTWOOD BOROUGH COUNCIL STRATEGIC RISK REGISTER SUMMARY SHEET

Row No	Risk No	Risk Description	Residual Risk Rating			Residual Risk Rating			Residual Risk Rating			Residual Risk Rating			Current Risk Rating			Movement	Risk Response/Update on action required	Risk Owner
			Aug-14			Nov-14			Jan-15			Jun-15			Aug-15					
			*L	*I		*L	*I		*L	*I		*L	*I		*L	*I				
1	RSK1	Finance Pressures	3	4	12	3	4	12	3	4	12	3	4	12	4	5	20	↑	COMMENT NOV 14:Savings/Income Strategy required to underpin the MTFP. COMMENT JAN 15: Work is underway on the MTFP and will be concluded in March 2015. COMMENT JUNE 15: Savings options for 2016/17 and 2017/18 are being developed. <b>COMMENT AUG 15: Increased risk due to recent announcements from central government and challenging savings targets.</b>	Chris Leslie
2	RSK5	Information Management and Security	3	5	15	3	5	15	3	5	15	3	5	15	3	5	15	↔	COMMENT NOV 14: Limited move forward. COMMENT JAN 15: Contact made with ICO to renew data protection registration (on going) and training due to be prepared and rolled out. COMMENT JUNE 15: Data protection registration has been renewed, expiring 8 February 2016. Training prepared and being rolled out. <b>COMMENT AUG 15: Induction training to new members was delivered on 17 June 2015. Further training being rolled out. Diarised dates in place for renewal of Council's Certificate of Registration &amp; individual Councillor notification with ICO.</b>	Chris Potter
3	RSK10	Failure to spend Capital Receipts										3	5	15	3	5	15	↔	NEW RISK COMMENT JUNE 15: Immediate action has been implemented to mitigate risk of delays to affordable housing development programme by instructing the asset management team to purchase 2 x 3 bedroom properties. <b>COMMENT AUG 15: Delegated authority granted at 17 June 2015 Housing Committee for Officers to purchase two properties on the open market to meet the first expenditure deadline of the 15 September 2015. The properties should exchange/complete on the 11 September 2015.</b>	Helen Gregory
4	RSK2	Local Development Plan	3	4	12	3	4	12	3	4	12	3	4	12	3	4	12	↔	COMMENT NOV 14: Subject to Council approving the LDP consultation documents in December, the LDP is on track. COMMENT JAN 15: Consultation taking place, timetable on track. CIL timetable has been amended to co-incide with LDP. LDP timetable will need to be amended once the outcome of current consultation is known, particularly joint working with Basildon BC. COMMENT JUNE 15: Delivery dates for CIL and LDP changed in the light of further consultation on planning policies and a review of Council priorities. <b>COMMENT AUG 15: New Local Plan timetable agreed by Planning &amp; Licencing Committee on 21 July 2015.</b>	Gordon Glenday

BRENTWOOD BOROUGH COUNCIL STRATEGIC RISK REGISTER SUMMARY SHEET

Row No	Risk No	Risk Description	Residual Risk Rating			Residual Risk Rating			Residual Risk Rating			Residual Risk Rating			Current Risk Rating			Movement	Risk Response/Update on action required	Risk Owner
			Aug-14			Nov-14			Jan-15			Jun-15			Aug-15					
			*L	*I		*L	*I		*L	*I		*L	*I		*L	*I				
5	RSK4	Organisational Capacity	3	4	12	3	4	12	3	4	12	3	4	12	3	4	12	↕	COMMENT NOV 14: Develop a programme of service reviews. COMMENT JAN 15: Work has started within Housing, Revenues and Benefits. COMMENT JUNE 15: Work has commenced on the refreshed Corporate Plan. This will lead in turn to service plans which will clearly identify resource/capability issues. <b>COMMENT AUG 15: The Corporate Plan is being refreshed with a public consultation. A restructure of CLB is currently underway. More regular sessions are being held with all teams to understand pressures.</b>	Philip Ruck
6	RSK9	Lack of Strategic Direction	3	4	12	3	4	12	3	4	12	3	4	12	3	4	12	↕	COMMENT NOV 14: No change. COMMENT JAN 15: The long term vision will need to be developed alongside the MTFP. COMMENT JUNE 15: Work has commenced on the refreshed Corporate Plan. After consultation this will be presented to Full Council in Sept 2015. <b>COMMENT AUG 15: The refreshed Corporate Plan is in the latter stages of development. The HoPS is visiting all teams to advise on strategic roadmap.</b>	Philip Ruck
7	RSK3	Disaster Recovery/Business Continuity	2	5	10	2	5	10	2	5	10	2	4	8	2	4	8	↕	COMMENT NOV 14: Updated BC and EP Workplans have been produced. Over-arching and Service specific recovery plans are in development with all HoS. COMMENT JAN 15: An over-arching Business Continuity Plan has been produced for the Council as well as a Business Continuity template for all Services to prepare their own. These will be delivered by 31/03/2015. Resilience is to be tested through planned scenarios again by 31/03/2015. Battleboxes have been provided to all Services and there are back-ups at the depot. Business Continuity Plans contain information about what all battleboxes should contain. COMMENT JUNE 15: Updated BC and EP Workplans have been produced, with the exception of ICT and Parking which are in development. Resilience will be tested through planned scenarios once all Business Continuity Plans have been produced. Both staff and managers have been trained on Business Continuity and what their roles are. Business Continuity will be extended out to external businesses through the provision of key information. <b>COMMENT AUG 15: ICT to provide a Disaster Recovery Plan, once this has been produced testing will take place. Exercises to test resilience of Gold Command &amp; Emergency Planning arranged for 22/10/2015.</b>	Ashley Culverwell
8	RSK7	Commercial Activities	2	4	8	2	4	8	2	4	8	2	4	8	2	4	8	↕	COMMENT NOV 14: A task force group has been formed to review activities and address potential risks. COMMENT JAN 15: No change. COMMENT JUNE 15: Budegt approval has been granted for formation and work has commenced on the business case - the justification for the LATCO. <b>COMMENT AUG 15: The focus on commercial activities continues with a review of alternative delivery models that might not necessitate the formation of a LATCo.</b>	Philip Ruck

