Statement of Accounts

2006/07

TABLE OF CONTENTS

EXPLANATORY FOREWORD

Introduction

This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main aspects of the Council's financial position.

The accounts are supported by the Statement of Accounting Policies and by various notes to the accounts. A Glossary of Financial Terms is provided on page 58.

The Council's core financial statements for the year 2006/07 are set out on pages 25 to 29. They consist of:

a) The Income and Expenditure Account on page 25. The Council's main revenue account for the year ended 31 March 2007, reports on the net cost for the year of all the functions for which the Council is responsible. It demonstrates how that cost has been financed from central government grants and income from local taxpayers. As such it is intended to disclose the income receivable and expenditure incurred in operating the Council for the year. The surplus/deficit achieved on the Income and Expenditure Account represents the amount by which income is greater than/less than expenditure.

The Income and Expenditure Account represents a new presentation to the accounts from the Statement of Accounts for 2005/06. It replaces the Consolidated Revenue Account and is intended to make more transparent the financial position of the Council by showing the true cost of services as defined by UK Accounting Standards.

However, this true cost is not the cost that needs to be funded by local taxation and consequently the Statement of the Movement on the General Fund Balance makes the necessary adjustments to the Income and Expenditure Account for the purpose of determining the Council's budget requirement. In previous years these two statements were combined in one in the form of the Consolidated Revenue Account. Consequently, it has been necessary to re-order the accounts for 2005/06 to act as comparators for the 2006/07 accounts.

b) The Statement of the Movement on the General Fund Balance (SMGFB) on page 26. There are some items of income and expenditure which, whilst they have to be included in the cost of service for the Income and Expenditure Account, need to be excluded for the purpose of determining the Council's budget requirement and its Council Tax demand. For example, in some circumstances capital expenditure can be charged to the General Fund Balance but all capital expenditure is excluded from the Income and Expenditure Account and depreciation of fixed assets is charged to the Income and Expenditure Account but cannot be charged to the General Fund.

The Statement of the Movement on the General Fund Balance reconciles the surplus/deficit achieved on the Income and Expenditure Account to the movement on the General Fund balance for the year which informs the Council Tax level.

c. **The Statement of Total Recognised Gains and Losses** on page 27. Not all the gains and losses experienced by a local authority are reflected in the Income and Expenditure Account. For example gains on revaluations of fixed assets and pension actuarial gains and losses are not identified as a part of the Council's operating performance and are therefore excluded. The Statement of Total Recognised Gains and Losses is the statement that brings these other gains and losses together with the outturn on the Income and Expenditure Account to show the total movement in the Council's net worth for the year.

This statement varies from previous accounting practice in that it no longer is required to separately disclose the increases in net worth attributable to revenue and capital. This information is available in the Statement of Movement on the General Fund and the notes on individual capital reserves.

d. **The Balance Sheet** on page 28 includes the assets and liabilities of all activities of the authority. It is fundamental to the understanding of an authority's financial position at the year-end. It shows its balances and reserves and its long-term indebtedness, the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

e. **The Cash Flow Statement** on page 29 summarises inflows and outflows of cash arising from transactions with third parties for both revenue and capital. Cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

f. **The Collection Fund Account** on pages 56 to 57. As the authority that issues council tax and business rates bills we maintain a separate income and expenditure account, the Collection Fund, showing transactions in relation to this income and how the demands on the fund from Oxfordshire County Council, Thames Valley Policy Authority and parish councils have been satisfied. Only 10% of the council tax is kept by us and used to help pay for services we provide. The Collection Fund is consolidated with the other accounts of the billing authority within the Balance Sheet.

The way in which we present information in the accounts is in accordance with the local authority accounting code of practice. In this foreword we have tried to present in a straightforward way the key information that will be of interest to most readers.

EXPLANATORY FOREWORD

Revenue Expenditure 2006/07

South Oxfordshire District Council's gross expenditure on services for the year was £47m with gross income totalling £30m. This compared with a gross revenue budget of £48m. The actual spend and income compared with the latest revenue budget is detailed below in the format consistent with the Council's budget book.

Error! Not a valid link.

EXPLANATORY FOREWORD

The total net budget to be raised by Council Tax for the year amounted to £13.6 million. This was distributed as below.

Error! Not a valid link.

EXPLANATORY FOREWORD

The main reasons for the variances have been a reduction in the new contract for finance of £300k, an under-spend against specific projects funded only for one year which have been agreed to be carried forward into 2007/08 amounting to £645k, salaries vacancies of £266k which can be used to support revenue expenditure in later years and an under-spend of £212k on the additional funding transferred from reserves (as a supplementary estimate) to support legal costs which has been transferred back to reserves.

Increased income of £340k was received from leases, premiums, licences, housing benefits and third party contributions.

