

APPENDIX

STATEMENT OF ACCOUNTS

2006/07

CATALOGUE SUPPLIES SERVICE JOINT COMMITTEE

COUNTY BOROUGH SUPPLIES

STATEMENT OF ACCOUNTS 2006/2007

FOREWORD

1 Financial Statements

The Joint Committee's Statement of Accounts consists of

- a) a statement of responsibility for the statement of accounts
- b) a statement of internal control
- c) a statement of accounting policies
- d) a trading account, which summarises its income and expenditure for the year;
- e) a balance sheet, which summarises its assets and liabilities at the year end;
- f) a cash flow statement, which summarises the cash receipts and payments on both capital and revenue activities for the year.

These are preceded by an analysis of the financial performance in the year.

2 Analysis of Financial Performance

At its 3rd November, 2005 meeting, the Joint Committee prepared a budget for County Borough Supplies for its revenue expenditure for the 2006/2007 financial year.

The following table compares the original budget with the actual performance and shows the variations that have occurred.

	Budget	Actual	Variance
	£000	£000	£000
Income			
Catalogue Sales (net)	1,083	1,035	48
Non-trading	468	544	(76)
Total Income	1,551	1,579	28
Expenditure			
Employees	(961)	(917)	44
Premises	(78)	(85)	(7)
Transport	(103)	(95)	8
Supplies & Services	(291)	(367)	(76)
Third Party Payments	(20)	(6)	14
Support Services	(76)	(31)	45
Finance Charges	(17)	(8)	9
Increase in Bad Debt Provision		(14)	(14)
Increase in Stock Obsolescence Provision	(5)	(5)	0
Total Expenditure	1,551	1,528	23
SURPLUS	0	51	51

The accounts of the Joint Supplies Committee show that 2006/2007, its eleventh year of trading, has produced a surplus of **£51,320**

The under-spend of **£23,000** compared with budget was due to a combination of **reductions** in

- a managed alignment of the **employee** expenditure with the service supply profile during the year
- **third party payments**, as a result of reclassifying agency drivers under employees
- the **support service** charge, caused by a change in the basis of calculation
- **finance charges**, due largely to the reduction in interest rates and debtors balance; and **increases** in
- **supplies and services** expenditure, primarily as a consequence of the early completion of the new catalogue edition (with compensating increase in income attained)

The level of sales increased from £5.029m to £5.247m with gross margins of 19.7%, marginally up on the 18.7% of the previous year.

Other indicators of performance of interest are shown below.

Stock Days

The average number of days a stock item was held increased from 39 days to 42 days.¹

The increase reflects an increased stockholding to support the 9.7% growth in Stores turnover reported in the Report to Committee on 10th May, 2007.

Debtor Days

The average number of days for which a debt is outstanding has increased compared to the previous year. The increase is from 38 days in 2005/06 to 39 days in 2006/07²

As a measure of activity, the number of customers served was 3,536 and the number of transactions during the year was 271,838 from 42,081 orders. In comparison, in 2005/06, the number of customers served was 3,546 and the number of transactions during the year was 264,604 from 42,053 orders.

$$^1 \quad \frac{\text{Stocks (based on closing stock value)}}{\text{Cost of Sales}} \quad \times \quad 365$$

$$^2 \quad \frac{\text{Debtors}}{\text{Sales}} \quad \times \quad 365$$

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Joint Committee's Responsibilities

The joint committee 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 accordance with Section 151 of the Local Government Act 1972. In this joint committee, at the time of approval of Accounts, that officer is the Committee's Treasurer - the Executive Director - Resources, Bridgend County Borough Council.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts

The Treasurer's Responsibilities

The Treasurer(Executive Director – Resources, Bridgend CBC) is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'). The Statement of Accounts is required to present fairly the financial position of the Joint Committee at the accounting date and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Executive Director - Resources, Bridgend CBC has:

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent
- complied with the Code of Practice

The Executive Director - Resources, Bridgend CBC has also:

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

Gareth Moss, BA (Hons) CPFA
Executive Director - Resources
Bridgend County Borough Council
1st May, 2007

STATEMENT OF INTERNAL CONTROL

1. Scope of Responsibility

The system of internal control is incorporated within that of Bridgend County Borough Council, the provider of administrative services to the Joint Committee. The Statement of Internal Control, which is contained within the Bridgend C.B.C. 2005/06 Statement of Accounts, was approved by its Council on 19th July 2006. The Statement for 2006/07 has still to be approved. The following statement replicates the Bridgend Statement of Internal Control in so far as its system involves the financial stewardship of the Joint Committee, but excludes control issues identified, which are not relevant to it.