BRENTWOOD BOROUGH COUNCIL STRATEGIC RISK REGISTER SUMMARY SHEET

Row No	Risk No	Risk Description	Residual Risk Rating			Residual Risk Rating			Residual Risk Rating			Residual Risk Rating			Current Risk Rating			Movement	Risk Response/Update on action required	Risk Owner
			Aug-14			Nov-14			Jan-15			Jun-15			Aug-15					
			*L	*I		*L	*I		*L	*I		*L	*I		*L	*I				
9	RSK8	Contract/Partnership Failure	2	4	8	2	4	8	2	4	8	2	4	8	2	4	8	↕	COMMENT NOV 14: New performance reports established and submitted to F&R committee. Continue to review approach and metrics. COMMENT JAN 15: No change. COMMENT JUNE 15: Metrics continue to be improved and SLAs introduced. <b>COMMENT AUG 15: As per previous report we continue to re-inforce metrics and understanding of key drivers for BBC.</b>	Philip Ruck
<div style="border: 1px solid black; padding: 5px; margin: 5px;"> <p>* L = Likelihood Rating (1 = Low, 5 = High)                      * I = Impact Rating (1 = Low, 5 = High)                      Maximum Score 5 x 5 = 25</p> </div>																				

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**29 September 2015**

**Audit, Scrutiny and Transformation Committee**

**Work Programme 2015/16**

**Report of:** *Chris Leslie, Finance Director (Section 151)*

**Wards Affected:** *All*

**This report is:** *Public*

## **1. Executive Summary**

- 1.1 The work of the Audit, Scrutiny and Transformation Committee will be delivered both by Members working in groups and through formal Committee reports. The Audit, Scrutiny and Transformation Committee will make recommendations to decision making committees and Council as necessary. The Audit, Scrutiny and Transformation is invited to consider its 2015/16 work programme.

## **2. Recommendation(s)**

**2.1 That the Member/Officer Communications / Members Casework Task and Finish Group be removed from the work programme.**

**2.2 That the Audit, Scrutiny and Transformation work programme 2015/16 at appendix A be approved.**

## **3. Introduction and Background**

3.1 At the beginning of the municipal year, the Audit, Scrutiny and Transformation Committee agreed its work programme.

3.2 Committee members are invited by the Chair and Vice-Chair to propose topics for inclusion on the work programme.

3.3 The Audit, Scrutiny and Transformation Committee will have particular regard to the Budget, Corporate Plan, Forward Plan, Council policy and significant national issues. The Committee will also seek to include the scrutiny of external facing matters that are of significant interest to local communities.

3.4 The work programme of the Audit, Scrutiny and Transformation Committee should not include management or staffing issues which are the responsibility of the Head of Paid Service.

#### **4. Issue, Options and Analysis of Options**

4.1 The Scrutiny function works best when the committee undertakes its work both in member groups and by receiving formal committee reports. The benefits of a Task and Finish approach were outlined at the 29 June 2015 meeting of the Committee.

4.2 During its meeting on 29 June 2015 in addition to the proposed work programme the Committee agreed to add the following:

- Training for Members in relation to IT transformation and data security to be added to the agenda for September 2015;
- Review of the Members Code of Conduct with specific reference to, but not limited to member engagement with the media.

4.3 The current work programme for the Committee is at Appendix A.

#### **5. Reasons for Recommendation**

5.1 To enact the provisions of Part 4.4 of the Constitution that the Audit and Scrutiny Committee agrees its work programme at each meeting of the Committee.