Capital Expenditure 2006/07

Capital Expenditure totalled £9.7m in 2006/07 against a planned Capital Programme of £12.7m. In line with our Corporate Strategy, the major capital projects have been the new multi-screen Didcot Cinema £2.9m, Didcot Arts Centre & Town Centre Re-development £1.8m managed by Leisure and

Economic Development, Social Housing Initiatives £1.6m and Community Investment Fund (CIF) grant funded projects amounting to £0.6m.

Of the £3m underspend in 2006/07, the most significant related to Didcot Cinema and Arts Centre of £0.9m, unspent CIF grant funded projects of £0.5m as we await those bodies awarded funding to claim their grant or complete the work and leisure centres of £0.2m.

Capital expenditure is paid for out of money we have set aside from capital receipts, investment income and savings. We have no external debt and have no plans to borrow to pay for capital expenditure. The sources of finance for capital expenditure are shown in note 35.4 to the accounts page 47.

Material assets acquired or liabilities incurred

The Council has not acquired any assets or liabilities during the year which are unusual in scale and which require specific reference.

Pension Liabilities

The statement of accounts identifies details of the Council's future commitments with regard to pension provision for its current and former employees. Further background information is set out within the Statement of Accounting Policies.

Pension transactions within the Income and Expenditure Account and detailed explanations of the financial information are set out in note 35.5 to the Statement of Accounts.

The Council's disclosures under FRS17 – Retirement Benefits are also set out in note 42 to the Statement of Accounts. The Note shows the Council's share of the Oxfordshire County Pension Fund assets and liabilities. The net liability at 31st March 2007 for South Oxfordshire District Council is £17.7m (2005/06 £17.1m). The Council has made a provision in its accounts for this amount.

Exceptional Payments as an adjustment to the cost of services

Court costs - as a consequence of the termination of the waste collection contract with SITA in October 2001 over contract performance issues and subsequent court action in March and April 2006, the Council has incurred additional charges which have been treated as exceptional for accounting purposes. Payments of £746,542 were made in respect of court costs and this is shown as an exceptional payment in the Income and Expenditure Account which increases the net cost of services for the year.

Early retirement costs – during 2006/07 a number of early retirements were approved. The costs and potential savings of each case was reviewed by the Audit and Governance Committee at their meeting on 14th September 2006. The additional costs falling into the 2006/07 accounts were £106,300. These costs have been carried within the Service Account outturns from savings within budget.

Event after the Balance Sheet date

Compensation relating to the compulsory purchase of the Somerfield site in Didcot has now been agreed by the Lands Tribunal. A payment of £3 million was paid to Somerfield on 18th Mary 2007 in full and final settlement of their compensation claim. A contingent liability had been agreed by the Council on 2nd December 2003 allowing for an adverse award of compensation to be made from the Council's capital programme. This payment will appear in the Statement of Accounts for 2007/08.

Changes in Accounting Policies

There have been no changes to the accounting policies of the Council.

Changes to Statutory Functions and Fallout of Grant Funding

Concessionary Fares – From 1st April 2006 the Council acquired a new statutory obligation to provide free fare bus passes for over 60s and disabled persons for use within the district boundaries between specified hours. In preparation for this SODC increased its budget for this service in 2006/07 by 28%. However, the take-up of free travel has exceeded all expectations and by the end of the year the original budget had been exceeded by £129,316. Whilst this shortfall has been addressed for the budget in 2007/08 a further concern remains regarding the proposed implementation of a National Free Travel Scheme from 1st April 2008. There is uncertainty as to whether the Council will have to reimburse the bus operators the cost of the national concessionary journeys next year. How this will be estimated is as yet unclear and it is impossible to estimate what this reimbursement amount may be or how it may be funded. Cabinet are aware of the potential for a large increase to the concessionary fares budget in the future.

Planned and Future Development in Service Delivery

The Medium Term Financial Plan to 2011/12 informed the Council's budget setting process. The Forward Revenue Budget Model identified the following possible revenue and capital pressures on budgets for the future.

Error! Not a valid link.

Current Borrowing Requirement

The Council has no external borrowing and none is planned save for temporary cash flow purposes.

Sources of funding

The Council held £750,000 in a general surplus and deficiency reserve for 2006/07 and intends to maintain this level. This represents 5.5% of the annual budget requirement and is likely to be sufficient to cover uneven cash flow and all but the most serious emergency. All other uncommitted balances are kept in an earmarked reserve called the Enabling Fund. The Enabling Fund is used to fund capital expenditure and one-off revenue spend.

The Council actively manages its investments and for 2006/07 the total interest earned on investments amounted to £6.6 million as against a budgeted £4.9 million. The average rate earned on cash investments over the year was 4.92% as compared with the average Bank of England base rate for the year to 31st March 2007 of 4.81%.

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2006/07 financial year and its position at the year-end of 31 March 2007. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2006* (the SORP) which is recognised by statute as representing proper accounting practice and in accordance with the Best Value Accounting Code of Practice.

The accounting convention adopted for the preparation of these accounts is historical cost (i.e. prices paid) modified for the revaluation of certain categories of tangible fixed assets.