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

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

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 to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at Bridgend County Borough Council for the year ended 31st March 2007 and up to the date of approval of the annual report and accounts and, except for the details of significant internal control issues at section 5, accords with proper practice.

3. The Internal Control Environment

The key elements of the Council's internal control environment are summarised below. Where reference is made to documents within the Council, details are available from the Council on request or can be found on the Council's website :- www.bridgend.gov.uk.

The key elements are :-

- (i) Establishing and monitoring the achievement of the Council's objectives

- (ii) Facilitation of policy and decision-making
- (iii) Ensuring compliance with established policies, procedures, laws and regulations
- (iv) Ensuring the economical, effective and efficient use of resources and secure continuous improvement in the way functions are exercised
- (v) Facilitating the financial management of the Council
- (vi) Facilitating the performance management of the authority and its reporting

The control environment has developed since 1996 evolving to meet new demands and pressures on the Council. The key elements to the framework detailed above can be categorised as :-

- Corporate Controls – These comprise a large number of policies, processes and strategies by which the Council exercises control over the operation of all activities within its remit. The Council’s Constitution provides the framework for its financial rules, decision making processes and details procedures and codes of conduct for Members and officers. The Corporate Improvement Plan, Corporate Governance and Performance and Risk Management frameworks are other significant policies within this area.
- Departmental Controls – These comprise all the processes chief officers have in place within their departments and in particular include departmental approaches to performance and risk management.
- Independent review – This includes the views of Internal Audit, External Audit, Welsh Assembly Government and the various inspection regimes that comment on the operations of the Council to examine ways of ensuring the economic, effective and efficient use of resources.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by:

- the Executive Directors within the Council who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the Council's Audit Committee regular reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement;
- the comments made by the external auditors in their management letters and other reports;
- the reports of other independent inspection bodies and Welsh Assembly Government.

The process for maintaining and reviewing the effectiveness of the system of internal control includes:-

- The Council has adopted a constitution (revised 29/03/06), which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.
- There are five Overview and Scrutiny Committees which oversee the portfolios of the Cabinet Members and which support the work of the Cabinet and the Council as a whole. They allow citizens to have a greater say in Council matters by undertaking investigations into matters of local concern. These lead to reports and recommendations which advise the Cabinet and the Council as a whole on its policies, budget and service delivery. They also monitor the decisions of the Cabinet and can `call-in` a decision, which has been made by the Cabinet but not yet implemented. This enables them to consider whether the decision is appropriate. They may recommend that the Cabinet reconsider the decision.
- The Monitoring Officer is responsible for maintaining an up-to-date version of the Constitution to ensure that its aims and principles are given full effect. After consulting with the Head of Paid Service and Chief Finance Officer, the Monitoring Officer will report to the full Council or to the Cabinet in relation to an executive function if he or she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. He also receives and acts on reports made by the Ombudsman and decisions of the case tribunals.
- The Council has an Audit Committee, which is a key component of corporate governance. It provides a source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.
- The Corporate Improvement Group, an officer working group, is responsible for the on-going monitoring of arrangements for performance management across the Council.
- The Council published its Policy for the Management of Risk in February 2006. It identifies that all Elected Members and employees of the Council need to make themselves aware of risks in the decision making process and everyday work situations. The Policy describes some key roles within risk management including the Risk Management Programme Board. This receives and scrutinises operational risks from the Directorate Management Teams and recommends the addition of key operational risks to the Council's Risk Register. It is responsible for reporting on Risk Management issues to Council on a bi-annual basis.
- The Corporate Management Team is responsible for the management of risks in all areas under their control. It considers various risk control options for areas designated as requiring priority attention identified within the Corporate Improvement Plan and monitors the effectiveness of the risk management policy.
- Internal Audit is responsible for monitoring the Council's operations in order to review, evaluate and test the adequacy of the Council's systems of internal control as contributions to the proper, economic, efficient and effective use of resources. The three year Internal Audit plan is based on a needs and risk assessment process. Internal Audit reports include recommendations for improvements included in a Management Action Plan that requires agreement or