#### **6. Consultation**

6.1 This report seeks to consult with the Audit and Scrutiny Committee on its work programme.

#### **7. References to Corporate Plan**

7.1 The priority area A Modern Council includes an action to improve the Council's governance arrangements, leading to faster, more effective decision-making. An effective scrutiny function is an essential element of that priority.

## **8. Implications**

### **Financial Implications**

**Name & Title:** Chris Leslie, Finance Director

**Tel & Email:** 01277 312542 / christopher.leslie@brentwood.gov.uk

8.1 There are no direct financial implications arising from this report.

### **Legal Implications**

**Name & Title:** Christopher Potter, Monitoring Officer and Head of Support Services

**Tel & Email:** 01277 312860 / christopher.potter@brentwood.gov.uk

8.2 There are no legal implications at present.

## **9. Background Papers**

9.1 None

## **10. Appendices to this report**

Appendix A – Work Programme 2015/16

### **Report Author Contact Details:**

**Name:** Chris Leslie, Finance Director

**Telephone:** 01277 312542

**E-mail:** christopher.leslie@brentwood.gov.uk

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Topic	Committee Date	Lead Members	Commentary
Annual Work Programme	29 June 2015	Councillors Kerslake & Murphy	The Chair and Vice-Chair consult the Committee on the scrutiny work programme 2015/16.
Hackney Carriage Fare Setting Process	29 June 2015	TBC	The Licensing Committee of 13 January 2015 recommended to the Audit and Scrutiny Committee that a cross party Task and Finish Group be established in order to review the process for setting of tariffs in respect of Hackney Carriage fares and advise on a future programme for tariff setting.
Transformation and New Ways of Working	29 Sep 2015	Officer Report	This is a vital piece of work and will support and make evident the change that is happening within the Council. The review will focus on : <ul style="list-style-type: none"> <li>➤ Contact Centre performance and the progression of the Customer Access Strategy/ the integration of further service areas into the Contact Centre.</li> <li>➤ The progress and implementation of the New Ways of Working programme, highlighting major milestones achieved and to follow.</li> <li>➤ A review of the ICT work programme that supports both of the above.</li> <li>➤ Liaison with other Chairs (to ensure co-ordination particularly re any work to be undertaken pre-scrutiny).</li> </ul>
Budget Scrutiny	29 Sep 2015	TBC	Creation of a task and finish group to carry out budget Scrutiny work and start with a service review of existing budgets.
Training for Members in relation to IT transformation and data security	29 Sep 2015	Officer Report	Agreed to be placed on the agenda at the meeting on 29 June 2015.
Review of the Members Code of Conduct with specific reference to, but not limited to member engagement with the media.	January 2016	TBC	Added to the work programme agenda at the meeting on 29 June 2015.
Revenues and Benefits shared service	7 March 2016	Officer Report	Officer report on the Revenues and Benefits shared service.
Annual Report of the Audit, Scrutiny and Transformation Committee	June 2016	Councillors Kerslake & Murphy	The constitution requires an annual report on the work programme of overview and scrutiny function be prepared for Council.
William Hunter Way lessons learned Task and Finish Group	Oct 2016	TBC	A follow up report to that presented on 28/10/14 should be taken to the Committee in October 2016.

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**29<sup>th</sup> September 2015**

**Audit, Scrutiny and Transformation Committee**

**Transformation and New Ways of Working**

**Report of:** Philip Ruck – Head of Paid Service

**Wards Affected:** All

**This report is:** Public

## **1. Executive Summary**

- 1.1 It is clear that the Council has to transform the way that it conducts its business. Advances in technology, changes in legislation and financial and other pressures, requires an organisation that is flexible; one which meets the needs of its customers but also provides employees of the Council with the tools to perform.
- 1.2 Key to any transformation is ensuring that the Council can continue to make the changes it needs to on an on-going basis. This implies an ability to adapt and be innovative.
- 1.3 Phase 1 of the Transformation agenda will focus on the delivery of the Customer Access Strategy and New Ways of Working. This is a vital piece of work and will support and make evident the change that is happening within the Council. This phase focuses on :
  - The progress and implementation of the New Ways of Working programme, highlighting major milestones achieved and to follow.
  - Implementation of the Customer Access Strategy and current progress.
  - A review of the work programme that supports both of the above.

## **2. Recommendation(s)**

- 2.1 **Agree the approach to Phase 1 of the Transformation and New Ways of Working Programme.**
- 2.2 **Agree that further progress reports are made to the Audit, Scrutiny and Transformation Committee which will update on future workstreams.**

### **3. Introduction and Background**

3.1 Phase 1 of the Transformation Agenda for the Council is essential. It will deliver new methods of interacting with our residents and enable its employees to deliver quality services at a cost and in an environment that is fit for the modern age. No process or system could be deemed to be future proof but what we are building within the Council will be durable and key to developing the supporting infrastructure and the customer interface that the Council requires.