2. Accruals of Income and Expenditure

Debtors and creditors at the year-end are accrued in compliance with FRS18 ensuring income and expenditure is accounted for in the period to which it relates. The exception to this principle is the consolidated cashflow statement, which, in accordance with requirements, is prepared on a receipts and payments basis.

3. Provisions

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charges to the appropriate service revenue account in the year that the Council becomes aware of the obligation based on the best estimate of the likely settlement.

- **Bad and Doubtful Debts**

  The figure shown in the accounts for debtors is adjusted for doubtful debts, by including a provision. This provision is recalculated annually by applying an estimate of the proportion of debt in each category that is unlikely to be collectable based on past experience. Debts which are known to be un-collectable are written off.

4. Reserves

The Council has a number of reserves which are for general and specific purposes, e.g. grant allocations. See page 44 note 35.

Capital reserves are not available for revenue purposes and some of them can only be used for specific statutory purposes. The fixed asset restatement account, usable capital receipts reserve and capital financing account are examples of such reserves.

Revenue reserves are set aside for purposes falling outside the definition of provisions, or else represent accumulated surpluses. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

5. Government Grants and Contributions (Revenue)

Government grants and third party contributions and donations are accounted for on an accruals basis and recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution. Income has been credited, in the case of revenue grants to the appropriate revenue account or, in the case of capital grants, to a government grants deferred account. Amounts are released from the government grant deferred account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

6. Retirement Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by Oxfordshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

Pension costs have been provided for in accordance with relevant Government regulations under FRS17 and are included in the notes to the accounts. FRS17 requires the Council to account for retirement benefits when it is committed to give them, even if the actual giving of benefits will be many years into the future. It is a reflection of the economic reality of the relationship between an employer and the pension fund.

The impact that FRS17 has had on the results for the 2006/07 financial year is as follows:

- The overall amount to be met from Government Grants and local taxes has remained unchanged, but the costs disclosed for individual services are 0.5% higher after the replacement of employer's contributions by current service costs. Net Operating Expenditure is 1% higher than it would otherwise have been, due to the adjustment in respect of pensions interest cost, the expected return on pensions' assets and the current service cost adjustment above.

- The requirement to recognise the pensions liability in the balance sheet has reduced the reported net worth of the Council by 12.2%.

- **The Local Government Pension Scheme**

- The Local Government Pension Scheme is accounted for as a defined benefits scheme.

- The liabilities of the Oxfordshire County Council pension scheme 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 projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 5.3% (based on the indicative rate of return on high quality corporate bond).

- The assets of the Oxfordshire County Council pension fund attributable to the Council which are included in the balance sheet at their fair value.

- Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

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

- **Changes to the Regulations**
- The FRS17 figures produced in 2006 allowed for the reinstatement of the rule of 85 age for existing members until 31st March 2008. The valuations continue to allow for this change in the figures for 2006/07 and projected figures for 2007/08. The rule of 85 age retirement provisions do not apply to new entrants since 1 October 2006 but, as the number of new entrants will be relatively small at 31st March 2007, no allowances has been made for this in the figures on the grounds of materiality.
- A new benefit structure is to be introduced from 1st April 2008. This change in benefit structure will affect employers differently because of the differing age profiles of their membership. Until the 2007 actuarial valuation of the Fund is completed it will be difficult to produce projected figures for 2008/09. The projection figure for 2008/09 has consequently been based on the current benefit structure.

7. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

8. Overheads and Support Services

The costs of overheads and support services are charged on an appropriate basis to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006. Costs relating to the Council's status as a multi-functional, democratic organisation, are accounted for under the heading of Corporate and Democratic Core. The cost of discretionary benefits awarded to employees retiring early from previous years' re-structuring are held within Non Distributed Costs. These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

9. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council through custody or legal rights (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. Intangible assets are recorded at historical cost and are amortised to revenue over their economic life.

The period of useful lives is assessed as being between 1 and 5 years on a straight-line basis, commencing the year after acquisition.

10. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the authority and the service that it provides for more than one financial year. Expenditure on routine repairs and maintenance is charged to revenue as it is incurred. Assets are classified into the groups required by the Accounting Code of Practice (ACOP) and are initially measured at cost. Assets are then carried in the balance sheet using the following measurement bases:

- Operational land and buildings, and other operational assets, with the exception of Community assets are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use.

- Community assets used to be included in the balance sheet at historical cost. However the basis of valuation was changed in 2002/03 to a nominal value of £1 per asset. This was done as it was felt that using historical cost presented a misleading valuation, as it does not reflect the true economic value of these assets, whereas the valuation of £1 recognises these assets in the accounts without ascribing a value. This represents a departure from ACOP.