- rejection by service managers in a given timeframe. The Chief Internal Auditor prepares an annual report and opinion on the Council's internal control system which is presented to Audit Committee. The opinion of the Chief Internal Auditor for the financial year 2005/06 has been sought, but as yet none has been provided.
- External Audit present their comments on financial aspects of corporate governance and performance management in their annual audit letter and other reports. For the financial year ending 31st March 2006, the Annual Audit Letter concluded that effective financial management arrangements are in place, although there are some areas for improvement. An 'unqualified opinion' was issued for the annual accounts for 2005/06. There was also praise for the move to a three year Corporate Improvement Plan for the first time and improved performance in the timeliness of the preparation of the year end accounts.

In 2005/06 a Statement of Internal Control Workshop took place as a key element of the Review of Effectiveness. The Workshop membership consisted of the Leader of the Council, all Cabinet Members and the Executive Directors. It was facilitated by the Chief Accountant, the Chief Internal Auditor and the External Audit manager for the Council. An overview of the S.I.C. process was given that described the process for reviewing and gathering the assurances needed for the review of effectiveness to ensure that risk is being managed and controls are working appropriately. The Group examined examples of Assurances together with evidence of documents within the Council to support the Assurances. The outcome of the Workshop was an identification of the significant internal control issues that should be included within the Statement. There have been additional internal control issues that were identified during the Joint Risk Assessment that are included within this Statement. For 2006/07, a desktop review of documents to support assurances has been carried out, along with an exercise to update the Action Plan identified as part of the 2005/06 exercise.

5. Significant Internal Control Issues

In producing this Statement, no internal control issues were identified concerning the Catalogue Supplies Joint Committee:-

Gareth Moss BA (Hons) CPFA
Executive Director - Resources
Bridgend County Borough Council
1st May, 2007

STATEMENT OF ACCOUNTING POLICIES

General Policies

The accounts have been drawn up in accordance with the Code of Practice on Local Authority Accounting, which is recognized by statute as representing proper accounting policies.

Accrual of Income and Expenditure

Income and expenditure are included within these accounts on the accruals basis.

Stock and Work in Progress

Stocks and stores have been included in the accounts at the average purchase price. This policy is in accordance with the Statement of Standard Accounting Practice 9 (Stocks and Long Term Contracts), which requires valuation at the lower of cost or net realizable value. A review of stock and market prices has found that no material changes have occurred. A provision is held in the accounts to provide for items identified as obsolete.

Allocation of Support Services

The charge for support services includes Information Technology, Legal, Committees, Cash Receiving, Payments, Audit and Accountancy.

Employees and Pensions Costs

The County Borough Supplies Service employs no staff directly. Staff are employed by the Service's stakeholder organisations (principally Bridgend County Borough Council- see note 4 to the financial statements), and their costs are recharged. Staff participate in the ex Mid-Glamorgan County Council Fund administered by Rhondda Cynon Taff County Borough Council. The pension costs that are charged to the accounts in respect of its staff are equal to the contributions paid to the funded pension scheme for these employees.

Financing Charges

These are calculated on the average cash balance for the year and represent an interest charge at the average base rate plus 1% of 5.77% for the overdrawn balance financed by the host authority.