3.2 The transformation is driven by:

- Engagement – the need to engage with all in the decision making process of the Council
- Efficiency – the need to deliver services effectively with best value
- Informed decisions – produce high quality data to support decision making
- Morale – involve employees in the journey – they are a valued resource and also highly loyal and knowledgeable
- The need to support the Council’s vision and strategic thinking

3.3 Phase 1 of the Transformation Agenda has clear deliverables:

- 1) For the customer - the implementation of the Customer Access Strategy
- 2) For the employees - delivering New Ways of Working

3.4 The deliverables outlined in section 3.3 above, are supported by key enablers:

- Communication – ensure employees and customers are informed at all stages of the process
- Technology – ensure our IT toolset in “Modern” delivers in sync with the operational deliverables
- Process Reviews –change the way we do things
- Skills agenda – ensure that the Council have the right skills – this might and will mean training and achieving knowledge transfer

#### **Issue, Options and Analysis of Options**

3.5 The transformation agenda is seeking to provide major changes to the organisation in both the back office and the way work is done. To achieve this, the Council is bringing together two particular workstreams providing



the focus for this agenda; the New Ways of Working programme (NWoW) and the Customer Access Strategy (CAS).

- 3.6 The NWoW and the CAS are the operational deliverables and their delivery will be supported by solid communications, improved technology, process reviews, ensuring the staff are trained, skilled in their requirements and mentored to ensure they achieve.
- 3.7 All this work is driven by the need to engage with our stakeholders (community groups, representatives and the public) the need to be more efficient and drive out waste through good choices supported by data. In turn this should improve staff morale, resulting in better performance.
- 3.8 The transformation phase 1 is captured and represented diagrammatically at Appendix A - Phase 1 Transformation Plan Diagram

### **New Ways of Working**

- 3.9 So far, the NWoW programme enabled the delivery of:

- Remote working,
- Office 365 and
- A new phone system

This has provided the Council with new opportunities for service delivery methods and practices.

- 3.10 In the future the NWoW programme will see the delivery of
- High Availability – systems that enable data to be stored effectively off site in order for improved resiliency i.e. the delivery of data anytime anywhere (see IT Transformation and IT Security Report to Audit, Scrutiny and Transformation Item 9 29.09.2015)
  - Desktop Anywhere – allows staff to work from any place, any time and any where
  - Smart Working - Skype for Business, Modern Desktop, Windows 10.0, Agile Updates
  - Cloud Delivery
- 3.11 The workstreams will be developed with timescales and it is intended to be delivered over the next 18 months.

## **Customer Access Strategy**

3.12 Members will be aware that the Customer Services Transformation Business Case was approved in November 2013. The concept of this transformation was to shift to a new model that offered a wide range of modern and efficient access channels for customers. This new service model would consist of three main strands:

- A modern, and customer friendly website with increasing options to transact on-line with the Council;
- An effective and efficient telephone service with direct access to trained advisors able to resolve most queries without the need to refer the customer on.
- Handling other contact channels such as post, emails, text messaging and social media.

The two key elements to deliver this customer services transformation was the introduction of a Customer Access Strategy and a Customer Contact Centre.

4.7 The Customer Access Strategy was approved in December 2014 with the key aim to improve customer experience and satisfaction whilst driving down costs through economies of scale and joined up processes. The strategy provides the overarching framework for the channels (or methods) the Council will use to interact with customers to ensure the successful delivery of our services with the resources available. The strategy sets out the following strategic principles:

- Be open to all
- Provide Choice
- Meet Needs
- Deliver First Time
- Provide Satisfaction

4.9 The Implementation Plan contains key actions; progress on these actions to date is set out below:

- New Complaints Policy and procedures developed
- New 'Kiosk' facility introduced into the Town Hall for residents making payments
- Ongoing Workshops are taking place with front facing services to develop detailed plans for the following work streams:
  - Channel Shift Strategy and targets
  - Online Customer Transactions/website pages
  - Text Messaging service
  - Customer Standards
  - Customer Satisfaction and Benchmarking
- A refreshed Council website homepage and introduction of 'My Nearest' - planned for autumn 2015.
- Technology projects
  - Initial Workshops held in September 2015 to develop Business Cases/Options for appropriate software systems to enhance customer services including:
    - Customer Relationship Management
    - Booking System
    - Customer Portal

4.10 The Contact Centre began operating in April 2014 and is now working at full capacity delivering the following:

- Services for Housing, Depot, Environmental Health, Licensing, Planning and Building Control
- Handling over 120 types of enquiries – from arranging a rent payment to reporting a missed waste collection
- Additional tasks to assist services i.e. customer satisfaction surveys, updating data on systems etc

Members will be aware that the performance of the Customer Contact Centre has been reported quarterly to the Policy, Finance and Resources Committee.