- Non-operational land and properties, other non-operational assets, including investment properties and assets that are surplus to requirements are valued at the lower of net current replacement cost or net realisable value

Assets included in the balance sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years. The 5 year rolling programme of evaluations is carried out by a qualified valuer and details are shown in note 25 to the Statement of Accounts on page 42. There has been a change to the method of valuation for the industrial estates at Thame and Wallingford. Previously, these were valued as individual units. It is the opinion of the Council's valuer that they should be valued as a whole since the units would be very unlikely to be disposed of individually.

- **Impairment**

  The value of each category of assets included in the balance sheet is reviewed as part of the rolling programme of revaluation. If any impairment or loss of value were identified outside this programme, it would be reflected in the relevant year's accounts. There have been no material changes to the value of assets that have not been the subject of a revaluation this year.

- **Disposals**

  From 2006/07, when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are also credited to the Income and Expenditure Account 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). The balance of receipts is required to be credited to the Usable Capital Receipts reserve and can then only be used for new capital investment or set aside to reduce the need to borrow. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

  Any receipts arising from the disposal of housing land are subject to a pooling arrangement where all or part of the capital receipt is paid over to the Secretary of State. However, this does not apply to the authority's share of receipts from sales under the preserved rights to buy arising as part of the transfer. Details are provided in note 35.4 to the Statement of Accounts page 47.

  An adjustment has been made to the 2005/06 accounts to reflect the gain to the Council of the receipt over and above the historic value of the asset in the balance sheet.

- **Depreciation**

  Assets, other than investment properties, are being depreciated over their useful economic lives and have been calculated using the straight-line method. See note 26 to the Statement of Accounts on page 42 for further information.

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

11. Charges to Revenue for Fixed Assets

Service revenue accounts and central support services are charged with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisation.

12. Deferred Charges

Deferred charges are payments of a capital nature where no fixed asset is created, for example house renovation grants. Deferred charges incurred during the year are charged directly to revenue.

13. Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

The Authority does not currently have any finance leases.

14. Investments

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

15. Stocks and Work in Progress

Stocks are included in the balance sheet at the lower of cost and net realisable value.

Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

16. Contingent Assets and Liabilities

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control.

A contingent liability is either:

(i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control.

(ii) a present obligation arising from past events where it is not possible to measure the amount of obligation with sufficient reliability.

Contingent assets and liabilities are not recognised in the accounting statements. Instead they are disclosed by way of note 36 to the Statement of Accounts page 49.

17. Interests in Companies and Other Entities

The SORP requires the preparation of full group financial accounts where local authorities have interests in subsidiaries, other local authorities and similar bodies, associated companies and joint ventures that are material in aggregate.

This authority has no interests in subsidiaries, associated companies or joint ventures that would require the preparation of Group Accounts.

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the

administration of those affairs. In this authority, that officer is the Head of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts.

The Head of Finance's Responsibilities

The Head of Finance is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2005 ('the Code of Practice').

In preparing this statement of accounts, the Head of Finance has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code of Practice.

The Head of Finance has also:

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

Approval of the accounts

I hereby confirm that these accounts were approved by the Audit & Corporate Governance Committee on behalf of South Oxfordshire District Council on the 26th September 2007.

Signed …………………………………………… Date ………………………..

Chair, Audit & Corporate Governance Committee

Certification of the accounts

I hereby certify that the accounts present fairly the financial position of South Oxfordshire District Council as at 31st March 2007 and its income and expenditure for the year then ended.

Signed ………………………………………….. Date ……………………….

Head of Finance, South Oxfordshire District Council

1. Introduction and context

It is our responsibility to ensure we conduct our business in accordance with the principles of good governance – honesty, integrity, openness and accountability.

In April 2003 we adopted a Local Code of Corporate Governance based on the framework developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). This sets out the principles of good governance across five dimensions; community focus, service delivery arrangements, structures and processes, risk management and internal control and standards of conduct. In adopting the code we set out the ways in which we could demonstrate compliance with these principles.

One requirement of the Local Code of Corporate Governance is to have sound systems of financial management, internal control and risk management. The Accounts and Audit Regulations 2003 confirm that we are responsible for putting these in place and making sure they are effective. The regulations also require us to undertake a review of their effectiveness at least once a year and produce a Statement on Internal Control (SIC).

This SIC provides information about internal control and risk management. It complies with "proper practice" as set out in part four of the CIPFA publication "The Statement on Internal Control in Local Government".

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve our policies, aims and objectives. This statement can therefore only provide a reasonable and not an absolute assurance of effectiveness.

The system is an ongoing one, which has the following aims:

- to identify the key risks to the achievement of our policies, aims and objectives
- to evaluate the likelihood of those risks being realised
- to assess their potential impact should they occur
- to manage the risks effectively, efficiently and economically and where necessary prioritise them.

The internal control system has been in place for the year ended 31 March 2007 and up to the date of approval of the Statement of Accounts.