TRADING ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2007

2005/2006	£000		2006/2007	£000
	<u>5,029</u>	Sales		<u>5,247</u>
		Cost of Sales:		
(386)		Opening Stock	(455)	
(4,157)		Plus Purchases	(4,246)	
<u>455</u>	<u>(4,088)</u>	Less Closing Stock	<u>489</u>	<u>(4212)</u>
	941			1,035
	<u>276</u>	Non Trading Income (note 7)		<u>544</u>
	1,217			1,579
		Expenditure:		
(837)		Staff Costs (note 1 & 5)	(917)	
(81)		Premises	(85)	
(93)		Transport	(95)	
(128)		Supplies & Services (note 6)	(367)	
(6)		Third Party Payments	(6)	
(43)		Support Services (note 2)	(31)	
(8)		Financing Charges (note 3)	(8)	
0		Stock Obsolescence Prov'n	(5)	
<u>7</u>		Bad Debt Provision	<u>(14)</u>	<u>(1,528)</u>
	<u>(1,189)</u>			
	28	Surplus for the year		51
	<u>(28)</u>	Surplus taken to general reserve (Balance Sheet note 6)		<u>(51)</u>

BALANCE SHEET AS AT 31st MARCH 2007

2005/2006			2006/2007	
£000	£000		£000	£000
		Current Assets		
845		Debtors (Note 1)	1,064	
0		Less Provision for Doubtful Debts (Note 2)	(14)	
	845			1,050
455		Stock	489	
(17)		Less Provision for Obsolescence (Note 3)	(22)	
	<u>438</u>			<u>467</u>
	1,283	Total Assets		1,517
		Less current liabilities		
(482)		Creditors (Note 4)		(616)
(424)		Cash Overdrawn		(520)
	<u>(906)</u>			
	<u>377</u>	Net Assets		<u>381</u>
		Financed by :-		
	343	Accumulated Surplus (Note 6)		352
	34	Reserve for Plant and Equipment (Note 5)		29
	<u>377</u>			<u>381</u>

CASH FLOW STATEMENT 2006/2007

2005/2006 £000		2006/2007 £000
	Revenue Activities	
	Expenditure	
(837)	Cash paid to or on behalf of employees	(917)
(8)	Servicing of Finance	(8)
<u>(4423)</u>	Other operating costs	<u>(4743)</u>
(5268)		5,668
	Income	
<u>5681</u>	Cash received for goods and services	<u>5,572</u>
<u>413</u>	Net(Decrease)/ Increase in cash	<u>96</u>

Statement of Accounts 2006/2007

Catalogue Supplies Servis Joint-Committee

County Borough Supplies

Certification of Accounts

I certify that the accounts set out in Pages 10 to 12 present fairly the financial position of the Committee as at 31st March 2007

Gareth Moss BA (Hons) C PFA

Executive Director – Resources

Bridgend County Borough Council

Notes to the Trading Account

1 **Officers' Emoluments**

The Accounts and Audit Regulations (Wales) 2005 require the starting point to be £60,000 for this disclosure. There are no staff members whose gross pay exceeds this figure.

2 **Support Services**

The charges are as follows: -

	<u>2005/2006</u>	<u>2006/2007</u>
	£	£
Computer Charge	11,198	4,927
Creditors	3,023	2,407
Payroll	2,118	2,306
Accounts	15,191	14,353
Internal Audit	2,508	2,405
Legal Services	4,463	110
Facilities Management	492	603
Human Resources	3,638	3,838
Procurement	40	49
TOTAL	<u>42,671</u>	<u>30,998</u>

The reduction in the creditor charge reflects the County Supplies in-house creditor module which feeds payments to BCBC payments system directly.

3 **Financing Charges**

These are calculated on the average cash balance at month end, at the average Bank of England base rate plus 1% i.e. 5.77%.

4 **Related Party Transactions**

There are no material transactions that are not disclosed in the accounts.

Membership of the Committee is composed of two members each from: -

Bridgend.C.B.C.
Caerphilly C.B.C.
Merthyr Tydfil C.B.C.
Rhondda Cynon Taff C.B.C.

Bridgend County Borough Council acts as the host authority for support services, including accounting and banking services.

All of the sales are made to the stake holding authorities.

The Rhondda-Cynon-Taff County Council Superannuation Fund is used for pension services.

As at 31 March 2006, the following permanent staff were employed, who had been seconded on local government re-organization in 1996 from:-

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>		<u>£000</u>
2	Bridgend C.B.C.	2
4	Caerphilly C.B.C.	3
5	Rhondda Cynon Taff C.B.C.	4

There are 35 staff (32 in 2005/06) in addition to this who were subsequently employed by Bridgend.C.B.C and there is a full time equivalent of 2.4 staff employed from agencies.