#### **4. Reasons for Recommendation**

To formalise and set out transformation phase 1 plan that identifies a clear and structured approach.

#### **5. Consultation**

5.1 With CLB

5.2 LB Newham & LB Havering IT (“OneSource”) on New Ways of Working and ‘Modern’ proposal

#### **6. References to Corporate Plan**

6.1 Transformation – Provide more modern and effective customer services, develop new ways of working for the Council, improving service delivery and reducing costs and unnecessary bureaucracy.

#### **7. Implications**

##### **Financial Implications**

**Name & Title: Chris Leslie, Finance Director (Section 151)**

**Tel & Email: 01277 312542 / christopher.leslie@brentwood.gov.uk**

7.1 The New Ways of Working Programme seeks to ensure the Council is making the most efficient use of its resources.

##### **Legal Implications**

**Name & Title: Saleem Chughtai, Governance Lawyer – BDT Legal**

**Tel & Email: 0208 227 2070 / Saleem.chughtai@bdtlegal.org.uk**

7.2 None.

**Other Implications** (where significant) – i.e. Health and Safety, Asset Management, Equality and Diversity, Risk Management, Section 17 – Crime & Disorder, Sustainability, ICT.

7.3 The Transformation agenda will have implications that will affect policies, services and processes. These will be captured as individual projects take shape and implemented.