3. The internal control environment

The internal control system can only work effectively within an environment in which there are procedures for:

- establishing and monitoring the achievement of the Council's objectives
- facilitating policy and decision-making
- ensuring compliance with established policies, procedures, laws and regulations
- ensuring the effective, efficient and economical use of resources and securing continuous improvement
- ensuring sound financial management and the reporting of financial management
- ensuring performance is managed and reported.

- ***Establishing and monitoring objectives***

We adopted a Statement of Strategic Intent and Strategic Objectives in February 2002 and reviewed and updated it in 2004. It has provided the framework within which more detailed targets have been set.

During 2003/04 the newly-elected Council consulted the public on immediate priorities and these were reflected in the budgets for 2004/05, 2005/06 and 2006/07. In parallel, we worked with the South Oxfordshire Partnership (SOP) to finalise the South Oxfordshire Community Strategy "Our place, our future" which focuses on achieving key aims. The SOP is made up of representatives from the public, private, voluntary, community and faith sectors. As one of the key partners on the SOP we take the lead on a number of the targets which sit under the South Oxfordshire Community Strategy's key aims.

The Citizens' Panel is a group of local residents, broadly representative of the area as a whole, with which the Council regularly consults to ensure that Council services are meeting the needs of the community. The panel consists of 1,000 residents who are sent surveys around four times a year. In 2006/07 the survey covered community safety, the housing strategy and refuse and recycling information.

We also consult through our residents' newsletter "Outlook" which is delivered three times a year to the district's 55,000 households. Another publication that went live in 2006 is Outburst, which is the Council's first online magazine and enables online polls on topical subjects.

The Council's priorities and objectives are detailed in its Corporate Plan which sets out its strategic objectives over the next three years. The Corporate Plan sits below the South Oxfordshire Community Strategy. Our Corporate Plan reflects national government priorities and the changing needs of residents in South Oxfordshire.

It provides the framework for all our strategies and action plans. Beneath the Corporate Plan are a number of more detailed strategies. Some of these set out the Council's plans across a broad theme, e.g. implementing electronic government whilst others set out more detailed proposals for the future of a service, e.g. sports and active recreation. Further details of the targets we set for 2006/07 can be found in our Corporate Plan.

The Council's targets are monitored via its performance management system. Where targets are not being met, heads of service discuss these on a monthly basis with their strategic director. Thereafter Cabinet receives quarterly performance monitoring reports. These performance monitoring reports are also presented to the Corporate Improvement Scrutiny Committee at which time Cabinet members are expected to attend the committee to account for under-performing targets.

- ***Policy and decision making***

Our Constitution sets out how the Council is managed. We have adopted a decision-making structure comprising a Leader and Cabinet, with two scrutiny committees to help develop policy and to review our performance in meeting our objectives.

When key decisions are to be made, these are published in the Council's Forward Plan which details decisions to be made in the forthcoming four months and people/organisations that have been consulted before the decision is made.

Committee meetings are open to the public except when information is confidential or exempt matters are being disclosed. In 2006 the Council enabled wider access to decision making through the introduction of meeting webcasts that allow people to watch Council, Cabinet and planning meetings via the internet. In 2007, the Council intends webcasting meetings of the scrutiny committees and the Audit and Corporate Governance Committee enabling wider access to decision making. The public can access non-confidential or non-exempt agendas, reports and minutes from the Council's website.

- ***Compliance with policies, procedures, laws and regulations***

Our Constitution includes a set of procedure rules that govern how we conduct our business. It also includes protocols covering, for example, the disclosure of interests in contracts and the relationship between officers and councillors.

The Constitution includes our Code of Conduct for councillors which incorporates the mandatory requirements of the Model Code of Conduct. Our Standards Committee was actively involved in preparing this code and has monitored and determined complaints made to the Standards Board for England. It has also responded to the consultation on the revised Model Code of Conduct and will be actively involved in its implementation once the new Model Code is adopted in 2007.

In 2006, an Audit and Corporate Governance Committee was set up with the role of overseeing corporate governance matters including risk, audit, and the financial accounts

A regular programme of work is carried on by the Internal Audit section which monitors compliance with established procedures. The Council has maintained an adequate and effective internal audit service, as part of which the implementation of recommendations made in audit reports has been checked. Arrangements have been put in place to ensure that recommendations made by auditors and inspectors are responded to appropriately.

The Legal Services team identifies areas of potential legal risk in the Council's business. In 2006 the Legal Services team was awarded Lexcel. This accreditation is a quality mark which the Law Society has developed and which is only awarded to legal practices that undergo rigorous independent assessment each year to ensure they meet the required standards of excellence in areas such as customer care, case management and risk management.

In 2003 we engaged consultants to help identify corporate risks and develop our risk management strategy. A strategy has been completed and agreed by the Cabinet. Heads of service have received training and have drawn up risk registers and risk management action plans for their services, which have informed service plans and budget planning.