Some members and officers may act as school governors for schools with which the organisation trades.

5 **Pension Costs**

The actual amount charged to the revenue accounts for pensions included under employees was £120, 807.

6 **Purchase of vehicles and equipment**

On 11th May, 2006 the Committee agreed to purchase a vehicle from the previous year's surplus and accumulated reserves. The vehicle cost £41,704. The Supplies and Services figure is net of a £5,266 contribution from the equipment reserve.

7 **Non-trading Income**

The increase in the non-trading income over previous years reflects the Joint Supplies Service undertaking production of the joint catalogue. This increase is largely offset by increased expenditure in Supplies and Services.

Notes to the Balance Sheet

- 1 The **debtor** balance consists of the following categories –

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>		<u>£000</u>
80	Reserved debtors for trading activities	326
<u>765</u>	Sundry Debtors	<u>738</u>
<u>845</u>	Total	<u>1,064</u>

- 2 The **provision for bad and doubtful debts** has been calculated to include all debt older than one year at percentages dependant on time outstanding. This is regarded as adequate to cover all long-standing debt and a proportion of recent debt, which is generally collected in total within six weeks.

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>		<u>£000</u>
	Movements during the year	
(7)	Opening Balance	(0)
0	Write-offs	0
<u>7</u>	(Increase)/Decrease in provision from revenue	<u>(14)</u>
<u>(0)</u>	Closing Balance	<u>(14)</u>

- 3 A **provision for stock obsolescence** has been created amounting to £22,039 to provide for items of stock identified as slow moving or obsolete.

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>		<u>£000</u>
	Movements during the year	
(17)	Opening Balance	(17)
0	Write-offs	0
<u>(0)</u>	Increased contribution from revenue	<u>(5)</u>
<u>(17)</u>	Closing Balance	<u>(22)</u>

- 4 The **creditor** balance consists of the following categories –

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>		<u>£000</u>
15	Customer Accounts in Credit	27
127	Reserved Creditors	103
317	Sundry Creditors	421
<u>23</u>	H.M. Customs and Excise – V.A.T.	<u>65</u>
<u>482</u>	Total	<u>616</u>

- 5 The movement in the **reserve for plant and equipment** is as follows –

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>		<u>£000</u>
41	Balance Brought Forward	34
<u>(7)</u>	Use of Reserve for Computer System Enhancement	<u>(5)</u>
	Purchase	
<u>34</u>	Balance Carried Forward	<u>29</u>

- 6 The movements on the **accumulated surplus account** are as follows -

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>		<u>£000</u>
315	Balance Brought Forward	343
28	Surplus for the year	51
<u>0</u>	Purchase of Vehicles	<u>(42)</u>
<u>343</u>	Balance Carried Forward	<u>352</u>

7 The **movement in total reserves** is as follows

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>		<u>£000</u>
346	Balances Brought Forward	377
(7)	Application for purchases	(47)
<u>28</u>	Surplus	<u>51</u>
<u>377</u>	Balance Carried Forward	<u>381</u>

Notes to Cash Flow Statement

1. Reconciliation of Revenue Account to Revenue Activities

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>		<u>£000</u>
28	Surplus on Revenue Account	51
(7)	Transfer from Reserve	(47)
	Plus/(less) Movement in relevant Balance Sheet items:-	
363	(Increase)/Decrease in Debtors/Provisions	(205)
(69)	(Increase)/Decrease in Stock/Provision	(29)
<u>98</u>	Increase in Creditors	<u>134</u>
<u>413</u>	Cash Inflow/(Outflow) from Revenue Activities	<u>96</u>

2. Analysis of Changes in Cash during the Year.

	Balance b/f	Balance c/f	Change during the year
	£000	£000	£000
Cash /(Overdrawn)	(424)	(520)	(96)

3. Cash is held by the Bridgend BCBC, the financial services provider as part of its general bank account. No separate bank account exists for County Borough Supplies.