**8. Background Papers** (include their location and identify whether any are exempt or protected by copyright)

8.1 Customer Access Strategy

**9. Appendices to this report**

Appendix A - Phase 1 Transformation Plan Diagram

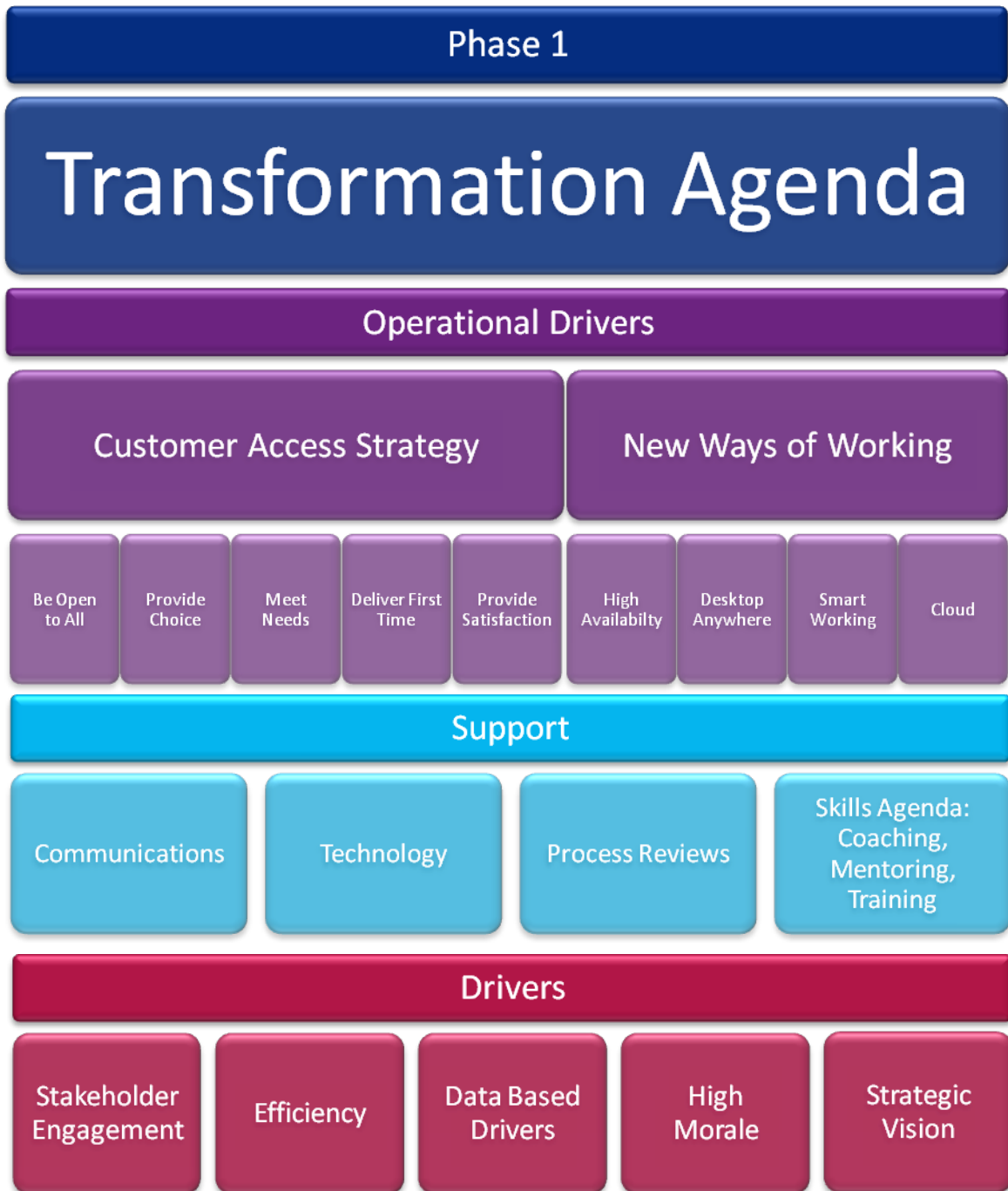
**Report Author Contact Details:**

**Name:** Philip Ruck – Head of Paid Service

**Telephone:** 01277 312569

**E-mail:** philip.ruck@brentwood.gov.uk

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**29 September**

**Audit, Scrutiny and Transformation**

**Protecting Data**

**Report of:** *IT Transformation and IT Security*

**Wards Affected:** *All*

**This report is:** *Public*

## **1. Executive Summary**

- 1.1 The work programme to support IT Transformation and IT security falls into two themes: “Building a solid foundation” and “My Desktop Anywhere”.
- 1.2 The Council has a duty to protect its data. Further, we must do so in order to continue to provide a high level of service to customers. To allow this to happen, we need to ensure the availability of ICT systems and access to data in a secure and reliable manner. This is provided by the IT infrastructure and can be thought of as the foundation to build upon.
- 1.3 In addition, the Council faces challenges including a continued increase in the amount of data being processed and stored, service provision to customers outside normal operating times through online services, and increasing costs and reduced resources.
- 1.4 New Ways of Working (NWoW) initiative outlines the need for officers to access information in a variety of ways and time periods to support changing customer requirements and working patterns. Using technology to provide “My Desktop Anywhere” supports NWoW putting the power into the department to design and provide their service.
- 1.5 To support this transformation IT needs to further transform! The approach of “high availability by design” should be implemented. The aim of high availability is to maximise access to systems and data for officers and customers. IT Transformation is delivered through the Modern Work Programme. Phase 1 improves current storage and links this with Microsoft Azure cloud services to enable the Council to take full advantage of the “cloud”.

## **2. Recommendation(s)**

**2.1 That the details in this report are noted and the approach of high availability by design to IT transformation and security is agreed.**

**2.2 Schedule an information workshop to inform Members in more detail.**

## **3. Introduction and Background**

3.1 For the purpose of this report IT security can be thought of as protecting data so that it is secure from unauthorised access, its integrity is kept intact, and its availability is maximised to allow high quality and efficient Council service.

3.2 IT Transformation can be considered as updating, replacing or removing hardware and software that provides ICT services to officers and customers to ensure cost effective, secure and robust systems.

3.3 The traditional approach to this is becoming increasingly challenging due to:

- increased amount of data being processed and stored
- increased services to customers using online services
- increased costs to support ICT hardware and reduced resources
- providing sustainable ICT services

3.4 The New Ways of Working (NWoW) initiative allows Officers of the Council opportunities to adopt modern working practices, which in turn demands access to information in a variety of ways and time periods to support changing trends and flexible working.

3.5 As the demands placed on Council services evolves, the adoption of “high availability by design” for ICT services is recommend to support the needs of a modern workforce. This will allow Council departments to make informed decisions on how they want to provide services, Business Continuity Planning & Disaster Recovery while continuing to provide a high level of service to customers in an efficient and cost effective manner.

3.6 High availability seeks to maximise the time that systems and data are available to officers and customers. To accomplish this in a sustainable and cost effective manner, the Council should take advantage of cloud

services that will provide the economies of scale and, in effect, extend the resources of the current ICT service without the expensive overhead of outsourced arrangements. It will also be flexible and allow the control to remain in the hands of the Council.