- ***Effective, efficient and economical use of resources and securing continuous improvement***

In 2004, the Council was assessed as *good* in the Comprehensive Performance Assessment (CPA). Our stated aim is to be classed as *excellent* in 2007. A key element of CPA is prioritisation of resources and achievement of improvement. We are progressing towards our aim with a number of demonstrable improvements for the community and performance improvement as indicated by Best Value Performance Indicators (BVPIs) and we have been successful in applying for CPA reassessment which will take place in June 2007.

- ***Financial management***

The Section 151 Officer (also referred to as the Chief Finance Officer) has overall responsibility for ensuring the Council has a safe and proper system of financial administration.

The financial procedures within our Constitution set out how we will manage our financial resources and secure sound financial administration. These include how budgets are prepared and funds are controlled and released. The financial procedures include the requirement for a system of internal audit to review, appraise and report on the soundness, adequacy and application of financial controls and the internal control environment.

A key aim is to keep any increase in expenditure within inflation so that we can keep council tax as low as possible. We continue to refine our formal system of service planning in order to explicitly link the use of resources to the achievement of outcomes that help meet our objectives. Our Medium Term Financial Plan explains how we use these principles in preparing our spending plans. To achieve our spending plans we:

- seek efficient and economic ways of providing services and reduce spending where we can
- focus new spending on our priorities
- maximise our income by collecting it quickly and efficiently
- create our own sustainable sources of income
- invest to make savings in the longer term
- use our own funds to pay for new investment rather than borrow money

Each month heads of service monitor expenditure and income. Summary reports are presented to the Management Team and members of the Cabinet.

- ***Performance management***

Our Statement of Strategic Intent complements the Community Strategy and sets out the Council's long term vision. From the Statement of Strategic Intent we have seven strategic objectives. More information about our strategic objectives is contained within our Corporate Plan.

The framework of strategic objectives is supported by targets and is built into the Council's performance management system. Each of the Council's service teams has a service plan that sets out the actions that each team will work on during the year. The service plans show how each team will contribute in the year to the higher level objectives set out in the Corporate Plan.

Our performance appraisal scheme focuses on agreement of targets between managers and individuals with the objective being to relate targets to service plans. Throughout the year, staff have meetings with their managers to review progress and discuss and plan personal development in line with the Council's objectives.

In the process of monitoring performance, we forecast year-end outcomes and undertake action planning to get measures back on track if they are below target. In addition, we review performance at the end of the year and use this to help set targets for the coming year.

4. Review of effectiveness

We are responsible for conducting a review of the effectiveness of our internal control system. In section three we referred to the internal control environment and its composition. Development and maintenance of the system of internal control and the review of its effectiveness is an ongoing process. It is informed by the work of full Council, Cabinet and the work of the committees including Audit and Corporate Governance Committee, scrutiny committees and the Standards Committee. In addition, maintenance and review of the system is supported by officers within South Oxfordshire District Council who have responsibilities for the internal control environment within their service area and subsequently report to their strategic director.

Below we set out the assurances relating to the internal control environment as set out in section three. Thereafter, other sources of assurance are detailed – these include the data audit, risk management, internal audit, corporate governance monitoring and the work of the Audit and Corporate Governance Committee.

- *Establishing and monitoring objectives/performance management*

Our corporate planning system is currently a three-year rolling plan. On an annual basis officers consult on the requirements for the Plan to ensure it is up to date and reflects local and national requirements. After a process of consultation and development of the plan, it is approved by Management Team. The Cabinet then considers and approves the Corporate Plan for publication.

We intend to carry out a major review of the Corporate Plan following the elections in 2007 to ensure it reflects the priorities of the new Council. At this time the plan will change to a four-year rolling plan to align with the electoral cycle.

Once our Corporate Plan is approved, the objectives are built into the performance management framework. Heads of service are responsible for data collection and data entry into the performance management system. They are also responsible for data accuracy. Heads of service monitor and manage their service's performance against service plan targets, reporting to their strategic director on a monthly basis and to the Cabinet on a quarterly basis.

The Corporate Improvement Scrutiny Committee also has a key role in examining the quarterly performance monitoring reports with Cabinet members attending the Committee to account for underperforming targets. This committee is also involved in reviewing a progress report on the South Oxfordshire Partnership objectives.

Amongst its roles, Corporate Improvement Scrutiny Committee is also able to review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and/or particular service areas; question members of the Cabinet and/or committees and strategic directors, heads of service, or other appropriate officers about their decisions and performance, whether generally in comparison with service plans and targets over a period of time, or in relation to particular decisions or initiatives.

- *Policy and decision making*

The Cabinet has overall responsibility for implementing policies consistent with the policy framework and the Constitution.

We have a "scheme of delegation" within our Constitution which sets out decisions that individual members of the Cabinet or officers can take without needing Cabinet approval. All decisions must be taken within the budget and policy framework agreed by the full Council. The Constitution is reviewed twice annually to ensure that it is up to date.

Many of the key decisions are subject to a period of statutory consultation before a decision can be made.