#### **4. Issue, Options and Analysis of Options**

- 4.1 The requirement to securely store and process information continues to grow along with pressures to reduce costs. As the amount of data increases so does the length of time it takes to backup and protect this data, which in turn can have a negative effect on the performance of computing systems, due to back ups running at the same time as systems being used. It also increases the risk of data loss due to the length of time between backups.
- 4.2 The hardware that supports the computer systems requires constant maintenance and has a replacement cycle adding to the current costs. The more hardware onsite the greater the volume of work and cost. Also, by providing our own disaster recovery services, the hardware is duplicated, adding extra financial burden and strain on IT resources.
- 4.3 The Council has recently invested in Microsoft Azure cloud storage services and updated hardware in the Council's data centre that supports the increasing amount of data required to be stored. In the first instance this will provide improved data access performance. The new hardware also allows data to be backed up into Microsoft Azure cloud services. This will remove the need for traditional style backup to tape, and "by design" moves the data offsite into an approved, accredited and highly secure data centre. Backup schedules can be set to allow the protection of databases, documents and files to suit the required data retention. Access to this data allows fast and efficient restoration when required.
- 4.4 The investment in Microsoft Azure cloud services will allow the Council to adopt a similar approach to computer systems as it does to data backup. Which in turn will remove the need for stand-by hardware to be commissioned in the event of a disaster.
- 4.5 Using the approach of high availability by design in effect says "*computer systems and data will be available to you*". This allows departments to make easier decisions on how they want to provide services to customers. A working example of this is the recent implementation of Microsoft Office365 services for the provision of email to Members and officers. The Council is now using a critical service governed by strict SLAs to provide access to emails with a service availability of 99%. Not only are emails protected but it has enabled us to offer access to emails via internet browsers, and using mobile devices.

- 4.6 There will be a number of Council services which are prime candidates to move into a cloud environment. One of which is our website. This will allow continued access to information in the event of an incident at the Council offices or pre-arranged maintenance work.
- 4.7 As the technology continues to improve at a rapid pace, the Council will be in a better position to implement any updates and improvements quickly and efficiently, allowing all Council services to benefit from improvements.
- 4.8 As we add more data and services into Microsoft Azure cloud services, a flexible platform can be created to allow access to data in a smart and secure way. As officers, using “My Desktop Anywhere”, and customers connect to services, a tailor made experience can be given ensuring the right information is accessed at the right time. Complex installation of computer programs on specific hardware is being replaced with simple “Apps” for smart phones and tablets, and rich content delivered through internet browsers.
- 4.9 Extending our current data centre into the Microsoft Azure cloud services allows us to take advantage of the economies of scales within a world class data centre. It also positions the Council, when ready, to take advantage of full cloud services and moving all ICT to Microsoft Azure, leaving a small footprint to allow management and connection. Instead of investing in hardware that we think might be the right size for the demand over the next 3 years, cloud services allows scaling up and scaling down so that the Council uses and spends money on only what is required. Moving to cloud services will be a phased approach to ensure continued service delivery, embedding the changing culture of how the Council and the customers will consume digital services.

## **5 Reasons for Recommendation**

- 5.1 To provide a robust computing service to support the changing needs of the Council’s working practices to support the modern workforce.
- 5.2 To provide the ‘high availability’ by design to support the overall transformation and NWoW as outlined in Audit Scrutiny & Transformation Agenda item 9 (29.09.2015).
- 5.3 To provide a cost effective and sustainable ICT service.

## **5 Consultation**

- 6.1 LB Newham & LB Havering IT (“oneSource”) on design and implementation.

## **7 References to Corporate Plan**

- 7.1 Support Transformation and New Ways of Working initiatives.

## **8 Implications**

### **Financial Implications**

**Name & Title: Chris Leslie, Finance Director (Section 151)**

**Tel & Email: 01277 312542 / christopher.leslie@brentwood.gov.uk**

- 8.1 None directly arising from this report.

### **Legal Implications**

**Name & Title: Saleem Chughtai, Governance Lawyer – BDT Legal**

**Tel & Email: 0208 227 2070 / Saleem.chughtai.org.uk**

- 8.2 None

**Other Implications** (where significant) – i.e. Health and Safety, Asset Management, Equality and Diversity, Risk Management, Section 17 – Crime & Disorder, Sustainability, ICT.

- 8.3 This will have implications that will affect policies, services and processes. These will be captured as individual projects take shape and implemented.

## **9 Background Papers** (include their location and identify whether any are exempt or protected by copyright)

- 9.1 None

## **10 Appendices to this report**

None

**Report Author Contact Details:**

**Name:** Tim Huggins, IT Manager  
**Telephone:** 01277 312933  
**E-mail:** [tim.huggins@brentwood.gov.uk](mailto:tim.huggins@brentwood.gov.uk)

## **Members Interests**

Members of the Council must declare any pecuniary or non-pecuniary interests and the nature of the interest at the beginning of an agenda item and that, on declaring a pecuniary interest, they are required to leave the Chamber.

- **What are pecuniary interests?**

A person's pecuniary interests are their business interests (for example their employment trade, profession, contracts, or any company with which they are associated) and wider financial interests they might have (for example trust funds, investments, and asset including land and property).

- **Do I have any disclosable pecuniary interests?**

You have a disclosable pecuniary interest if you, your spouse or civil partner, or a person you are living with as a spouse or civil partner have a disclosable pecuniary interest set out in the Council's Members' Code of Conduct.

- **What does having a disclosable pecuniary interest stop me doing?**

If you are present at a meeting of your council or authority, of its executive or any committee of the executive, or any committee, sub-committee, joint committee, or joint sub-committee of your authority, and you have a disclosable pecuniary interest relating to any business that is or will be considered at the meeting, you must not :

- participate in any discussion of the business at the meeting, of if you become aware of your disclosable pecuniary interest during the meeting participate further in any discussion of the business or,
- participate in any vote or further vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

- **Other Pecuniary Interests**

Other Pecuniary Interests are also set out in the Members' Code of Conduct and apply only to you as a Member.

If you have an Other Pecuniary Interest in an item of business on the agenda then you must disclose that interest and withdraw from the room while that business is being considered

- **Non-Pecuniary Interests**

Non –pecuniary interests are set out in the Council's Code of Conduct and apply to you as a Member and also to relevant persons where the decision might reasonably be regarded as affecting their wellbeing.

A 'relevant person' is your spouse or civil partner, or a person you are living with as a spouse or civil partner

If you have a non-pecuniary interest in any business of the Authority and you are present at a meeting of the Authority at which the business is considered, you must disclose to that meeting the existence and nature of that interest whether or not such interest is registered on your Register of Interests or for which you have made a pending notification.



## **Audit, Scrutiny and Transformation Committee**

The Audit, Scrutiny and Transformation Committee provides advice to the Council and the committees on the effectiveness of the arrangements for the proper administration of the Council's financial affairs, including all relevant strategies and plans, acts as the Council's Overview and Scrutiny Committee with all the powers under Part 3 of the Local Authorities (Committee System) (England) Regulations 2012, and discharges the functions under section 19 of the Police and Justice Act 2006 (local authority scrutiny of crime and disorder matters). Without prejudice to the generality of the above, the terms of reference include those matters set out below.

### **Audit Activity**

- (a) To approve the Annual Internal Audit risk based plan of work.
- (b) To consider the Head of Internal Audit's annual report and opinion, and a summary of Internal Audit activity and the level of assurance it can give over the Council's corporate governance, risk management and internal control arrangements.
- (c) To consider regular progress reports from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
- (d) To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
- (e) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (f) To consider the arrangements for the appointment of the Council's Internal and External Auditors.

### **Regulatory Framework**

- 1) To maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
- 2) To review any issue referred to it by a Statutory Officer of the Council or any Council body.
- 3) To monitor the effective development and operation of risk management and corporate governance in the Council.
- 4) To monitor Council policies and strategies on whistleblowing Money Laundering Anti-Fraud and Corruption Insurance and Risk Management Emergency Planning Business Continuity.
- 5) To monitor the corporate complaints process.
- 6) To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- 7) To consider the Council's compliance with its own and other published standards and controls.

### **Accounts**

- 1) To review the annual statement of accounts. Specifically, to consider whether

appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

2) To review the Council's Annual Governance Statement.

3) To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Scrutiny**

1) To prepare the annual overview and scrutiny work programme taking into account items put forward by members and the Corporate Leadership Board ensuring that such items relate to the Council's functions and corporate priorities.

2) To propose 'place based' or local scrutiny for issues where a local investigative approach with a range of people or organisations is an appropriate way forward.

3) To manage scrutiny resources efficiently and effectively so that the outcomes of scrutiny are likely to lead to real improvements for the people of Brentwood.

4) To establish working groups (in line with agreed protocols) to undertake the work programme, including setting their terms of reference, the reporting arrangements, and to co-ordinate and review the work of the working groups.

5) To receive reports and other evidence from organisations, individuals and partnerships which the committee or working groups considers relevant to their work.

6) To review and/or scrutinise decisions made, or other action taken, in connection with the discharge of any functions of the Local Authority.

7) To deal with those issues raised through the 'Councillor Call for Action' scheme in line with agreed protocols and procedures.

8) To make reports or recommendations to the Local Authority, any committee or sub-committee of the Local Authority, any officer of the Local Authority, or any joint committee on which the Local Authority is represented or any sub-committee of such a committee, with respect to the discharge of any functions of the Local Authority.

9) To review matters of local community concern including partnerships and services provided by 'other' organisations such as the National Health Service and Essex County Council.

10) To make reports or recommendations to the Local Authority, any committee or sub-committee of the Local Authority, any officer of the Local Authority, or any joint committee on which the Local Authority is represented or any sub-committee of such a committee, on matters which affect the Borough of Brentwood or the inhabitants of the Borough of Brentwood.

11) To review and/or scrutinise decisions made, or other action taken, in connection with the discharge by the responsible authorities of their crime and disorder functions.

12) To make reports or recommendations to the Local Authority with respect to the discharge by the responsible authorities of their crime and disorder functions.

13) To be responsible for scrutiny of the Council's strategic and budgetary framework and its implementation.

14) To report annually to Council on the progress of the work programme and to make relevant recommendations.

### **Transformation**

To review and facilitate the transformation of delivery of services.