- *Compliance with policies, procedures, laws and regulations*

We have two officers who have specific and personal responsibilities - the Section 151 Officer oversees the financial arrangements of the Council, while the Monitoring Officer deals with legal issues and the proper conduct of business. In addition, the Chief Executive, as head of the officer staff, oversees the employment and conditions of staff. Collectively the officer Management Team reviews all reports going to the Cabinet and the decisions that individual members of the Cabinet intend to take under delegated powers.

Neither the Section 151 Officer nor the Monitoring Officer had to exercise their statutory powers in 2006/07.

- *Financial management*

The full Council is responsible for approving the following:

1. financial strategies
2. medium and long-term financial plans
3. the revenue budget and budget requirement
4. the capital programme
5. borrowing limits
6. the taxbase
7. Council Tax
8. the Financial Procedure Rules

The Cabinet has overall responsibility for the implementation of the Council's financial strategies and spending plans, and is authorised to make financial decisions subject to these being consistent with the budget and policy framework and the Constitution.

The Section 151 Officer is responsible for the overall management of the financial affairs of the Council. The Section 151 Officer determines all financial systems, procedures and supporting records of the Council (whether held on paper or electronically), after consultation with the relevant Head of Service. Any new or amended financial systems, procedures or practices are agreed with the Section 151 Officer before implementation.

Heads of service are responsible for ensuring the proper maintenance of financial procedures and records, and the security of assets, property, records and data, within their service area.

The Chief Executive, strategic directors and heads of service consult with the Head of Finance and Head of Legal and Democratic Services on the financial and legal implications respectively, of any report that they are proposing to submit to the full Council, a committee (or sub-committee) or the Cabinet.

During the reporting period of this SIC, internal audit undertook audits of all the key financial systems. More information on internal audit can be found below.

- *Data audit*

Acknowledging that key elements of financial systems and performance monitoring involve data that informs decision-making, we have undertaken a number of initiatives to integrate data quality within performance management arrangements. The Audit and Corporate Governance Committee received the Council's first data quality policy during 2006/07. The purpose of the policy is to outline expectations and requirements in respect of the collection, recording, analysis and reporting of performance data. In addition, the Council is producing a performance management handbook to improve the consistency of performance management between services.

- *Risk management*

In aiming to meet our objectives, risk management initiatives are integrated within our performance management and budget planning processes. Overall officer responsibility for risk management in the Council lies with the Chief Executive supported by the Management Team.

The Audit and Corporate Governance Committee is responsible for consideration of the effectiveness of the authority's risk management arrangements and the control environment and has satisfied itself that risk management initiatives are effective.

Councillors and officers have responsibility for risk management. Heads of service and line managers have defined roles in relation to risk as set out in our Risk Management Strategy 2005 - 2008. Within the Strategy the roles of Risk Champions are defined. Risk champions' primary role is to act as a first point of contact for risk management enquiries from their own service. There is also a Risk Management Group. The Group shares best practice and provides an arena for discussing and managing cross-service risks. Heads of service report the progress of risk management to Management Team at three monthly intervals. Major risks are fed into the Risk Management Group from service risk registers via risk champions.

During the corporate business planning process, the Council's identified risk champions update the risk register to reflect their service area's plans and projects. Subsequently risk mitigation action plans are created for risks above the Council's acceptable tolerance line. These action plans are included within a service area's service plan for the coming year.

Risk assessments are carried out throughout the year and an annual risk review assessment is carried out. The priority risks are managed through the production of risk mitigation action plans for priority risks with the aim of reducing the impact, likelihood or both. All risks are recorded on the risk register. In 2006/07 there were 140 risks that reduced by either impact or likelihood; only 20 increased in impact or likelihood and 132 stayed the same. There were 127 risks above the tolerance line in 05/06 but only 85 in 2006/07.

Internal Audit

In undertaking an independent appraisal function within the Council, Internal Audit's main objectives are to:

- give assurance and a view on the financial and other management information on which management relies to run the Council
- ensure compliance with established policies, procedures, regulations and legislation
- ensure the continual review of policies and procedures to make certain that controls are strengthened commensurate to risk
- facilitate good practice in the identification, management and monitoring of risks
- ensure the economical, efficient and effective use of resources, incorporating the duty to achieve best value

Internal Audit carried out a planned programme of system reviews during 2006/07. The Head of Finance's Annual Report on Internal Audit states that the overall adequacy and effectiveness of the Council's control environment is *satisfactory* subject to all agreed recommendations being implemented. Arrangements have been put in place to ensure that recommendations made by auditors and inspectors are responded to appropriately.

During the course of the financial year no reviews resulted in an opinion of *poor*. In two instances, the Internal Audit opinion was unsatisfactory. In both instances the view of Internal Audit was that the recommendations made, on being satisfactorily implemented, would mitigate any risks associated with the identified issues and concerns.

The Head of Finance's opinion on the adequacy and effectiveness of internal control has been given against an awareness that the Council may not be fully compliant with the revised Code of Practice published by CIPFA late in 2006. To ascertain compliance requires substantial review. A review will take place with significant implications being reported to the Audit and Corporate Governance Committee.

- *Corporate governance*

The Head of Legal and Democratic Services is charged with monitoring corporate governance. In 2006/07 we revised the way in which we use of the Local Code of Corporate Governance. Rather than report historically on ways in which we comply with the Local Code, we transformed it so now we have a forward looking performance monitoring system where we set targets for actions to be taken to comply with the Local Code. We now call this the Code of Corporate Governance Assurance Statement.

The benefit of this new system is that we can easily see if we are on target to meet our corporate governance objectives as prescribed by CIPFA/SOLACE's (Chartered Institute of Public Finance Accountants and Society of Local Authority Chief Executives) 2001 publication *Corporate Governance in Local Government – a Keystone for Community Governance: the Framework* as a process for ensuring that key corporate governance aims are implemented.

During 2007/08 this performance management system will be further aligned with the Council's existing performance management system once we are aware of the outcomes of the 2006 consultation on revisions to the Model Code of Corporate Governance. During 2007/08 the Audit and Corporate Governance Committee will review progress against corporate governance targets as part of the assurance gathering process. In the meantime, measurement of the Code of Corporate Governance Assurance Statement shows that we are on track to meet almost all corporate governance objectives.

Amongst its roles and functions, our Standards Committee promotes and maintains high standards of conduct by councillors and any co-opted members; assists the councillors and co-opted members to observe the Councillors' Code of Conduct; monitors the operation of the Councillors' Code of Conduct; and deals with any complaints referred by the Standards Board for England.. During the reporting period the Committee conducted a hearing into one complaint and found that the parish councillor failed to comply with the code of conduct. It considered another complaint and accepted the investigating officer's finding that the parish councillor had not failed to comply with the code of conduct.

- *Audit and Corporate Governance Committee*

In 2006 we set up an Audit and Corporate Governance Committee. The Committee has received training on its role and terms of reference, training on business continuity planning and risk management. The Committee has requested further training whilst continuing to develop its role and work with greater confidence.

The Committee has considered reports on the audit planning process and role and work of internal audit; presentations on the role of external audit and the

Chairman has attended another organisation's Audit Committee to benchmark the way it works. The Committee has a role in dealing with staffing matters that involve enhanced benefits for staff and has a role in complaints and monitoring those made to the Ombudsman.

With a key role in risk management within the Council, the Audit and Corporate Governance Committee received training on risk management to further embed the risk process: such training will be made available to all councillors after the elections in 2007. The Committee now takes an active role in considering risk within the Council.

- ***Progress on 2006/07 SIC objectives***

As part of our action planning arising from the 2005/06 SIC, we have increased the role of our scrutiny committees in policy development and pre-cabinet scrutiny. There is greater emphasis on activities that support the work of the Council and activities that advise on policies, budgets and service delivery. Targets were set to undertake a number of scrutiny reviews during the year and we are on target to meet these objectives. One such review has involved a review of the operation of the Council's capital programme which was referred to in the 2005/06 SIC.

We are making progress on the 2006/07 SIC objectives to improve upon MORI customer satisfaction findings. The indications are that we have improved customer satisfaction ratings from the recent Best Value Performance Indicator surveys and we are also on our way to improving customer services via our customer service centre with elements of telephone call handling soon to be dealt with via a customer service centre.

In 2005/06 we said we needed to share good practice in performance management and this is being effected through the production of a handbook setting out expectancies for performance management.

We also needed to progress our plans to engage with hard to reach communities. To do this we set targets to improve understanding of barriers to access/need and we are on track to meet this objective with services carrying out a programme of equalities impact assessments.

- ***Objectives for 2007/08***

We have identified areas for improvement for 2007/08. They include improvements in the areas of value for money, financial management and internal control. We will continue to identify areas for improvement. Objectives will be set to make such improvements and will be built into the Code of Corporate Governance Assurance Statement.

5. Significant internal control issues

Having considered our own system of internal control we are confident that the internal control framework contains action plans to address any improvements required to identify any risks to the attainment of principal objectives.

While we acknowledge that we are required to carry out a review of the effectiveness of the system of internal audit in accordance with the Accounts and Audit (Amendment) (England) Regulations 2006, no formal review has taken place during the transitional period to a joint audit services with the Vale of White Horse District Council. However, in 2007/08 the Council's Chief Finance Officer will review the effectiveness of the internal audit function and report his findings to the Council's Audit and Corporate Governance Committee.

During 2007 we will update our Corporate Governance Assurance Statement to further enhance our governance arrangements in relation to the new Code of Corporate Governance.

We are satisfied that the above steps will address the need for any improvements to our system of internal control and we will monitor its implementation and operation as part of our ongoing review.

Signed:

Leader of the Council

Chief Executive

Date: