

PLEASE NOTE VENUE

GENERAL PURPOSES COMMITTEE AGENDA



Friday 29 June 2007

at 10.00am

in Conference Room 1,
Belle Vue Community, Sports and Youth Centre,
Kendal Road, Hartlepool

MEMBERS: GENERAL PURPOSES COMMITTEE:

Councillors Akers-Belcher, Fleming, Griffin, Henery, J Marshall, Dr Morris, Shaw,
Wallace and Wistow

1. **APOLOGIES FOR ABSENCE**
2. **TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS**
3. **TO CONFIRM THE MINUTES OF THE MEETING HELD ON 23 MARCH 2007**
4. **ITEMS REQUIRING DECISION**
 - 4.1 The 2006/2007 Statement of Accounts – *Chief Financial Officer*
 - 4.2 Audit Commission Report – Audit and Inspection Plan 2007/08 – *Chief Financial Officer*
5. **ANY OTHER ITEMS WHICH THE CHAIRMAN CONSIDERS ARE URGENT**

GENERAL PURPOSES COMMITTEE

MINUTES AND DECISION RECORD

23 March 2007

The meeting commenced at 10.00 a.m. in the Civic Centre, Hartlepool

Present:

Councillors: Gerard Hall, John Marshall, Jane Shaw and Gerard Wistow .

Officers: Charlotte Burnham, Scrutiny Manager
Ann Turner, Governor Support Officer
David Cosgrove, Principal Democratic Services Officer

29. Appointment of Chair

In the absence of the Chair, Councillor Young, Councillor Shaw was appointed Chair for this meeting.

Councillor Shaw in the Chair

30. Apologies for Absence

Councillors Iseley, Wallace and Young.

31. Declarations of interest by members

Councillor Wistow declared a private and prejudicial interest in Minute No. 34 "Formal Response to Local Government Pension Scheme – Discretionary Payments Scrutiny Referral" and left the meeting during its consideration.

32. Confirmation of the minutes of the meeting held on 29 September 2006 and 7 March 2007

The minutes of the meeting held on 29 September 2006 were received and the minutes of the 7 March 2007 were confirmed.

33. Any other Items which the Chairman considers are Urgent

The Chairman ruled that the following item should be considered by the Committee as a matter of urgency in accordance with the provisions of

Section 100(B)(4)(b) of the Local Government Act 1972 in order that the matters could be dealt with without delay.

34. Formal Response to ‘Local Government Pension Scheme – Discretionary Payments’ Scrutiny Referral (*Scrutiny Coordinating Committee*)

At the meeting of the General Purposes Committee on 7 March 2007, a decision was sought regarding the options available to the Authority following a recent review of the current discretionary payments for the Local Government Pension Scheme as a result of the new Age Discrimination Regulations. At the meeting, it was subsequently agreed (Minute No. 28 refers) :-

- (a) ‘That Option 2, as detailed in the report, be implemented as the Council’s policy principles in respect of LGPS discretionary payments; and
- (b) That further consideration of this policy be referred to Scrutiny with a request that Scrutiny progress this matter as a priority investigation in the 2007/08 work programme.

In line with Council procedures, the Scrutiny Co-ordinating Committee considered the Scrutiny Referral at its meeting on 13 March 2007. After much discussion the Committee reached the decision not to undertake the referral on the basis of:-

- (a) That a decision had already been made (that being Option 2); and
- (b) That there would be no value added by seeking the views of the Scrutiny Co-ordinating Committee in this matter, as a priority within its 2007/08 Work Programme.

Some Members were disappointed that the Scrutiny Coordinating Committee had not decided to investigate the issue. Members were, however, more concerned at the General Purposes Committee, a relatively small group with a quorum of only three, being placed in the position of having to make a decision on such matters that affected all the Council’s employees. Members considered that such decisions required a greater member involvement. Members also considered that the support arrangements provided by the Corporate Management Group for this issue were inadequate.

The Committee was of the view that the decision taken at the meeting on 7 March 2007 was only a temporary position that would be reviewed. The Committee was advised that while Scrutiny of the issue had been rejected, that did not preclude the Committee investigating the issue further itself. Members supported a full investigation into the issue surrounding the decision made by the Committee at its meeting on 7 March being undertaken early in the new Municipal Year.

Decision

1. That the report of the Scrutiny Coordinating Committee be noted.
2. That a report be submitted to an additional meeting of the Committee in the new Municipal Year focusing on the events and timetable leading to the decision of the Committee on 7 March 2007 (min. no. 28 refers).

35. Appointment of Local Authority Representatives to serve on School Governing Bodies *(Director of Children's Services)*

Members were advised that applications had been invited from members of the general public, elected members and those governors whose term of office is about to expire and who are, interested in serving or wish to continue to serve as a LA representative governor on school governing bodies.

A schedule was attached as Appendix A to the report, which set out details of vacancies which existed for LA representative governors and those vacancies occurring in August 2006, together with applications received in respect of the vacancies, attached as Appendix B (as exempt information under Schedule 12A of the Local Government Act 1972, (as amended by the Local Government (Access to Information)(Variation) Order 2006) namely, information relating to any individual (para 1))

Decision

- (a) That the following recommendations, for the appointment of LEA Representative Governors be referred to the Children's Services Portfolio Holder for approval:

Dyke House School – Mr E. Norman
 Golden Flatts Primary School – Mrs J Liston
 Hart Primary School – Mr G Newbury
 Rossmere Primary School – Councillor Michael Johnson
 Seaton Carew Nursery – Councillor Geoff Lilley

- (b) In the light of the absence of expressions of interest at this time the following vacancies were deferred:

Barnard Grove Primary School
 Brierton Community School
 Brougham Primary School
 Catcote School
 Clavering Primary School
 Grange Primary School
 Jesmond Road Primary School
 Owton Manor Primary School
 Rift House Primary School

Springwell School
Throston Primary School

CHAIRMAN

GENERAL PURPOSES COMMITTEE

29th June, 2007



Report of: Chief Financial Officer

Subject: THE 2006/2007 STATEMENT OF ACCOUNTS

1. PURPOSE OF REPORT

1.1 To enable Members to approve the Council's 2006/2007 Statement of Accounts.

2. BACKGROUND

2.1 The council is required by statute to produce the 2006/2007 Statement of Accounts in a specified format within three months of the year-end, i.e. by 30th June. The accounts are subject to audit prior to publication by 30th September.

2.2 The Statement of Accounts has been prepared in accordance with the approved closure strategy.

3. FINANCIAL IMPLICATIONS

3.1 None.

4. RECOMMENDATIONS

4.1 It is recommended that Members approve the 2006/2007 Statement of Accounts.

Report of: Chief Financial Officer

Subject THE 2006/2007 STATEMENT OF ACCOUNTS

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to enable Members to approve the Council's 2006/2007 Statement of Accounts in accordance with the requirements of the Accounts and Audit Regulations 2003.
- 1.2 This will be achieved by considering the following: -
- i) Background
 - ii) The 2006/2007 Draft Statement of Accounts
 - ii) Recommendations

2. BACKGROUND

- 2.1 In accordance with the Accounts and Audit Regulations 2003, all Local Authorities are required to produce an annual Statement of Accounts. These regulations have required Councils to bring forward the completion of the Annual Statement on a planned basis, so that from 2005/2006 the accounts must be produced by 30th June.
- 2.2 This is a challenging deadline particularly in relation to the 2006/2007 accounts as significant accounting changes have been introduced, including a new format for the main accounting statements. These changes mean that comparisons cannot be made between the 2006/07 accounts and those for previous years. In addition, the 2006/2007 accounts were the first set of accounts produced using the new accounting system which was introduced on 1st April, 2006. On a practical basis the Accounts actually had to be completed by 19th June, 2007 to ensure the statutory publication requirements for Council reports were met.
- 2.3 The regulations also require Members to approve the Statement of Accounts prior to audit by the Audit Commission and subsequent publication. This report enables Members to discharge this responsibility. If it should be necessary to amend the accounts during the course of the audit, any major amendments will be reported to Members.
- 2.4 The Statement of Accounts reflects the provisional 2006/2007 Outturn Strategy approved by Council on 15th February, 2007 and the final 2006/2007 Outturn Strategy approved by Cabinet on 11th June, 2007.
- 2.5 The provisional 2006/2007 Outturn Strategy advised Members that there was likely to be an underspend on corporate budgets. Council determined

to earmark £1m of these resources to support the 2009/2010 budget and maintain support in that year at £2m. It was also determined to earmark £0.5m to fund the shortfall in funding for the Phase 2 Equal Pay settlement which will be payable in June, 2007.

- 2.6 The final outturn strategy advised Cabinet that the net underspend for 2006/2007 was £1.3m higher than previously anticipated. This increase is owing to the achievement of a one-off discount on the Council's Loans Portfolio in the last week of March. As Cabinet have not had time to consult on a strategy for using these resources they have decided to transfer this amount into the Budget Support Fund, pending the development of a strategy for using these resources as part of the 2008/2009 Budget and Policy Framework proposals. These proposals will be subject to detailed consultation, including referral to the Scrutiny Co-ordinating Committee before Cabinet submit final proposals to Council in February, 2008.

3. THE 2006/2007 DRAFT STATEMENT OF ACCOUNTS

- 3.1 As indicated earlier in the report new accounting requirements have been introduced for 2006/2007, including a significant change to the format of the accounts.

- 3.2 The draft Statement of Accounts is attached to this report and in summary this document provides the following information: -

i) Chief Financial Officer's Foreword

The foreword provides an overview of how the Authority is funded and gives details of the main financial and operational factors affecting the Authority in 2006/2007.

ii) Statement of Accounting Policies

This states that the accounts have been prepared, with certain exceptions to which specific reference is made in the Statement of Accounts, in accordance with proper accounting practices as defined in legislation and the appropriate Accounting Code of Practice.

The Statement of Accounting Policies describes the basis upon which the accounts have been prepared and certain items included in the accounts.

ii) Statement of Responsibilities for the Statement of Accounts

This sets out the responsibilities of the Authority and the Chief Financial Officer.

iv) Income and Expenditure Account

The Income and Expenditure Account provides an overall summary of the Authority's revenue activities for the year. This statement replaces the Consolidated Revenue Account. The Income and Expenditure Account presents financial information in a specified format, which must be followed by all authorities to ensure a standard approach to external financial reporting across English authorities. The Income and Expenditure Account shows the following key information:

- Net Cost of Service

This section of the Income and Expenditure Account provides a high level analysis of the aggregate value of the cost of defined activities undertaken by the Authority.

- (Surplus)/Deficit for Year

The reported deficit includes the Pension charge which the Authority is required to charge to the Income and Expenditure Account in compliance with the requirement of Financial Reporting Standard (FRS) 17. This is not a cash deficit which the Authority needs to fund, as the FRS 17 Pension charge is not a real cost.

- Statement of Movement on the General Fund Balance

This statement reconciles the movement on the Income and Expenditure Account back to a cash basis and effectively reverses out the FRS 17 Pension charge detailed above. The statement finishes with the Authority's total General Reserves of £19.031m. Details of the items included in this amount are provided in Note 30, Page 49 of the attached Statement of Accounts. An overview of reserves is provided in (v) below .

v) Balance Sheet as at 31st March, 2007

The Balance Sheet shows the value of the Authority's assets, liabilities and other balances as at 31st March, 2007 and I would comment on a number of items: -

a) Investments

Investments consist wholly of surplus temporary cash balances and are invested in accordance to the Authority's Treasury Management Strategy.

b) Long Term Loans Borrowing

During 2006/2007 in accordance with the approved Treasury Management Strategy, action was taken to manage the

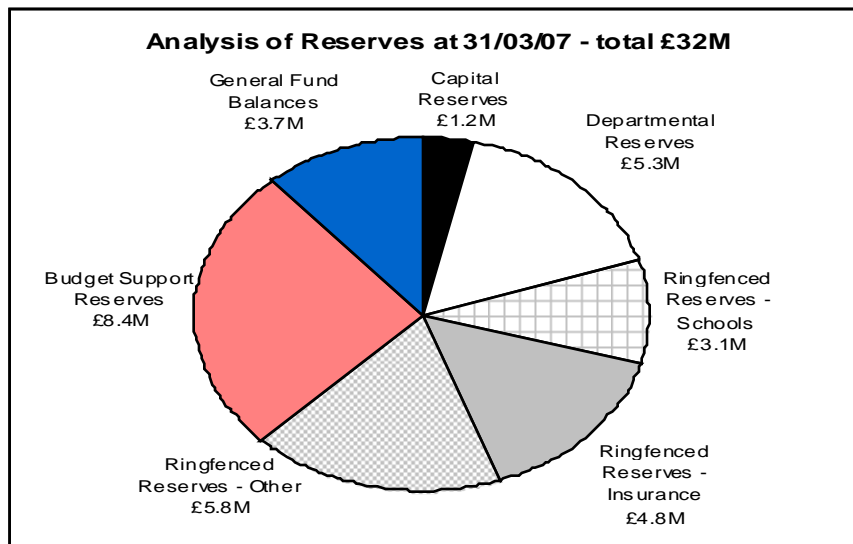
Authority's Loans Portfolio. As a result of changes in interest rates during 2006/2007, the Council has been able to benefit from discounts on existing loans and lowered the ongoing interest rates on the Council's borrowings. This was achieved through a combination of reducing investments and through the use of market borrowing known as LOBOs (Lenders Option, Buyers Option).

c) Earmarked Reserves and General Fund Balances

The value of the Council's specific reserves and balances at 31st March, 2007, excluding Investment Reserves in respect of the Airport and Cleveland Waste, amount to £32.3m (£31.2m at 31st March, 2006). The notes included in the Balance Sheet provide a detailed analysis of the movement in Specific Reserves and Balances.

In considering the level of reserves and balances at 31st March, 2007, Members need to remember that significant commitments have already been identified against these resources. A detailed schedule of reserves and balances was included in the Budget and Policy Framework report submitted to Council on 15th February, 2007. This report outlined the planned use of balances for the period 2006/2007 to 2009/2010, which includes the use of reserves to support the revenue budget. The report also approved the establishment of a Tall Ships reserve of £0.8m and a contribution to the Budget Support Fund (to support the 2009/2010 budget). The schedule also identified that the aggregate value of reserves and balances is forecast to reduce over the next three years as resources are used to meet commitments and support the revenue budget.

The position at 31st March, 2007 is summarised below :



- Budget Support Fund

The Budget Support Fund includes £1.7m which Cabinet have determined to allocate to this reserve pending the development of a strategy for using these resources as part of the 2008/2009 Budget and Policy Framework proposals. This amount consists of the one-off discount of £1.3m generated on the Council's Loans Portfolio in March, 2007 and £0.4m from the LABGI (Local Authority Business Growth Incentive) grant.

The remaining amount of £6.7m is earmarked to support the budget over the period 2007/2008 and 2009/2010. The 2007/2008 Budget and Policy Framework anticipates using £6.9m of this reserve to support the revenue budget in these years. It is anticipated that the shortfall in this reserve will be bridged during 2007/2008 from further income received from the RTB sharing agreement. This cannot be guaranteed as sales have reduced significantly and this trend is likely to continue based on experience in other authorities. In addition, increases in interest rates and the fear of further increases are likely to discourage people from exercising their right to buy.

- Capital Reserves

The main item included in this reserve is the capital funding reserve which is earmarked to fund capital expenditure rephased to 2007/2008.

- Ring Fenced Reserves – Other and Departmental Reserves

These reserves are earmarked for specific departmental service Reserves developments or known budget risks/commitments.

- General Fund Balances

This reserve has reduced by £1.3m to £3.7m following the decision to fund the one-off bonus buy-out costs from this reserve. It is currently planned to repay this amount from the saving in bonus payments and £0.9m will be repaid in 2007/08. As indicated in previous years it is prudent to maintain a minimum level of General Fund Balances equal to 2% of the General Fund budget, which broadly equates to £2.5m.

d) Equal Pay Back Pay Account

This is a new item for 2006/07 and has been included in the Accounts to comply with new accounting regulations. The balance on this account is the estimated cost of Equal Pay settlements arising from Employment Tribunal cases against the Council which have not yet been paid. These amounts will be paid in 2007/08 and at that time these costs will, as reported previously, need to be funded from the element of General Fund Balances set aside for such liabilities.

vi) Cash Flow Statement

The Cash Flow Statement shows the receipt and payment of cash arising from transactions with third parties for revenue and capital purposes.

vii) The Collection Fund

This is a separate fund that records all transactions relating to Council Tax, Non Domestic Rates and residual Poll Tax. In total it shows a surplus at 31st March, 2007, of £0.148m, which is broadly in line with expectations. This amount was previously anticipated and has been included in the approved budget strategy for 2007/2008.

viii) Notes to the Core Statement

This section provides further information on the figures reported in the Core Statements, namely the Income and Expenditure Account and Balance Sheet.

ix) Auditor's Report

The Auditor's Report shown is an example of the statement that will be included once the District Auditor has completed the audit of the 2006/2007 Accounts.

x) Statement on Internal Control (SIC)

The statement sets out the Authority's responsibilities for ensuring the Authority has an appropriate system of internal control. This statement was first introduced for 2002/2003. Further changes have been made in 2005/2006 and future years. To comply with these requirements revised arrangements for completing the SIC have been developed, which included scrutiny of the SIC by the Audit Committee on 17th May, 2007. The approved SIC has been included in the 2006/2007 accounts.

xi) Glossary of Terms

This is not part of the statutory requirements. Nevertheless, it is included to assist readers in understanding the meaning of the various financial phrases included in the accounts.

5. RECOMMENDATIONS

5.1 It is recommended that Members :-

- i) Note the report.
- ii) Approve the 2006/2007 Statement of Accounts.

Hartlepool Borough Council

STATEMENT OF ACCOUNTS

2006/2007

M W WARD B.Sc., C.P.F.A.
CHIEF FINANCIAL OFFICER
FINANCE DIVISION

HARTLEPOOL BOROUGH COUNCIL - STATEMENT OF ACCOUNTS 2006/2007

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CHIEF FINANCIAL OFFICER'S FOREWORD

1. INTRODUCTION

The purpose of this foreword is to: -

- Outline the significant financial and operational arrangements affecting the Council in 2006/2007.
- Provide a brief explanation of the Council's financial position at 31st March, 2007.
- Provide an overview of the Council's Borrowing and Investment Strategy.
- Provide an explanation of the detailed statements included in this document.

2. SIGNIFICANT FINANCIAL AND OPERATIONAL ARRANGEMENTS 2006 /2007

FINANCIAL ISSUES

In advance of the start of 2006/2007 the Council aligned its detailed planning horizon with the Government's own two year grant settlement for Councils. The Council's detailed budget strategy therefore covered the two years 2006/2007 and 2007/2008. These detailed forecasts were supported by the indicative forecasts for the three years beginning 2008/2009. These forecasts will be updated and rolled forward once the Government announces the first three year settlement for Councils.

The preparation of the 2006/2007 budget was the most difficult budget round of the past four years and was made more challenging as a result of significant changes the Government made to the funding arrangements for Councils. In the medium term these changes should be beneficial for Hartlepool.

However, because these changes will be phased over a number of years the Council will not receive the full amount of grant the Government has assessed we need. These arrangements are known as the "floor damping" arrangements. The Government initially informed the Council that we would lose £3.5m over the next two years. The Mayor and Cabinet colleagues met with the Local Government Minister to discuss this issue. After we put forward the Council's case this amount was reduced to £3m. The Council will continue to argue for these arrangements to be abolished.

After reflecting the revised "floor damping" loss, the Council received a grant increase for 2006/2007 of 2.7%. This was slightly higher than the Government's minimum increase for authorities with Education and Social Services responsibilities of 2%.

The changes to the funding arrangements also included the introduction of the Dedicated Schools Grant, which is a ring-fenced grant paid to Councils to fund Education Services. Prior to 2006/2007 Education Services were, like all other Council services, funded from a combination of Revenue Support Grant, Redistributed Business Rates and Council Tax. The Dedicated Schools Grant was created by top slicing resources from the Revenue Support Grant. As a result of this change a lower proportion of Council expenditure on non Education Services is funded from Revenue Support Grant and a higher proportion from Council Tax. This change did not affect the total amount of Council Tax raised by the Authority, but it did change the "basket" of services Council Tax now pays for.

A review of services was undertaken to identify how the Council could reduce costs without affecting service quality and a balanced budget was set for 2006/2007, which included the following main elements:

- The Children's Services budget was increased by £0.846m (6.1%). This included a base budget increase of 3% and a further 3.1% for specific pressures, including increased Home to School transport costs and additional expenditure on the Special Education Needs service.
- The Adult and Community Services budget was increased by £2.09m (8.2%). This reflected a base budget increase of 3% and a further 5.2% for specific pressures, including demographic pressures and increases in the fees paid for older people residential care home placements.
- Other budgets increased by 3%, together with additional resources for specific pressures identified in the budget review, including £0.75m to implement a free Concessionary Fares Scheme and additional Equal Pay costs.
- Efficiency savings of £1.59m were implemented, together with budget savings of £2.9m from service department's budgets.
- Reserves of £2.4m were used to minimise the increase in Council Tax and protect services.
- Council Tax was increased by 4.9%.

Details of the Council's actual financial position for 2006/2007 are set out in Section 3 below.

The budget forecasts for future years are subject to significant uncertainty from factors outside of the Council's control. The main issues affecting the Council's future budget position will be:

- The outcome of the Government's 2007 Spending Review.
- The development of and changes to the Government Grant System.
- The implementation of the Single Status Agreement.
- The level of interest rates and pay awards from 1st April, 2007.

These factors make medium-term budgeting more difficult. An assessment of the impact of these factors has been made. These forecasts indicate that the Council faces significant budget deficits in 2007/2008 and in future years. These deficits will need to be bridged by increasing efficiencies, reducing services, or increasing Council Tax or a combination of efficiencies, service reductions and Council Tax increases. The Council will continue its detailed review of its activities and is developing a strategy to address these deficits.

OPERATIONAL ISSUES

Details of the Authority's achievements during 2006/2007 and our longer term ambitions are detailed in the Corporate Plan. A copy of this plan can be obtained from the Council's website, or by contacting Kerry Trenchard, Policy Team, Kerry.trenchard@hartlepool.gov.uk, telephone number 01429 284057.

The key operational issue affecting the Council during 2006/2007 was the development of the Council's response to challenges laid down by the Government, particularly in relation to the modernisation of Council services, the development of more efficient ways of working and the implementation of the Council's Local Area Agreement (LAA), an agreement with the Government to improve service outcomes.

The other major operational issue facing the Council relates to the implementation of the national Single Status Agreement and the settlement of Equal Pay claims. Under the terms of the Single Status Agreement the Authority will complete a detailed evaluation of all jobs and implement a new pay and grading structures from 1st April, 2007. Pending the implementation of a new pay and grading structure the Authority has negotiated equal pay settlements with the majority of the workforce for the period to 31st March 2007. Payments to individual employees have been phased over three financial years commencing 2005/2006. A provision was established to meet the unpaid liabilities and the associated Tax and National Insurance cost. This provision has partly been funded from underspends against the current and previous years budget and partly from a review of the Authority's reserves.

The Authority also reached agreement with its workforce to buy-out existing bonus payments in advance of implementation of the new pay and grading structure.

The Authority also potentially faces a number of Equal Pay Tribunals and any costs arising from such cases will be funded from General Fund Balances.

3. **FINANCIAL POSITION AT 31 ST MARCH, 2007**

This section details the financial position at 31st March, 2007, for the following areas:

- General Fund
- Capital Programme
- Collection Fund

GENERAL FUND

The General Fund accounts for all services provided by the Council. The main General Fund services are Education, Social Services, Libraries, Leisure Services and Refuse Collection and Disposal. In 2006/2007 the Council's net General Fund budget was £130.0m. This amount was funded from Government Grant and Council Tax.

In total, actual net expenditure in 2006/2007 was £1,217,000 more than expected. The main reason for this variance was the Council's decision to buy out future bonus payments and to fund this cost from general fund balances. The other main items are summarised below: -

- Income of £0.651m was received from Housing Hartlepool from the sale of former Council houses. In accordance with the agreement reached with Housing Hartlepool the Council will receive a total of £7m. The timing of this income depends on when individual tenants decide to buy their house from Housing Hartlepool. As the timing of this income is uncertain the Council does not budget for a specific amount to be received each year. However, the Council has determined to earmark £4m of this income to support General Fund expenditure at the rate of £1m per year over the four years commencing 2005/2006. A strategy for using the remaining amount will be developed as part of the ongoing development of the Council's Medium Term Budget and Policy Strategy.
- With the exception of Neighbourhood Services, after transfers to and from reserves, actual expenditure on services was less than expected. In accordance with the Council's policy

for providing services with greater financial flexibility and responsibility departments used net contributions from Strategic Change Reserves of £0.2m. These reserves are earmarked to meet known future commitments and help departments manage services over more than one financial year. Departments also made net use of Managed Revenue Underspend reserves of £0.2m. These resources enabled departments to fund expenditure commitments that had been delayed or to fund one off service improvements.

- A one-off benefit of £2m was achieved by restructuring the Council's Loan Portfolio. Part of this amount, £1.2m has been transferred to the Budget Support Fund and Members will determine a strategy for using this amount as part of the 2008/2009 budget process. The remaining £0.8m has been earmarked to partly fund the costs associated with the Tall Ships visit in 2010.
- A number of one-off corporate savings totalling £1.561m were achieved in 2006/2007. This included an increase in the Council's investment income of £1.3m owing to higher cash balances than anticipated and increased interest rates from when the budget was set. This amount has been earmarked to fund a number of one-off commitments including £0.5m for Equal Pay costs, £0.4m for Job Evaluation protection costs, £0.4m for potential legal costs arising from planning appeals and other legal actions against the Council.
- The overall financial position for 2006/2007 is summarised below: -

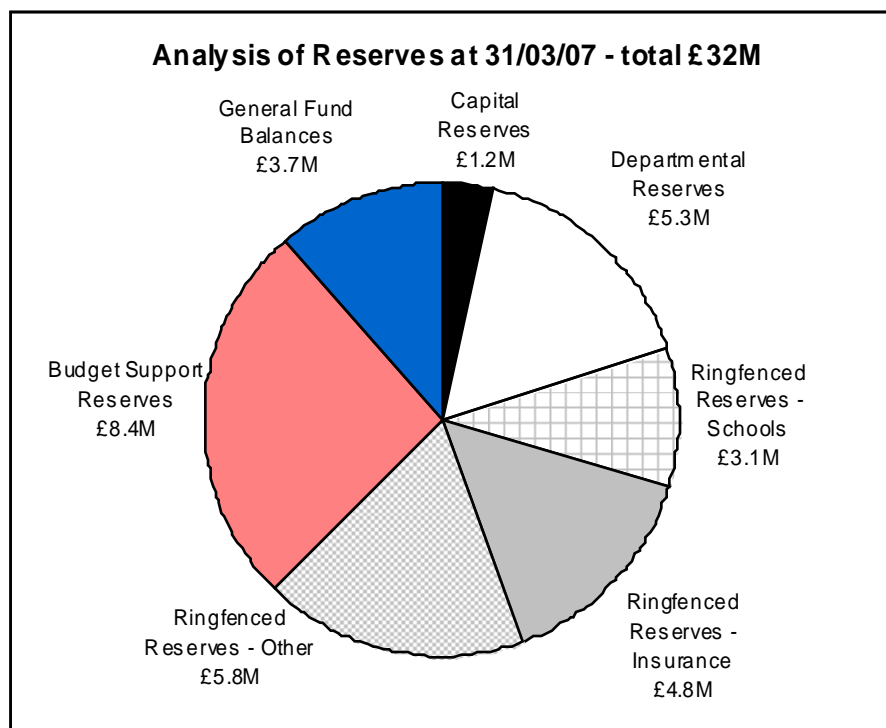
Service Budgets	2006/2007 Approved Budget £'000	2006/2007 Actual Expenditure/ Income £'000	2006/2007 Variance Adverse/ (Favourable) £'000
Adult & Community Services	28,894	28,740	(154)
Children's Services	71,280	71,189	(91)
Neighbourhood Services	14,880	15,496	616
Regeneration & Planning	4,327	4,268	(59)
Resources	4,091	3,940	(151)
Corporate Costs	839	577	(262)
Capital Financing Costs and Investment Income	5,740	4,441	(1,299)
Contribution to Equal Pay and Job Evaluation Reserves and Litigation Provisions	0	1,300	1,300
Cost of Bonus Payments Buy-Out	0	1,317	1,317
Total General Fund Expenditure	130,051	131,268	1,217

The Council's General Fund expenditure was funded from the following sources: -

	£'000	%
Dedicated Schools Grant	54,529	41.9
Revenue Support Grant	6,787	5.2
Share of National Non-Domestic Pool	35,159	27.0
Council Tax (Charge on Collection Fund)	33,472	25.8
Share of Collection Fund Surplus	104	0.1
	130,051	100

At the 31st March 2007, the Authority's Earmarked Reserves (excluding Durham Tees Valley Airport and SITA Investment reserves) and General Fund balances increased to £32m (£31m in 2005/2006).

These reserves consist of seven main components:



Ring-fenced Reserves – earmarked for specific purposes/commitments. The ‘Other’ reserves include the following:

- Stock Transfer Warranty Reserve (£1.0m) to cover potential liabilities arising from the transfer of the Council’s housing stock to Housing Hartlepool in 2003/2004
- Tall Ships Reserve (£0.8m) to support the Tall Ships visit in 2010
- LPSA Reward Grant Reserve (£0.6m) created using monies received from the Government following the Council’s successful achievement of LPSA targets
- Lotteries Reserve (£0.4m) to cover grants and donations to local organisations
- Job Evaluation Protection Reserve (£0.4m) which will provide additional resources to assist with the implementation of a new Pay and Grading system

Budget Support Reserves – £6.7m of this reserve is earmarked to support the revenue budget over three years, commencing 2007/2008. A strategy for using the remaining £1.7m will be developed as part of the 2008/2009 budget process.

Departmental Reserves – earmarked for specific departmental expenditure commitments or service improvements.

Capital Reserves – earmarked for capital expenditure commitments.

General Fund Balances – earmarked for unforeseen commitments.

Further details of the Authority’s earmarked reserves and General Fund Balances are detailed on pages 45 to 50.

CAPITAL PROGRAMME

In 2006/2007 the Council had a total Capital Programme of £31.081m. An analysis of this expenditure is shown below, together with an analysis of how this expenditure was financed.

Expenditure	£'000	%
School Improvements	5,793	19%
Housing Investment Programme	3,080	10%
Social Care Housing	6,657	21%
SRB - North Hartlepool Partnership	1,148	4%
New Deal for Communities Partnership	5,462	18%
Highway Maintenance & Construction	2,504	8%
Single Programme Initiatives	372	1%
Other Schemes	6,065	19%
Total	31,081	100%
Capital Financing		
Grants	19,495	63%
Borrowing	7,703	25%
Other	3,883	12%
Total	31,081	100%

At 31st March, 2007, the Council had capital commitments arising from slippage of programmed capital spending into 2007/2008 of £15.793m. These commitments can be funded from the following resources, which can be rephased to 2007/2008.

	<u>£'000</u>
Government Grants	3,855
Borrowing	9,982
Capital Funding Reserves	<u>1,956</u>
	<u>15,793</u>

The Council received £1.472m from the sale of assets during 2006/2007.

COLLECTION FUND

The Collection Fund is a "ring-fenced" account which means that payments to, or from, the General Fund are not permitted. The Fund includes all transactions relating to the Council Tax, Community Charge and National Non-Domestic Rates. Any balance on the account at 31st March is shared amongst the Council and other major precepting authorities on the basis of Council Tax levels. The Council's share of the accumulated surplus as at 31st March, 2007, is committed to be used to limit the increase in Council Tax in 2007/2008.

The Council set a Council Tax for the year of £1,426.73 for Band D properties, excluding parish precepts where these applied. This comprised £1,222.46 for the Council's own services, £150.72 for the Cleveland Police Authority and £53.55 for the Cleveland Fire Authority. Each Authority determined its own tax and made a precept on the Collection Fund.

The tax for the Council's services was determined on the basis of an equated number of 27,369 Band D properties. When setting the charge a 1.0% allowance for non-collection was made.

Further details on the income and expenditure of the Fund are shown on pages 51 to 53 and summarised below.

	£'000	%
<u>Expenditure</u>		
Cleveland Police Authority Precept	4,125	6.9
HBC Precept	33,471	56.2
Cleveland Fire Authority Precept	1,466	2.5
Payment to NNDR Pool	20,128	33.8
Other	380	0.6
	59,570	100
<u>Income</u>		
Council Tax	39,235	65.9
NNDR from Rate Payers	20,306	34.1
	59,541	100
Net Deficit/(Surplus) In Year	29	

BORROWING FACILITIES AND INVESTMENT STRATEGY

The Council's arrangement for borrowing accord with the Council's Treasury Management Strategy, which was drawn up to comply with the Code of Practice for Treasury Management in Local Authorities published by the Chartered Institute of Public Finance and Accountancy.

In accordance with this strategy the Council has taken a proactive approach to managing cash investments and debt. As a result of changes in interest rates during 2006/2007, the Council has been able to benefit from discounts on existing loans and lowered the ongoing interest rates on the Council's borrowings. These lower rates were achievable through a combination of reducing investments and through the use of market borrowing known as LOBOs (Lenders Option, Buyer Option).

As indicated in the 2006/2007 Treasury Management Strategy report, the interest rates charged on the LOBOs are subject to review at defined anniversary dates. Therefore, provided the lenders do not exercise their option to review the interest rates charged at the end of the initial fixed periods, these savings will then be locked in for a further period equal to the initial fixed periods. It is unlikely that the lenders will exercise these options at the first, or subsequent review dates. However, if they do the Council has the option to repay the loans without penalties. At that time the Council would need a strategy for funding these repayments, either by reducing its investments or by taking out new borrowing. As there is a risk that the replacement borrowing will be at a higher rate than the LOBO, an "Interest Risk Reserve" has been established using the savings achieved from the use of LOBOs. The reserve will be capped at 0.5% of the Council's outstanding debt, which equates to a figure of £0.4m. This amount will effectively be funded from the savings achieved in 2007/2008 and 2008/2009 arising from the use of LOBOs. This amount will provide twelve months protection in the event that the Council needs to refinance the LOBOs at 0.5% higher than the current rates.

From the 1st April, 2004, new regulations governing Local Authority capital expenditure were introduced, known as the Prudential Code. Under these rules the government supports some of the Authority's capital investment plans. The Authority has the ability to undertake additional borrowing, known as unsupported borrowing, providing this is affordable. The Authority has decided to take a cautious approach to the new powers and has made provision for a set amount of unsupported borrowing in its budget plans for 2006/2007 to 2007/2008. This amount is earmarked for specific projects, including the replacement of Mill House Leisure Centre Recycling and repairs to the Civic Centre.

In addition, the Council uses Prudential Borrowing to replace operational vehicles, such as Refuse Vehicles and Street Cleaners, where a detailed business case demonstrates this strategy will reduce costs.

4. **PENSIONS**

The Council has accounted for retirement benefits according to Financial Reporting Standard (FRS) 17. In the accounts as at 31st March, 2007, there was a deficit on the Pensions Reserve of £65.394m (£74.364m in 2005/2006) which reduced the net worth of the Council by 69% (77% in 2005/2006). This was offset by a Pension Liability of the same value. The change in the deficit arose substantially because of actuarial gains in the pension fund assets. Further information is included at Note 3 (Page 27) to the Financial Statements.

5. **STATEMENT OF ACCOUNTS**

The Council's statement of accounts for the year ending 31st March, 2007, is set out on pages STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS 12 to 61. This includes:

-

- The Statement of Responsibility for the Statement of Accounts, which sets out the Chief Financial Officer's responsibilities in this area;
- The Income and Expenditure Account, which summarises the income and expenditure of all services carried out by the Council;
- Statement of the Movement on the General Fund Balance;
- Statement of Total Recognised Gains and Losses;
- The Balance Sheet which sets out the financial position of the Council as at 31st March, 2007;
- The Cash Flow Statement, which summarises the changes in the Council's funds;
- A Statement of Accounting Policies and various notes to support these accounts;
- The Collection Fund which shows income and expenditure relating to the Council Tax, Community Charge and National Non Domestic Rates;
- The Group Accounts Statements, comprising Group Income & Expenditure, Group Balance Sheet, Group Cash Flow Statement and Group Statement of Total Movements in Reserves;

6. **ACCOUNTING POLICIES**

The accounting policies adopted by the Council comply, except where specific reference is made, with the relevant recommended accounting practice.

The Council's policies are explained fully on pages 12 to 16. For the purpose of the Statement of Accounts the Council's expenditure follows the standard classification recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the comparative figures for 2005/2006 have been shown where appropriate.

7. **GROUP ACCOUNTS**

The Council is required to consolidate the appropriate share of the accounts relating to other organisations where the Council has a significant interest and influence. Therefore the Group Accounts Section (from page 54) consolidates the accounts of the Tees Valley Connexions Partnership Ltd. and CADCAM Ltd., with those of the Council.

8. **INSPECTION OF ACCOUNTS**

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection was advertised in the local press and in relation to the 2006/2007 financial year the inspection period was 18th June, 2007 to 13th July, 2007.

Michael W Ward
Chief Financial Officer
Date: 30th June, 2007

9. **CHAIRMAN'S DECLARATION**

I confirm that the accounts set out on pages 3 to 61 were approved by the General Purposes Committee at the meeting held on 30th June, 2007.

Councillor J Marshall
Chair of General Purposes Committee
Date: 30th June, 2007

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL

The Accounts have been prepared, with certain exceptions to which reference is made later, in accordance with the Code of Practice on Local Authority Accounting, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and also with guidance notes issued by CIPFA on the application of accounting standards (SSAPs and FRSs).

2. FIXED ASSETS

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. Assets acquired under finance leases are capitalised and included in the Balance Sheet on the basis of the depreciated value plus outstanding obligations.

The definitions of operational and non-operational assets have been redefined to clarify that operational assets are categorised as assets used in pursuit of the strategy or service of the Authority. Assets not falling into this category are shown as non-operational assets on the Balance Sheet.

Operational assets have been included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use, except for community and infrastructure assets that have been included at historical cost. Non-operational assets have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value.

The current asset values used in the Accounts are based upon certificates issued annually by the Council's Estates Manager, in accordance with the statement of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors. The next valuation must be completed as at 1st April 2009 under which asset revaluations are carried out on a five-year rolling programme.

Those assets regarded as non-operational were valued on open market value. A de minimis level of £7,500 has been applied to land and non-operational assets.

Additions during the year are included in the Accounts at their cost of acquisition for community and infrastructure assets. Other additions are included on the basis of historic costs or net current replacement cost or net realisable value in existing use.

The Councils' Estates Manager has made assessments of reductions in fixed asset valuations owing to impairment, in accordance with the requirements of FRS11.

3. GOVERNMENT GRANTS

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants, to the Government grants deferred account. Amounts are released from the Government grants deferred account to offset any provision for depreciation charged to the Revenue Account in respect of assets to which the grant relates.

4. **DEFERRED CHARGES**

Deferred Charges are payments, which for capital control purposes, as defined in the Local Government and Housing Act 1989, are deemed to be capital expenditure even though no fixed asset is created and include such items as improvement grants.

In accordance with the Code of Practice, deferred charges are regarded as revenue expenditure for capital accounting purposes and are charged to the Services section of the Consolidated Revenue Account, with their financing being credited as an Appropriation. It is the Authority's policy to charge this expenditure to the revenue account in the year it is incurred.

5. **BASIS OF CHARGES FOR CAPITAL**

The Council's interest costs and receipts are those amounts payable and due from external parties. The amounts are accrued and accounted for in the accounts of the periods to which they relate, and which reflect the overall economic effect of the borrowings.

Repayments of principal are made in accordance with the relevant statutory provisions governing the minimum revenue provision for debt repayment. Currently these requirements are 4% of outstanding debt. In addition, a voluntary provision for the repayment of principal is made for certain assets financed by Prudential Borrowing.

Depreciation has been charged on items of capital equipment, where appropriate, on a straight line basis in accordance with the estimated assets lives determined by service officers. In 2000/2001 new accounting regulations were introduced which require the Council to depreciate properties. On the basis of these regulations all properties were depreciated on a straight line basis over forty years, and garages over thirty years.

6. **CAPITAL RECEIPTS**

In accordance with the relevant regulations all income from the disposal of assets received after 1st September, 1998, can be used to fund capital expenditure.

7. **DEBTORS AND CREDITORS**

The Revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Practice and FRS18. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. Exceptions to this principle include:

- Housing Benefit payments to private tenants that are accounted for on a cash basis;
- General revenue debtors and creditors of less than £1,000 have only been accrued at the discretion of individual departments. All amounts in excess of £1,000 have been accrued.

Salary and Wages expenditure have been included on the basis of actual payments made during the year on a cash basis and includes 12 months for salaries and 53 weeks for wages.

8. **STOCKS AND WORK IN PROGRESS**

Stocks and Stores are included in the Balance Sheet at average cost price.

Where stocks have been identified as being of no further use to the Council and the appropriate procedures have been complied with, the obsolete stock has been written off otherwise an allowance has been made for obsolescence.

Work in Progress on uncompleted jobs is valued at cost, including an allocation of overheads.

9. COST OF SUPPORT SERVICES

The cost of support services is fully allocated to services, or to the Best Value expenditure category of Corporate and Democratic Core. The basis of allocation used for the main costs of management and administration are outlined below:

<u>Cost</u>	<u>Basis of Allocation</u>
Central Departmental & Technical Staff	Actual time spent by staff, or unit charge based upon cost
Democratic Processes	Direct charge to Corporate and Democratic Core
Administrative Buildings	Area occupied

10. RESERVES AND PROVISIONS

The Council sets aside earmarked reserves for specific future expenses and these are detailed in note 29 (Page 45) to the Financial Statements. In accordance with accounting regulations a number of specific reserves are classified as General Fund Balances and detailed at Note 19 of the Financial Statements (Page 22).

The Council also makes provisions for liabilities, or losses likely to be incurred, or certain to be incurred but where the amounts or dates are not certain. These are detailed at Note 21 (Page 41) to the Financial Statements.

11. REVENUE BALANCES

The Council maintains certain reserves to meet general, rather than specific, future expenditure. The details of the Council's Reserves and revenue balances are explained in Note 30 (Page 48) to the Financial Statements.

12. INVESTMENTS

Under Local Government Reorganisation the Council was allocated 9.89% of the shares in Durham Tees Valley Limited and 16.5% of the former County Council's shareholding in SITA Team Valley Limited. In the case of Durham Tees Valley Limited, the value on the Balance Sheet has been revised to match the Council's share of net assets. This note has been included in the Group Accounts Section (See Note 2, Page 60). Investments are made in accordance with the appropriate statutory regulations, and the Council's Treasury Management Strategy.

13. PENSIONS

The Council has adopted FRS17 for the 2006/2007 Accounts, which specifies how Pension costs should be accounted for in the accounts.

The following accounting policies have been applied to the various elements of the net liability.

- The attributable assets of the Local Government Pension Scheme are measured at fair market value.
- The attributable liabilities of the scheme are measured on an actuarial basis using the projected unit basis.
- Scheme liabilities are discounted at a rate that reflects the time value of money and the characteristic of the liability.
- The deficit on the scheme is the shortfall of the value of the assets in the scheme over the present value of the scheme liabilities
- The current service cost is based on the most recent actuarial valuation at the beginning of the period, with financial assumptions updated to reflect conditions as that date.
- The interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period.
- The expected return on assets is based on long-term expectations at the beginning of the period and is expected to be reasonably stable.
- Actuarial gains and losses may arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date.
- Past service costs are disclosed on a straight line basis over the period in which the increases in benefits vest.

The aim of the above accounting policy is to reflect the commitment in the long-term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

Full details of the accounting policy for Pensions are detailed in note 3 (Page 27) to the Financial Statements.

14. **LEASES**

The accounting policy is detailed in Note 1 (Page 26) to the Financial Statements

15. **FOREIGN CURRENCY TRANSLATION**

The cost of foreign transactions is determined and included in the accounts using the exchange rate prevalent on the day the currency was translated to Sterling.

16. **REPURCHASE OF BORROWING**

Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the Income and Expenditure Account in the periods during which it is made. Where the repurchase is coupled with a refinancing or restructure with substantially the same overall economic effect, any gains or losses are recognised over the life of the replacement borrowing.

17. **VALUE ADDED TAX**

VAT is included in the income and expenditure accounts, only to the extent that it is irrecoverable.

18. **EXCEPTIONAL, EXTRAORDINARY ITEMS AND PRIOR PERIOD ADJUSTMENTS**

Any Exceptional items that are such that they require a high level of prominence in order to give a fair presentation of the accounts, or any extraordinary items, are disclosed on the face of the revenue account in the year that they occur. Prior year adjustments are detailed at the appropriate place in the Financial Statement and Notes.

19. **POST BALANCE SHEET EVENTS**

Where such an event occurs, changes are made to the statement of accounts, see Note 33 to the Balance Sheet (Page 50).

20. **IMPAIRMENT OF FIXED ASSETS**

The accounting policy governing impairment of fixed assets is included in the Accounting Policy on Fixed Assets (Page 12).

21. **CONTINGENT LIABILITIES**

The accounting policy governing Contingent Liabilities is included in Note 32 (Page 49) to the Financial Statements.

22. **GROUP ACCOUNTS**

Similar accounting policies have been adopted by all the bodies included within the Group Accounts.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

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

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code"), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March, 2007.

In preparing this Statement of Accounts, the Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

Certification of the Accounts by the Chief Financial Officer

In accordance with the requirements of the Accounts and Audit Regulations I certify that the Statement of Accounts on Pages 3 to 61 presents fairly the financial position of Hartlepool Borough Council for the accounting period 1st April, 2006 to 31st March, 2007.

Michael W Ward
Chief Financial Officer
30th June, 2007

INCOME AND EXPENDITURE ACCOUNT

This is a new statement complying with the requirements of the 2006/2007 SORP and replaces the Consolidated Revenue Account presented in previous years.

2005/2006 Net Expenditure £000		2006/2007 Gross Expenditure £000	2006/2007 Gross Income £000	2006/2007 Net Expenditure £000	NOTE
1,377	Central Services to the Public	14,083	12,414	1,669	
88	Court Services	179	0	179	
21,986	Cultural, Environmental and Planning Services	39,162	16,523	22,639	
60,737	Education Services	90,802	79,059	11,743	
5,287	Highways, Road and Transport Services	8,912	2,020	6,892	
1,783	Housing Services	33,508	32,889	619	
29,410	Social Services	49,730	15,920	33,810	
3,792	Corporate and Democratic Core	4,212	2	4,210	
837	Non-distributed Costs	753		753	
125,297	Net Cost of Services	241,341	158,827	82,514	
(236)	(Profits) or Losses on the disposal of fixed assets			2,278	
72	Local Precepts & Levies			87	
59	Contribution to Housing Pooled Capital Receipts			32	
4,281	Interest Payable and Similar Charges			4,051	
(3,337)	Interest and Investment Income			(3,108)	
2,144	Pension interest cost and expected return			472	3
0	Gains/Losses on the early repayment borrowing			(1,990)	
(775)	Income from sale of former Council Houses			(651)	
127,505	Net Operating Expenditure			83,685	
(31,653)	Demand on the Collection Fund			(33,472)	
(61,019)	Central Government Grants			(7,432)	
(30,045)	Non-domestic rates redistribution			(35,159)	
(440)	Transfers to/(from) the Collection Fund in respect of Surpluses/Deficits			(105)	
4,348	(Surplus) / Deficit for the Year			7,517	

The 2005/2006 figures have been restated to meet the requirements of the 2006/2007 SORP.

STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is a charge to the Income and Expenditure Account, but is met from the usable capital receipts balance rather than Council Tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

2005/2006 £000		2006/2007 £000
4,348	Deficit/(Surplus) for the year on the Income and Expenditure Account	7,517
(5,579)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(6,300)
(1,231)	(Increase)/Decrease in General Fund Balance for the Year	1,217
(19,017)	General Fund Balance brought forward	(20,248)
(20,248)	General Fund Balance carried forward	(19,031)
3,676	Amount of General Fund Balance held by Schools under local management schemes (note 10)	3,050
16,572	Amount of General Fund Balance generally available for new expenditure*	15,981
20,248		19,031

* The Council's existing Budget Strategy and other plans have committed the majority of these resources and details of the planned use of this amount are detailed in Note 30, page 48.

A review of reserves has been carried out to ensure compliance with the SORP. This has resulted in the reclassification of certain reserves between Earmarked and General. As a result the previously disclosed £19,000 increase in General Fund Balance for 2005/2006 has been restated.

Reconciling Items for the Statement of Movements on the General Fund Balance

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/2006 £000		2006/2007 £000	NOTE
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
(5,236)	Depreciation of fixed assets	(6,553)	
642	Government Grants Deferred amortisation	695	
(2,010)	Write downs of deferred charges to be finance from capital resources	(996)	
236	Net Profit(loss) on sale of fixed assets	(2,278)	
(11,618)	Net charges made for retirement benefits in accordance with FRS17	(12,436)	
(17,986)		(21,568)	
	Amounts Excluded in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year		
2,921	Minimum revenue provision for capital financing	2,973	
4,103	Capital expenditure charged in-year to the General Fund Balance	2,243	
(59)	Transfer of Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(32)	
8,579	Employer's contributions payable to the Teeside Pension Fund and retirement benefits payable direct to pensioners	9,289	3
15,544		14,473	
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
302	Voluntary revenue provision for capital financing	381	
0	Transfer from Equal Pay Back Pay Account	(773)	31
(3,439)	Net transfer to or from earmarked reserves	1,187	29
(3,137)		795	
(5,579)	Net additional amount required to be credited to the General Fund Balance for the year	(6,300)	

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

2005/2006 £000		2006/2007 £000	NOTE
4,348	Deficit/(Surplus) for the year on the Income and Expenditure Account	7,517	
1,324	Revaluations & Restatements Of Fixed Assets	(1,508)	24
(9,635)	Actuarial Gain in Pension Fund	(12,115)	3
10,712	Capital Expenditure not increasing asset values	8,086	24
(78)	Capital Income not Recognised in Income and Expenditure Account	(42)	27
228	Collection Fund Deficit Decrease/(Increase)	30	29c
6,899	Movement in Net Worth in Year	1,968	

This statement is a new requirement under the 2006 SORP and brings together all of the recognised gains and losses of the Council during the year. The movement in net worth in the year is the change in the total equity shown in the balance sheet on the following page.

BALANCE SHEET

31st March 2006 £000		31st March 2007 £000	31st March 2007 £000	NOTE
	FIXED ASSETS			
95	Council Dwellings	92		
169,315	Other Land and Buildings	177,519		
5,871	Vehicles, Plant and Equipment	6,199		
15,109	Community Assets	18,026		
81,202	Infrastructure Assets	83,388		
	Non-operational Assets -			
12,901	Investment Properties	12,591		
4,685	Assets Under Construction	2,070		
10,495	Assets Held For Disposal	4,142		
<u>299,673</u>			304,027	13
	OTHER LONG TERM ASSETS			
17,856	Investments	2,056		14
	Long Term Debtors :			
60	Mortgages and Housing Advances	35		15
285	Other	265	2,356	15
<u>317,874</u>			<u>306,383</u>	
	TOTAL LONG TERM ASSETS			
	CURRENT ASSETS			
797	Stocks and Works in Progress	923		
20,365	Debtors	24,698		16
27,936	Investments	34,040		
158	Landfill Allowances Trading Scheme	233		17
55	Imprests & Cash in Hand	55		
<u>49,311</u>			59,949	
	CURRENT LIABILITIES			
83	Temporary Short Term Loans	19,252		18
14,485	Creditors and other balances	21,163		19
1,650	Capital Grants and Contributions Unapplied	3,858		28
4,285	Bank Overdraft	8,045		20
<u>20,503</u>			52,318	
<u>346,682</u>	TOTAL ASSETS LESS CURRENT LIABILITIES		<u>314,014</u>	
	LONG TERM LIABILITIES			
2,466	Provisions	2,881		21
83,902	Long Term Borrowing	51,829		22
53	Deferred Capital Receipts	28		23
89,261	Government Grants Deferred Account	99,214		26
74,364	Liability Related to Defined Benefit Pension Scheme	65,394		3
<u>250,046</u>			<u>219,346</u>	
<u>96,636</u>	TOTAL ASSETS LESS LIABILITIES		<u>94,668</u>	
26,633	Fixed Asset Restatement Account	16,305		24
111,102	Capital Financing Account	111,481		25
1,197	Usable Capital Receipts Reserve	0		27
11,820	Earmarked Reserves	14,018		29
0	Equal Pay Back Pay Account	(773)		31
(74,364)	Pensions Reserve	(65,394)		3
20,248	General Fund Balances	19,031		30
<u>96,636</u>	TOTAL EQUITY		<u>94,668</u>	

The 2005/2006 comparatives have been re-stated to comply with the 2006/2007 SORP and to reflect the reclassification of Earmarked Reserves and General Fund Balances.

CASH FLOW STATEMENT

The cash flow statement summarises the inflows and outflows of cash to and from the Council arising from transactions with third parties for revenue, capital and other purposes.

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
	REVENUE ACTIVITIES		
	Cash Outflows		
107,929	Cash Paid to and on Behalf of Employees	114,092	
76,400	Other Operating Costs	84,255	
26,564	Housing Benefit Paid Out	27,891	
59	Payments to the Capital Receipts Pool	32	
0	Collection Fund Disbursements :		
5,286	Police/Fire Precepts	5,591	
24,296	Payment to NNDR Pool	20,128	
<u>240,534</u>			<u>251,989</u>
	Cash Inflows		
(28,257)	Council Tax	(29,632)	
(24,687)	Non-Domestic Rate Income : From Ratepayers	(19,913)	
(30,045)	Non-Domestic Rate Income : From NNDR Pool	(35,159)	
(60,511)	Revenue Support Grant	(6,787)	
(26,574)	DWP Grants for Benefits	(28,139)	
(57,692)	Other Government Grants	(104,060)	
(21,287)	Cash Received for Goods and Services	(37,481)	
<u>(249,053)</u>			<u>(261,171)</u>
(8,519)	NET REVENUE ACTIVITIES		(9,182)
	SERVICING OF FINANCE		
	Cash Outflows		
3,376	Interest Paid	4,522	
	Cash Inflows		
(2,548)	Interest Received	(2,497)	
<u>828</u>	NET SERVICING OF FINANCE		<u>2,025</u>
	CAPITAL ACTIVITIES		
	Cash Outflows		
28,699	Purchase of Fixed Assets	21,238	
8,235	Purchase of Deferred Charges	9,843	
<u>36,934</u>			<u>31,081</u>
	Cash Inflows		
(50)	Sale of Fixed Assets	(1,515)	
(25,189)	Capital Grants Received	(21,620)	
<u>(25,239)</u>			<u>(23,135)</u>
<u>11,695</u>	NET CAPITAL ACTIVITIES		<u>7,946</u>
4,004	NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING		789

MANAGEMENT OF LIQUID RESOURCES

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
3,595	Net Increase/(Decrease) in Short Term Deposits	3,047	
3,595	NET INCREASE/(DECREASE) IN SHORT TERM DEPOSITS		3,047

FINANCING

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
	CASH OUTFLOWS		
32,581	Repayment of Amounts Borrowed	77,026	
47,682	Repaid Short Term Loans	90,997	
4,017	Temporary Investments	3,057	
17,000	Long Term Investments	0	
101,280			171,080
	CASH INFLOWS		
(64,998)	New Loans Raised	(45,000)	
(45,164)	New Short Term Loans	(109,997)	
0	Long Term Investments	(15,800)	
(110,162)			(170,797)
(8,882)	NET FINANCING		283
1,283	INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(4,119)

RECONCILIATION OF SURPLUS TO NET CASHFLOW

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
19	(Deficit)/Surplus for Year	(1,217)	
2,877	add Minimum Revenue Provision	3,354	
(3,857)	Contribution to/(from) Specific Reserves	2,198	
(961)			4,335
3,253	add/(less) Reduction/(Increase) in Debtors	(4,194)	
383	add/(less) Increase/(Reduction) in Creditors	6,678	
5,016	Other	338	
8,652			2,822
	Items classified elsewhere :		
3,376	Interest Payable	4,522	
(2,548)	Interest Receivable	(2,497)	
0	Finance Leases	0	
828			2,025
8,519			9,182

RECONCILIATION OF FINANCING AND CASH TO BALANCE SHEET

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
(5,287)	Financing		3,330
1,283	Cash		(4,119)
(4,004)			(789)
(64,915)	Long Term Loans (Financial Statement Note 22)	32,073	
35,016	Temporary Loans	(19,169)	
7,612	Temporary Investments	6,104	
17,000	Long Term Investments (Financial Statement Note 14)	(15,800)	
1,283	Cash & Imprests	(3,997)	
(4,004)			(789)

ANALYSIS OF GOVERNMENT GRANTS

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
	REVENUE		
(30,045)	NNDR Pool	(35,159)	
(60,511)	Revenue Support Grant	(6,787)	
(26,574)	DSS Grants for Rebates	(28,139)	
0	Other Dedicated Schools Grant	(54,528)	
(57,692)	Other	(49,532)	
(174,822)			(174,145)
	CAPITAL		
(523)	ERDF	(239)	
(1,825)	SRB	(252)	
(2,817)	DFES	(2,742)	
(713)	ODPM	(6,579)	
(79)	DOH	(5,988)	
(7,759)	Other	(1,553)	
0	Community & Local Government	(72)	
(1,815)	Tees Valley Partnership	(272)	
(16)	Heritage Lottery Fund	(17)	
(1,130)	DEFRA	(181)	
(459)	LPSA Grant	(1,019)	
(5,867)	NDC	(1,736)	
(1,001)	NRF	0	
(284)	Big Lottery Fund	(461)	
(9)	English Nature	(10)	
(47)	Home Office	(50)	
(150)	Implementing Electronic Government	0	
(242)	Learning & Skills Council	(82)	
(453)	Sport England	(367)	
(25,189)			(21,620)
(200,011)			(195,765)

NOTES TO THE FINANCIAL STATEMENT

1. OPERATING AND FINANCE LEASES

The Council uses vehicles and other equipment financed under terms of an operating lease. The revenue charge for operating leases in 2006/2007 was £560,117 (2005/2006 - £568,000).

In addition to the operating lease rentals described above, the Council incurs the cost of operating leases in relation to vehicles used by Housing Hartlepool and recovers these costs in full. This arrangement relates to vehicles on operating lease at the date of stock transfer. The amount chargeable in 2006/2007 was £32,000 (2005/2006 - £64,000). The Council also recharges the cost of IT equipment financed under terms of an operating lease, to Sx3/Northgate. The amount chargeable in 2006/2007 was £3,000 (2005/2006 - £3,000).

The Council is the lessor in relation to various Land & Property operating lease agreements. The aggregate rent income due in 2006/2007 was £172,000 (2005/2006 - £172,000). The total value of these assets was £1,761,000 (2005/2006 - £2,076,000) with depreciation of £30,000 for the year (2005/2006 - £31,000).

The Council was committed at 31st March 2007, to making payments of £1,536,000, in relation to operating leases for Vehicles, Plant and Equipment (£1,356,000 in 2005/2006). The Council also receives income from Housing Hartlepool and Sx3 Northgate to recover the rental costs for items where the Council has kept leasing obligations following the transfer of activities.

	Vehicles, Plant and Equipment				Land and Property £000
	Council £000	Housing Hartlepool £000	Northgate £000	Total £000	
Leases Expiring in 2007/2008	0	6	3	9	36
Leases Expiring between 2008/2009 and 2011/2012	1,200	0	0	1,200	468
Leases Expiring after 31st March 2012	0	0	0	0	391
	1,200	6	3	1,209	895

The Council entered into a finance lease for two refuse vehicles on 27th March, 2007. Owing to the timing of the start of this lease, there was no charge to the Income and Expenditure Account for these assets in 2006/2007 and no accumulated depreciation. The outstanding obligation for these vehicles expiring in 2011/20012 is £327,000.

2. PUBLICITY

Under the Local Government Act 1986 the Council is required to maintain a separate note of expenditure on publicity. The total amount is analysed as follows: -

2005/2006 £000		2006/2007 £000
132	Direct Employee costs	136
386	Advertising - Staff Vacancies	236
760	Advertising - Other including statutory notices	824
14	Hartbeat Newspaper	12
1,292	TOTAL	1,208

3. PENSION COSTS

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in two funded pension schemes, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the Pension's liabilities with investment assets. The schemes are:

- The Teacher's Pension Scheme that is operated for all teachers on a national basis with a contribution rate set by the Department for Education and Skills. The Council's contribution to the Teacher's Pension Scheme in 2006/2007 amounted to £3,976,890 (£3,857,788 in 2005/2006) which represented 13.7% of pensionable pay (13.5% in 2005/2006). Nothing was paid as added year's contributions (none were paid in 2005/2006).
- The Local Government Pension Scheme (LGPS) is a funded scheme operated for all other Council employees and administered by Middlesbrough Borough Council.

TRANSACTIONS RELATING TO RETIREMENT BENEFITS

The Authority recognises the cost of retirement benefits in the Net Cost of Services when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax that is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Statement of Movement in the General Fund Balance after Net Operating Expenditure. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year.

2005/2006 £000		2006/2007 £000
	<u>Income and Expenditure Account</u>	
	Net Cost of Services	
(9,145)	Current service cost	(11,708)
(159)	Past service cost	(119)
(169)	Settlements and Curtailments	(137)
	Net Operating Expenditure	
(12,894)	Interest cost	(13,918)
10,750	Expected return on assets in the scheme	13,446
(11,617)	Net Charge to the Income & Expenditure Account	(12,436)
	<u>Statement of Movement in the General Fund</u>	
11,617	Reversal of net charges made for retirement benefits in accordance with FRS17	12,436
(8,579)	Actual amount charged against the General Fund Balance for pensions in the year - employers' contributions payable to scheme	(9,289)
3,038	Transfer from Pensions Reserve	3,147

ASSETS AND LIABILITIES IN RELATION TO RETIREMENT BENEFITS

In accordance with the requirements of Financial Reporting Standard 17 – Retirement Benefits (FRS17), the Council has to disclose its share of assets and liabilities relating to pension schemes for its employees.

The Teachers Pension Scheme is a multi-employer defined contribution scheme administered by the Teachers Pension Agency. On this basis the Authority is not required to comply with FRS17 requirements and the existing disclosure requirements are adequate.

The requirements of FRS17 do apply to the LGPS. Therefore the funds assets and liabilities have been valued on an actuarial basis in accordance with Guidance Note 36: Accounting for Retirement Benefits under FRS17 issued by the Institute and Faculty of Actuaries. Barnett Waddingham, an independent firm of actuaries, has provided a valuation for FRS17 purposes as at 31st March, 2007. The next full valuation is due as at 31st March, 2007. The main assumptions used in the calculations and the Authority's assets and liabilities are detailed below:

Assumptions as at	31st March 2007 per annum	31st March 2006 per annum	31st March 2005 per annum	31st March 2004 per annum	31st March 2003 per annum
Salary increases	5.3%	5.0%	4.9%	4.9%	4.5%
Pension increases	3.3%	3.0%	2.9%	2.9%	2.5%
Discount rate	5.4%	4.9%	5.4%	6.5%	6.1%

Assets (Employer)	Long Term Return 31st March 2007 % per annum	Assets at 31st March 2007 £000	Long Term Return 31st March 2006 % per annum	Assets at 31st March 2006 £000	Long Term Return 31st March 2005 % per annum	Assets at 31st March 2005 £000
Equities	7.20%	172,689	7.00%	157,954	7.50%	115,185
Gilts	4.40%	17,208	4.20%	19,073	4.50%	16,874
Bonds	5.40%	3,904	4.90%	3,488	5.30%	3,487
Property	6.70%	11,449	6.50%	9,343	7.00%	7,292
Cash	5.00%	20,293	4.00%	15,924	4.30%	13,706
Total	6.70%	225,543	6.50%	205,782	6.80%	156,544

Net Pension Assets as at	31st March 2007 £000	31st March 2006 £000	31st March 2005 £000	31st March 2004 £000	31st March 2003 £000
Estimated Employer Assets (A)	225,541	205,782	156,544	135,896	113,900
Present Value of Scheme Liabilities	277,346	266,331	224,203	171,531	167,500
Present Value of Unfunded Liabilities (note 1)	13,589	13,815	13,302	11,567	11,100
Total Value of Liabilities (B)	290,935	280,146	237,505	183,098	178,600
Net Pension Asset/Liabilities (A)-(B)	(65,394)	(74,364)	(80,961)	(47,202)	(64,700)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £65.4m has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the Local Government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

It is assumed that all unfunded pensions are payable for the remainder of the member's life. On the death of the member, any spouse will receive a pension up to 50% of the member's pension as at the time of death of the member.

The net pension liability of £65.4m equates to 69.0% of the value of the Council's net assets (77.0% in 2005/2006).

The above figures have been provided by the Actuaries to the Teesside Pension Scheme using information provided by the scheme and assumptions determined by the Council in conjunction with the Actuary.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

ADVANCED GAINS AND LOSSES

The actuarial gains identified as movements on the Pensions Reserve in 2006/2007 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March, 2007.

	31st March 2007		31st March 2006		31st March 2005		31st March 2004		31st March 2003	
	£000	%	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets	860	0.4%	36,493	17.7%	7,327	4.7 %	19,942	14.7 %	(35,500)	(31.2)%
Differences between actuarial assumptions about liabilities and actual experience	0	0.0%	0	0.0%	9,412	4.0 %	(705)	(0.4)%	(11,100)	(6.2)%
Changes in the demographic and financial assumptions used to estimate liabilities	11,257	3.9%	(26,858)	(9.6)%	(4,582)	(1.9)%	0	0.0 %	0	0.0 %
	12,117		9,635		12,157		19,237		(46,600)	

4. DEFERRED CHARGES

Net cost of deferred charges incurred are charged to the Income and Expenditure Account. An amount of £9.843m has been charged to Services. These amounts were fully financed from capital resources, which in the case of borrowings have been shown as a reconciling item for the Statement of Movements on the General Fund Balance section (£0.996m), or in the case of capital grants, credited directly to the relevant activity within Net Cost of Services (£8.847m in total).

5. OFFICER'S REMUNERATION

In accordance with the Accounts and Audit Regulations 2003, the number of employees including teachers whose remuneration fell in each bracket of a scale in multiples of £10,000, starting with £50,000 are listed below.

For this purpose 'remuneration' means all amounts paid to or receivable by an employee and includes sums due by way of expense allowances and the estimated money value of any benefit received by an employee otherwise than in cash.

Non School Employees 2005/2006	School Employees 2005/2006	Total 2005/2006	Remuneration Bracket (£)	Non School Employees 2006/2007	School Employees 2006/2007	Total 2006/2007
18	7	25	50,000 to 59,999	28	7	35
8	1	9	60,000 to 69,999	12	6	18
3	1	4	70,000 to 79,999	1	1	2
1	2	3	80,000 to 89,999	3	1	4
0	0	0	90,000 to 99,999	3	1	4
0	0	0	100,000 to 109,999	0	0	0
0	0	0	110,000 to 119,999	0	0	0
0	0	0	120,000 to 129,999	0	0	0
1	0	1	130,000 to 139,999	1	0	1
31	11	42		48	16	64

The number of full time equivalent staff in 2006/2007 was 3,368 compared to 3,320 in 2005/2006.

6. MEMBERS ALLOWANCES

In 2006/2007 the Council's fifty three (53) Members (Councillors) were paid a total of £376,000 (2005/2006 – £345,000), under the Basic Allowance, Special Responsibility and Attendance Allowance schemes.

7. RELATED PARTY TRANSACTIONS AND INTEREST IN COMPANIES

In accordance with the Local Authorities (Member's Interests) Regulations 1992, the Council is required to maintain a register of Members personal interests. This register is available for public inspection. On the basis of this register there were no Members pecuniary interests that require disclosure as related party transactions, in 2006/2007.

There were also no related party transactions for the Authority's Corporate Management Group.

The Council receives Government grants, the major grants being the Revenue Support Grant, the share of the NNDR pool and Housing Subsidy, the details of which are shown in the Income and Expenditure Account. The Council also received capital grants from the Government (£21.702m).

The Council provides various support services, predominately in relation to financial and legal services to Cleveland Fire Authority, see Note 9 (Page 33). In particular, the Council's Chief Solicitor (Mr A Brown) held the position of Legal Advisor and the Chief Financial Officer (Mr M Ward) held the position of Deputy Treasurer.

Middlesbrough Council is the administering Authority for the non-teaching staff pensions (Note 3, page 27).

Details of investments, associates and joint ventures are given in the Group Accounts section (page 54).

8. TRADING ACCOUNTS

8.1 Building Regulations

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit, cannot be charged for,

such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit, divided between the chargeable and non-chargeable activities.

2005/2006		2006/2007		
Total Building Control £000		Chargeable £000	Non Chargeable £000	Total Building Control £000
436	Expenditure	233	208	441
233	Income	235	0	235
(203)	Surplus/(Deficit) for the year	2	(208)	(206)

8.2 Former DSO Operations

The net expenditure on the Council's trading operations of the former DSO operations is included in the relevant service line of the Income and Expenditure Account. The financial results of the operations are as follows:

2005/2006 Surplus/ (Deficit) £000	Former DSO Operations	2006/2007		
		Income £000	Expenditure £000	Operating Surplus/ (Deficit) £000
6	Building Maintenance	3,319	3,324	(5)
3	Highway Works	3,161	3,257	(96)
60	Grounds Maintenance	2,248	2,488	(240)
(43)	Vehicle Maintenance	3,727	3,704	23
35	Refuse Collection	2,070	2,420	(350)
58	Other Cleaning	1,516	1,744	(228)
(15)	Building Cleaning	2,107	2,150	(43)
41	School Catering	3,142	3,251	(109)
145	TOTAL	21,290	22,338	(1,048)

76	DSO reserve at beginning of year	76
145	Surplus/(Deficit) for the year	(1,048)
(145)	Contribution from (to) General Fund	972
76	DSO Reserve at the year end	0

The above table includes the cost of the buy out of future bonus payments for an 18 month period. The table below show the results of each DSO without the bonus buy out.

2005/2006 Operating Surplus/ (Deficit) £000	Former DSO Operations	2006/2007		
		Income £000	Expenditure £000	Operating Surplus/ (Deficit) £000
6	Building Maintenance	3,319	3,274	45
3	Highway Works	3,161	2,983	178
60	Grounds Maintenance	2,248	2,245	3
(43)	Vehicle Maintenance	3,727	3,690	37
35	Refuse Collection	2,070	2,026	44
58	Other Cleaning	1,516	1,525	(9)
(15)	Building Cleaning	2,107	2,150	(43)
41	School Catering	3,142	3,126	16
145	TOTAL	21,290	21,019	271

76	DSO reserve at beginning of year	76
145	Surplus/(Deficit) for the year	271
(145)	Contribution from (to) General Fund	(347)
76	DSO Reserve at the year end	0

Following the abolition of Compulsory Competitive Tendering, the Council is no longer required to maintain statutory DSO trading accounts. The Council previously determined to maintain separate trading accounts for these operations. The surplus/deficit of each trading account is contained within the appropriate service of the net cost of services.

8.3 Other Trading Operations

Catering and Leisure Management operations are included within Cultural, Environmental and Planning Services. The statement below details the costs of providing these services.

2005/2006 Surplus/(Deficit) £000		2006/2007		
		Income £000	Expenditure £000	Surplus/(Deficit) £000
28	Catering	167	149	18
(823)	Leisure Management	463	1,298	(835)

9. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to provide goods and services to other public bodies. The Council provides various professional and technical support services to Cleveland Fire Authority. Income from these services amounted to £210,000 (£184,000 in 2005/2006), which represents the cost of the services provided.

Following the transfer of housing stock on 29th March 2004, the Council continued to provide a wide range of support services to Housing Hartlepool in 2006/2007, including Fleet Maintenance and Building Maintenance, Payroll, Legal Services, Property Services, Grounds Maintenance and Building Cleaning, IT. The income from these services amounted to £681,000 (£1,144,000 in 2005/2006), which represented the cost of the services provided.

The Council also provided the following services at cost:

- Legal services to Hartlepool Revival Ltd - £33,000 (£35,000 in 2005/2006);
- Management & Evaluation services to Hartlepool Revival Ltd - £31,000 (£31,000 in 2005/2006);
- Property services to Hartlepool Revival Ltd - £16,000 (£19,000 in 2005/2006);
- Legionella risk assessments to Middlesbrough Borough Council - £63,000 (£14,000 in 2005/2006);
- Legionella risk assessments to Erimus Housing - £4,000 (£7,000 in 2005/2006).

10. **CONTRIBUTION TO/(FROM) SCHOOL RESERVES**

In accordance with Government Regulations and the Council's scheme of delegation for schools the aggregate budget for schools is "ring-fenced", therefore any underspends against these monies are carried forward and specifically earmarked for school based expenditure in future years. See Note 30 to the Financial Statements (page 48).

11. SECTION 137 EXPENDITURE

The Local Government Act 1972, Section 137, as amended, enables a local authority to spend on activities or projects not specifically authorised by other legal powers, which in its opinion are in the interest of their area or its inhabitants. The expenditure incurred, and included in the various services, is summarised overleaf:

2005/2006 £	SECTION 137 EXPENDITURE	2006/2007 £
23,750	Belle Vue Sports Association	23,750
5,225	Blakelock Elderly Care Coop Ltd	3,919
2,950	Central Residents Association	0
6,650	Churches	6,650
4,750	Relate North East	5,000
14,820	Hartlepool Community Studio	22,818
6,902	Epilepsy Outlook	12,157
27,930	Hartlepool Access Group	31,818
14,060	Hartlepool Centre for the Deaf	13,720
74,100	Hartlepool Citizen's Advice Bureau	73,514
4,750	Hartlepool Families First	3,563
9,690	Hartlepool Peoples Centre	20,095
650	Hartlepool Swimming Club	549
26,600	Hartlepool Voluntary Development Agency	28,403
500	Hartlepool Youth Choir	127
9,785	Headland Development Company	7,339
11,400	Headland Future Ltd	8,550
6,650	Manor Residents Association	4,988
20,397	North Tees Womens Aid	9,711
20,520	Owton Fens Community Association	21,849
2,735	Scouts, Guides and Brownies	1,408
4,750	Victim Support & Witness Service	3,562
26,030	West View Advice & Resource Centre	25,077
20,961	West View Project	20,977
19,725	Wharton Trust	14,646
366,280	TOTAL EXPENDITURE	364,190

12. EXTERNAL AUDIT FEES

In 2006/2007 the Council incurred the following fees in relation to external audit and inspection.

2005/2006 £000		2006/2007 £000
201	Fees Payable for the audit services carried out by the appointed auditor	185
14	Fees in respect of statutory inspection	115
37	Fees for the certification of grant claims	34
9	Fees in respect of other Services	2
261		336

13. MOVEMENT OF FIXED ASSETS

	Operational Assets					Total Operational Assets £000
	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	
Certified Valuation as at 31.03.06	100	188,355	12,745	81,202	15,109	297,511
Accumulated Depreciation	(5)	(19,040)	(6,874)	0	0	(25,919)
Net Book Value as at 1.4.06	95	169,315	5,871	81,202	15,109	271,592
Revaluations and Restatements	0	10,916	472	0	1,558	12,946
Additions	0	1,961	1,884	2,186	1,359	7,390
Disposals	0	(152)	0	0	0	(152)
Gross Book Value as at 31.3.07	95	182,040	8,227	83,388	18,026	291,776
Depreciation For Year	(3)	(4,521)	(2,028)	0	0	(6,552)
Balance as at 31.3.07	(3)	(4,521)	(2,028)	0	0	(6,552)
Net Book Value as at 31.3.07	92	177,519	6,199	83,388	18,026	285,224

	Non-operational Assets				2006/07 Total Operational & Non Operational Assets £000	2005/06 Total Operational & Non Operational Assets £000
	Investment Properties £000	Assets Under Construction £000	Assets Held for Disposal £000	Total Non Operational Assets £000		
Certified Valuation as at 31.03.06	12,901	4,685	10,495	28,081	325,592	309,372
Accumulated Depreciation	0	0	0	0	(25,919)	(20,683)
Net Book Value as at 1.4.06	12,901	4,685	10,495	28,081	299,673	288,689
Revaluations and Restatements	(310)	(4,258)	(6,871)	(11,439)	1,507	(1,324)
Additions	0	1,643	4,117	5,760	13,150	17,594
Disposals	0	0	(3,599)	(3,599)	(3,751)	(50)
Gross Book Value as at 31.3.07	12,591	2,070	4,142	18,803	310,579	304,909
Depreciation For Year	0	0	0	0	(6,552)	(5,236)
Balance as at 31.3.07	0	0	0	0	(6,552)	(5,236)
Net Book Value as at 31.3.07	12,591	2,070	4,142	18,803	304,027	299,673

13.1 Capital Expenditure and Financing

Financing			Expenditure		
2005/2006 £000		2006/2007 £000	2005/2006 £000		2006/2007 £000
0	Capital Receipts	2,680	17,594	Capital Expenditure Increasing Asset Values Fixed Assets	13,152
8,462	Loans	7,703			
27,930	Other	20,698	10,712	<u>Capital Expenditure Not Increasing Asset Values</u> Non Enhancing Expenditure	8,086
			8,086	Deferred Charges	9,843
36,392		31,081	36,392		31,081

Expenditure on fixed assets includes £2.937m in respect of Work in Progress on the development of new assets, which will be valued and reclassified as operational assets when the works are complete.

"Other" sources of finance include direct contributions from revenue, grants and contributions from other bodies.

13.2 Major Disposals of Assets

2005/2006			2006/2007	
Open Market Value Existing Use £000	Sale Proceeds £000		Open Market Value Existing Use £000	Sale Proceeds £000
30	266	Disposals - Land	0	17
20	20	Disposals - Buildings	3,751	1,115
50	286		3,751	1,132

The sale proceeds in respect of disposals of buildings were less than the open market value, owing to the developer accepting responsibility for site clearance costs.

13.3 Main Items of Capital Expenditure in Year

	£000
Joseph Rowntree Trust Development	6,657
Property Purchase	4,118
Civic Centre	1,240
Grayfields Sports Pavilion	833
Carlton Outdoor Centre Redevelopment	769
Brougham Enterprise Centre	541
	14,158

13.4 Significant Capital Expenditure Commitments at 31st March, 2007

At 31st March, 2007, the Council's approved Capital Expenditure Commitments amounted to £15.793m, of which £13.837m will be funded from specific resources (grants and specific supported borrowing allocations), receivable by the Council. The remaining commitments will be funded from the Council's own resources. The main contract in progress at the 31st March 2007 related to the Civic Centre Refurbishment and the outstanding commitment amounted to £1.706m.

13.5 Assets Held

Fixed assets owned by the Council include the following: -

	Number of Assets	
	31st March 2006	31st March 2007
Council Dwellings	2	2
Operational Buildings		
Administrative Buildings	30	30
Depots	3	3
Community Centres	8	8
Public Halls	3	3
Museums	4	4
Nurseries	1	1
Leisure Centres / Sports Halls	4	4
Libraries	6	6
Commercial Property - Offices	1	1
Car Parks	23	24
Crematorium	1	1
Cemetery Lodges	2	2
Social Service Establishments	14	14
Nursery Schools	1	1
Primary Schools	20	20
Secondary Schools	4	5
Special Schools	2	2
Youth Centres	5	5
Garages	38	38
Misc Operational Land & Buildings	37	34
Non-Operational Land and Buildings		
Investment Property	105	104
Surplus Assets held for Disposal	236	342
Operational Equipment		
Vehicles	73	109
Community Assets		
Allotments	15	15
Cemeteries -	3	3
Recreation Areas & Parks	20	20
Parks & Open Spaces	445	444
Other Areas of Open Space	45	46

13.6 Custodian Authority Assets

The assets included in the Balance Sheet exclude assets, valued at £115,000 as at 31st March, 2006, held by the Council in its capacity as Custodian Authority. These assets are held on behalf of the four unitary authorities pending their disposal. The sale proceeds will be distributed to the four unitary authorities in accordance with an agreed basis.

13.7 Fixed Asset Valuation

Community assets and infrastructure assets were valued at cost.

The Council owns a historical boat called the Wingfield Castle, moored behind the Hartlepool Maritime Experience. This has been valued at historic cost as the Council was unable to secure the services of a maritime valuer.

In accordance with the requirements of FRS11, the Council's Estates Manager has determined that there has been a reduction in fixed asset valuations owing to impairment arising from a significant decline in the market value of one fixed asset. This covers the North Central Hartlepool Scheme, where the value of the site available for regeneration is less than the cost of acquiring the separate properties that occupy the site.

14. INVESTMENTS

The Council has invested a total of £1.2m (£17m 2005/2006) for 2 years with a Building Society.

The Council also holds investments in the following companies: -

- Durham Tees Valley Airport Ltd - £659,000
- SITA Tees Valley Ltd - £196,845

Details of these investments are given in the Group Accounts Section Note 1 (Page 60).

15. LONG TERM DEBTORS

Balance at 1st April 2006 £000		New Advances £000	Repayments Net of Transfer to Short Term Debtors £000	Balance at 31st March 2007 £000
54	Housing Advances :-			
6	Council House Sales	0	25	29
	Other	0	0	6
60		0	25	35
146	Car Loan Advances	46	96	96
139	Trincomalee Loan and Advances	30	0	169
285		76	96	265
345	Total Long Term Debtors	76	121	300

Prior year figures have been adjusted to include two loans previously classified as current debtors.

16. **CURRENT DEBTORS**

2005/2006 Net Debtor £000		2006/2007		
		Gross Debtor £000	Provision for Bad Debts £000	Net Debtor £000
1,728	Council Tax Payers	3,053	1,527	1,526
0	Community Charge Payers	2	2	0
939	NNDR Payers	6,376	721	5,655
5,937	General and Other Debtors	13,096	2,505	10,591
3	Inland Revenue	3	0	3
10,635	Government Departments	5,364	0	5,364
262	Other Local Authorities	373	0	373
862	Payments in Advance	1,186	0	1,186
20,366		29,453	4,755	24,698

Prior year figures have been adjusted to reflect the reclassification of two loans to long-term debtors.

17. **LANDFILL ALLOWANCES TRADING SCHEME (LATS)**

The Waste and Emissions and Trading Act 2003 provides a legal framework for the Landfill Allowance Trading Scheme. Under the scheme, tradable landfill allowances are allocated on an annual basis to all English waste disposal authorities for the 16 financial years from 2005/2006 to 2020/2021. At the 31st March, 2007 the Council had not sold any of its allowances allocated. At 31st March, 2007, the Council's available tradable allowances were valued at £233,000 (£158,000 in 2005/2006). The value of unused LATS as at 31st March, 2007 was £163,000 (£28,000 in 2005/2006).

18. **TEMPORARY SHORT TERM LOANS**

The Council has increased Temporary Short Term Loans as a result of the repayment of long term borrowing in accordance with the Treasury Management Strategy. Further details are provided at Note 3 of the Chief Financial Officer's Foreword (Page 5).

19. **CREDITORS AND OTHER BALANCES**

2005/2006 £000		2006/2007 £000
2,034	Inland Revenue	2,838
130	Government Departments	215
60	Other Local Authorities	278
3,384	Income In Advance	5,857
8,877	General and Other Creditors	11,975
14,485	Total	21,163

20. **BANK OVERDRAFT**

The value of £8.045m overdrawn includes unrepresented cheques and uncleared BACS transmissions of £9.031m, on the Council's main account.

21. **PROVISIONS**

Total provisions at 31st March, 2007 were £2.881m (£2.466m in 2005/2006), as detailed below.

2005/2006 £000		2006/2007 £000	Notes
2,319	Equal Pay	1,453	a
98	Custodian Authority Property Charges	97	b
49	HRA Residual Liabilities	8	c
0	Litigation	550	d
0	Equal Pay Back Pay	773	e
2,466		2,881	

- a) This provision is earmarked to meet the Council's liabilities in relation to Equal Pay.
- b) This provision is earmarked to meet the Council's share of the costs of the Custodian Authority properties inherited from the former Cleveland County Council.
- c) This provision was created to meet costs arising from liabilities originating from before the housing stock transfer.
- d) The litigation provision has been created to put aside sums in relation to planning appeals and other potential legal cost liabilities.
- e) This provision has been created in accordance with CIPFA LAAP Bulletin 68, requiring the estimated costs of back pay claims to be charged against net cost of services. This has not had an impact on general fund as a result of the creation of the new 'Equal Pay Back Pay Account', shown in reserves, which is equal to the amount of the provision.

The Council also makes provision for bad debtors and the amount is deducted from the value of current debtors at 31st March, 2007, (see Note 16, Page 40).

22. LONG TERM BORROWING

Balance at 31st March 2006 £000		Range of Interest Rates Payable %	Balance at 31st March 2007 £000
78,848	Public Works Loans Board	4.05 - 11.63	16,778
5,054	Money Market	3.78 - 5.3	35,051
83,902			51,829

Balance at 31st March 2006 £000		Balance at 31st March 2007 £000
199	Maturing in 1 - 2 years	3
702	Maturing in 2 - 5 years	9
329	Maturing in 5 - 10 years	96
82,672	Maturing in more than 10 years	51,721
83,902		51,829

The reduction in long term borrowing is owing to the early repayment of Public Works Loans Board loans.

23. DEFERRED CAPITAL RECEIPTS

Deferred Capital Receipts are amounts derived from sales of assets that will be received in instalments over agreed periods of time and from mortgages on sales of former Council houses.

Balance at 1st April 2006 £000		Repayments £000	Balance at 31st March 2007 £000
53	Housing Advances - Council House Sales	25	28
53		25	28

24. **FIXED ASSET RESTATEMENT ACCOUNT**

2005/2006 £000		2006/2007 £000
38,719	Opening Balance	26,634
(10,712)	Capital Expenditure not increasing assets values	(8,086)
(50)	Disposal of Fixed Assets	(3,751)
(1,316)	Revaluations and Restatements	1,508
(7)	Reduction / (Increase) in Deferred Liability	0
26,634		16,305

25. **CAPITAL FINANCING ACCOUNT**

The Capital Financing Account contains the amounts that are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. The balance on the Account is reduced as loan debt is repaid.

2005/2006 £000		2006/2007 £000
109,057	Opening Balance	111,102
0	Capital Financing - Capital Receipts	2,676
5,494	Capital Financing - Revenue	1,120
(5,236)	Depreciation	(6,553)
642	Transferred from Government Grants Deferred	695
(2,086)	Less : Write Down of Deferred Charges	(913)
3,224	Minimum Revenue Provision	3,354
7	Transferred from Historic Quay and Coast Defence Reserve	0
111,102		111,481

26. **GOVERNMENT GRANTS DEFERRED ACCOUNT**

The balance on the Government Grants Deferred Account represents the cumulative value of capital expenditure financed from grants received from Central Government, the European Commission and other bodies.

2005/2006 £000		2006/2007 £000
73,079	Opening Balance	89,261
16,824	Capital Grants received in year	10,648
(642)	Transferred to Capital Financing Reserve	(695)
89,261		99,214

27. **USEABLE CAPITAL RECEIPTS RESERVE**

The Useable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.

2005/2006 £000		2006/2007 £000
891	Opening Balance	1,197
	Capital Receipts received in year from sale of assets:	
287	Recognised in Income and Expenditure Account	1,473
78	Not Recognised in Income and Expenditure Account	42
(59)	Less: Payments to Government Pool	(32)
0	Less : Capital Receipts Used to Finance Capital Expenditure	(2,680)
1,197		0

28. **CAPITAL GRANTS AND CONTRIBUTIONS UNAPPLIED**

These are capital grants that will be used to finance capital expenditure in future years.

2005/2006 £000		2006/2007 £000
2,205	Opening balance	1,650
22,344	Grants due in year	21,703
(22,899)	Grants applied during the year	(19,495)
1,650		3,858

The main Capital Grants and contributions unapplied at the end of the year relate to the following schemes:

	2006/2007 £000
NDC Area Remodelling	1,280
LPSA Phase 2	560
Learning Disabilities Extra Care Housing	308
Social Care Clients - Information Systems	300
	2,448

29. **EARMARKED RESERVES**

Balance at 31st March 2006 £000	<u>Fund</u>	Receipts in Year £000	Payments in Year £000	Transfers in Year £000	Balance at 31st March 2007 £000	Notes
	<u>Capital Reserves</u>					
625	Capital Funding	2,473	(1,998)	0	1,100	a
85	Maritime Av Remedial	4	(2)	0	87	b
710	Total Capital Reserves	2,477	(2,000)	0	1,187	
	<u>Collection Fund Reserve</u>					
178	Collection Fund Surplus	0	(30)	0	148	c
178	Total Collection Fund Reserve	0	(30)	0	148	
	<u>Investment Reserves</u>					
659	Teesside Airport	0	0	0	659	d
197	Cleveland Waste	0	0	0	197	d
856	Total Investment Reserves	0	0	0	856	
	<u>Specific Revenue Reserves</u>					
1,958	Managed Revenue Underspend	239	(605)	0	1,592	e
399	Lotteries Reserve	20	(8)	0	411	f
55	Museums Acquisition	4	0	0	59	q
2	Graves in Perpetuity	0	0	0	2	
4,205	Insurance Fund	1,097	(491)	0	4,811	h
96	School Rates	56	0	0	152	i
3,005	Strategic Change Reserves	621	(899)	0	2,727	j
87	Emergency Planning	5	0	0	92	k
58	Legionella Reserve	0	(58)	0	0	l
40	Contact Centre - IT Reserve	0	(40)	0	0	m
81	A2L	0	0	0	81	n
90	Broadband Implementation	0	0	0	90	o
0	Pensions Equalisation Reserve	403	(403)	0	0	p
0	LABGI	370	0	0	370	q
0	Single Status Implementation	150	0	0	150	r
0	Job Evaluation Protection Rese	400	0	0	400	s
0	Swimming Pool Maintenance Res	90	0	0	90	t
0	Tall Ships Reserve	800	0	0	800	u
10,076	Total Revenue Reserves	4,255	(2,504)	0	11,827	
11,820		6,732	(4,534)	0	14,018	

Earmarked reserves have been restated as a result of a reclassification of reserves to ensure compliance with the 2006 SORP.

- a) The Capital Funding Reserve is earmarked to partly finance specific expenditure rephased to 2007/2008.
- b) From the 1st April, 1998, the Council became responsible for the maintenance of various roads within Hartlepool Marina, which were previously the responsibility of Teesside Development Corporation. These reserves will be used to fund expenditure in future years.
- c) The Collection Fund Accounts have been incorporated into the Balance Sheet since 1993/1994, by Regulation.

- d) The Council has a minority shareholding in Durham Tees Valley Limited and shareholding in SITA Tees Valley Limited, which are owned by local authorities and were transferred on Local Government Reorganisation (see Page 60).
- e) These are reserves used to carry forward departmental underspends for specific spending plans in future years.
- f) The Lotteries Reserve, which consists of the proceeds of the Civic Lottery and donations received, is used for grants and donations to local organisations.
- g) The Museums Acquisition reserve was set up to put monies aside for the acquisition of items for the Museum.
- h) The Insurance Fund has been established to provide for all payments that fall within the policy excess claims. Most policies provided by the Council are subject to an excess. For vehicles the excess is £1,000, but amounts to £50,000/£100,000 for the Property/Combined Liability policy on each claim. The All Risks policy covers those items considered to be of value and at greatest risk of theft or damage. The Council's experience whilst operating with these excesses has been favourable. Nevertheless, the Council's total exposure in any one year is limited to £1,000,000. The net amount of shown consists of the insurance fund balances less amounts advanced to departments to fund service improvements. These amounts will be repaid over a number of years to ensure resources are available to meet insurance claims that will become payable.
- i) The Schools Rates Adjustment arises from reductions in school rates payable following the reassessment of rateable values.
- j) These reserves have been established to enable departments to meet one-off costs that may arise from strategic changes to improve services, or reduce costs, without affecting the level of services in the year.
- k) The Emergency Planning Unit is covered by a joint arrangement between the four ex-Cleveland Districts. This reserve has been established to meet future years budget pressures for the service.
- l) This reserve has been created to meet the costs of funding monitoring arrangements for legionella bacteria and then taking appropriate action.
- m) This reserve will be used to meet the costs of IT equipment at the Council's Contact Centre.
- n) This Reserve will be used to assist with the impact and implementation of the fundamental base budget review being undertaken in 2007/2008 at the Access to Learning Centre.
- o) This reserve will be used by the Children's Services Department to support ICT/Broadband activities in schools.
- p) This reserve was established to meet potential increases in employer's superannuation contributions following the next actuarial revaluation of the Teesside Pension Fund.
- q) The Council has received a payment under the Government's Local Authority Business Growth Incentive Scheme. Members have determined to earmark this amount to support the 2008/2009 Budget and Council Tax Strategy.

- r) This reserve will be used to fund the first COT3 costs, employment tribunal legal costs and costs of undertaking detailed job evaluations.
- s) This reserve will provide additional resources to assist with the implementation of a New Pay and Grading System. In particular, these resources will help meet the temporary costs of providing protection to individual employees.
- t) It has been decided not to install a moveable floor at Brinkburn Pool. The Children's Services, Performance Management and Regeneration, Liveability and Housing Portfolio Holders have requested that this budget provision be earmarked for the general upkeep of Swimming Pools within the town.
- u) This reserve has been set aside to support the Tall Ships visit in 2010.

30. GENERAL FUND BALANCES

Balance at 31st March 2006 £000	Fund	Receipts in Year £000	Payments in Year £000	Transfers in Year £000	Balance at 31st March 2007 £000	Notes
3,676	Schools Reserves	3,232	(3,858)	0	3,050	a
	Non School General Fund Balances					
5,009	General Fund	0	(1,280)	(20)	3,709	b
600	Stock Transfer Reserve	0	(200)	0	400	c
33	Revenue Managed Underspend	134	(4)	0	163	d
1,601	Strategic Change Reserves	962	(878)	0	1,685	e
3,528	Budget Support Fund	3,650	(2,696)	3,100	7,582	f
3,100	Fundamental Budget Review Reserve	1,000	(1,000)	(3,100)	0	
3	Corporate Funding Reserve	0	(3)	0	0	
35	Asylum Seekers Reserve	0	(35)	0	0	
20	Best Value Sensory Loss Reserve	0	(20)	0	0	
76	DSO Reserves	0	(76)	0	0	
5	Energy Saving Fund (climate Change Levy)	11	(1)	0	15	
35	Hart Quarry Judicial Review Reserve	0	(35)	0	0	
167	Provision for High Cost Children Reserve	49	0	0	216	g
50	Strategic Procurement Review Reserve	0	0	0	50	h
100	Children's Services Implementation Reserve	0	(100)	0	0	
200	Termination Costs Reserve	194	(262)	0	132	i
776	The Way Forward Reserve	0	(410)	0	366	j
1,000	Stock Transfer Warranty Reserve	0	0	0	1,000	k
30	Refuse Shuffle Service Reserve	0	(30)	0	0	
30	Young Peoples Services Reserve	0	0	0	30	l
174	LPSA Reward Grant Reserve	389	0	0	563	m
0	Cabinet Projects	50	0	20	70	n
16,572		6,439	(7,030)	0	15,981	
20,248	Total General Fund Balances	9,671	(10,888)	0	19,031	

- a) Reserves have arisen from the local management of schools. Further details are available from the Children's Services Department. The net balance of £3.050m consists of individual school balances of £3.165m less loans to schools of £0.115m.
- b) This is the General Fund Balance
- c) The balance on this reserve is to be used to assist in the management of diseconomies of scale over the next three years, resulting from stock transfer.
- d) This reserve refers to departmental underspends carried forward where spending plans have not been fully confirmed.
- e) This reserve has been established to enable departments to meet one-off costs that may arise from strategic changes to improve services, or reduce costs, without affecting the level of services in the year.
- f) This reserve has been established to support future year's budgets.
- g) Demand lead pressures on Children's Services are continuing and this reserve has been set aside to assist the Council in managing this position in future years.

- h) This reserve is to fund the strategic review of corporate procurement practices and strategy in order to assess efficiency and effectiveness and develop new strategies for the future.
- i) The one-off costs arising from Council restructures were previously capitalised but must now be charged to revenue and this reserve has been earmarked to meet the cost of these initiatives.
- j) Substantial investment is required to facilitate the necessary changes in the structure, workings and culture of the Council to enable it to make ongoing revenue savings to assist the Council's Medium Term budget position. This reserve is earmarked to meet the costs of the required investment in this strategy, known as 'The Way Forward'.
- k) This reserve is earmarked to underwrite potential costs arising following the transfer of the Council's housing stock in 2003/2004.
- l) These reserves are earmarked to fund in-house services in the Children's Services Department, to reduce the need for more expensive external placements.
- m) This reserve has been created using monies received from the Government following the Council's successful achievement of LPSA Targets.
- n) This reserve has been created to set aside funding for future projects determined by the Cabinet.

31. **EQUAL PAY BACK PAY ACCOUNT**

This account has been created in accordance with CIPFA LAAP Bulletin 69 and is equal to the amount included in the Equal Pay Back Pay Provision (Note 21, page 41)

32. **CONTINGENT LIABILITIES**

These refer to amounts that may fall due in the future but where it is not certain whether the amounts might arise and if so, what the amounts may be. In 2006/2007 the contingent liabilities were as follows:

- i) In 1989 the Council gave a loan guarantee of £3m to North Housing Association for sums borrowed on the money markets that would come into operation should North Housing Association default on the loan terms. Provision is included in the agreement for any such payments to be secured on North Housing Association property. It is anticipated that this guarantee will exist until the loan is repaid in 2049.

The Council inherited a guarantee given by the former County Council in respect of the leasing of CADCAM office accommodation. There is a potential liability relating to a 125 year lease on the CADCAM premises: in essence, there is an increasing liability for the first 24 years, with a nominal liability thereafter. For 2006/2007 this Authority's maximum liability could have been £99,300 (£99,300 in 2005/2006). The liability rises to a maximum of £142,800 in 2011, falling back to £400 per year from 2016 for the remaining 100 years of the lease. The cumulative liability for the remaining term of the lease could be £1.3m.

In addition, however, there is a complex provision within the lease that permits rent levels to be adjusted in response to LIBOR interest rate movements to levels in excess of 12%: it is not possible to assess the potential liability arising from this.

CADCAM ceased trading on 1st April 2004. The impact of decisions made on its future may impact on the Council's future liabilities. The Council plans to make provision for potential liabilities as part of its 2007/2008 outturn strategy if the position is clearer at that time.

- ii) An indemnity given to NE Press to allow the Council to access their land to complete Highways works.
- iii) A guarantee given to South Tyneside Borough Council, as administrators of the Tyne and Wear Pension Fund, against this authorities share of potential liabilities of £55,928 under the admission agreement for employees of the North East Assembly.
- iii) A guarantee given to the Middlesbrough Pension Scheme for the staff transferred on the transfer of Housing Stock.
- iv) The cost of a number of Equal Pay Tribunals that may potentially arise following the settlement of Equal Pay claims.

33. **POST BALANCE SHEET EVENTS**

Events after the balance sheet date have been considered and no post balance sheet events were identified.

34. **EURO**

The Council has previously reviewed its financial systems and the impact on these systems of introducing the Euro, its strategy is to ensure that any future system upgrades or replacements are Euro compliant.

There were no items of expenditure incurred in relation to the introduction of the Euro, in 2006/2007. Similarly, the Authority has not undertaken any commitments in respect to future costs except in relation to the strategy as outlined in the paragraph above.

It is not possible at this time to estimate the future costs likely to be incurred.

COLLECTION FUND

The Collection Fund is a statutory fund, separate from the General Fund of the Council, which accounts independently for transactions relating to council tax, non-domestic rates and residual community charges.

2005/2006 £000		2006/2007 £000	2006/2007 £000	Notes
	INCOME			
	Council Tax :			
27,793	Billed to tax payers	29,329		
9,470	Council Tax Benefits transferred from General Fund	9,906		
37,263			39,235	1
0	Reduced Provision for Non-Payment of Council Tax		0	
	Non Domestic Rates :			
24,375	Income Collectable from Business Ratepayers		20,306	2
36	Reduced Provision for Non-Payment of NNDR		0	
24,411				
0	Residual Community Charges		0	
61,674	TOTAL INCOME		59,541	
	EXPENDITURE			
36,939	Precepts		39,062	3
37	Increased Provision for Non-Payment of Council Tax		80	
0	Increased Provision for Non-Payment of NNDR		63	
	Non Domestic Rates :			
24,296	Payment to National Pool		20,128	2
115	Cost of Collection Allowance		115	
1	Residual Community Charges			
	Contributions for previous years estimated			
	Collection Fund Surplus :			
441	Hartlepool Borough Council		104	
54	Cleveland Police Authority		13	
19	Cleveland Fire Authority		5	
514				
0	Contributions for estimated residual Community Charges		0	
61,902	TOTAL EXPENDITURE		59,570	
(228)	Surplus/(Deficit) for the year		(29)	
406	Surplus/(Deficit) at the beginning of the year		178	
178	Surplus/(Deficit) at the end of the year		149	

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

Council Tax income comes from a charge made on residential properties. The income is used to support the Council's General Fund revenue expenditure, as detailed in the Income and Expenditure Account on page 18. It is also used to finance Hartlepool's share of the Police and Fire Authorities expenditure, through precepts made on the Council's Collection Fund.

The level of Council Tax in any year is determined by estimating the income required by the Council and the Police and Fire Authorities and dividing this by the Council Tax base, which comprises residential properties banded by value and charged accordingly.

To allow for comparison between years and authorities the tax base is expressed as the number of Band D properties in the district, which is calculated by multiplying the number of properties in a band by an appropriate weighting, ranging from 6/9 to 2.

There were 31,722 Band D equivalents in 2006/2007 (31,566 for 2005/2006) and the basic amount of Council Tax for a Band D property was £1,426.73 (£1,360.09 in 2005/2006).

Set out in the table below are the Band D weighting, property numbers and income from each band level.

Band	Weighting to Band D	No. of properties in each band	Equivalent no. of band D properties	Hartlepool BC demand per property (ex. Parishes) £	Police Authority demand per property £	Fire Authority demand per property £	Total demand per property £	Total income per band £000's
A	6/9	24,941	16,627	814.97	100.48	35.70	951.15	23,723
B	7/9	5,871	4,566	950.80	117.23	41.65	1,109.68	6,515
C	8/9	5,302	4,713	1,086.63	133.97	47.60	1,268.20	6,724
D	9/9	2,746	2,746	1,222.46	150.72	53.55	1,426.73	3,918
E	11/9	1,345	1,644	1,494.12	184.21	65.45	1,743.78	2,345
F	13/9	532	768	1,765.78	217.71	77.35	2,060.84	1,096
G	15/9	358	597	2,037.43	251.20	89.25	2,377.88	851
H	18/9	30	60	2,444.92	301.44	107.10	2,853.46	86
TOTALS		41,125	31,721					45,258

The income of £39,235,000 for 2006/2007 (£37,263,000 in 2005/2006) is determined from the following sources: -

2005/2006 £000		2006/2007 £000
42,933	Opening Liability	45,258
310	Net increases in liability	353
(34)	Disabled Relief	(51)
(4,405)	Discounts	(4,475)
(1,433)	Exemptions	(1,818)
(108)	Write Offs	(32)
37,263		39,235

2. NON DOMESTIC RATES

National Non Domestic Rates (NNDR) is organised on a national basis. The Government specifies an amount, termed the Uniform Business Rate which was 43.3p in 2006/2007 (42.2p in 2005/2006) and subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the business ratepayers in its district and pays the proceeds into an NNDR pool administered by the Government. The net contribution to the NNDR pool, after reliefs and provisions, was £20.128m (£24.296m in 2005/2006).

The total non-domestic rateable value at the year-end was £60,501,640.

The NNDR income collectable from Ratepayers and the amount payable to the NNDR Pool is shown below.

2005/2006 £000		2006/2007 £000
24,790	Gross Rates payable	22,118
(2,816)	Mandatory Reliefs	(3,128)
2,769	Transitional Relief / Surcharge	1,579
(65)	Discretionary Reliefs set against NNDR pool	(60)
0	Hardship Relief set against NNDR pool	0
(250)	Write Offs	10
(53)	Refund of Overpayments	(213)
24,375	Income Collectable From Ratepayers	20,306
(115)	Cost Of Collection	(115)
36	(Increase)/Decrease in Bad Debt Provision	(63)
24,296	Contribution to NNDR Pool	20,128

3. PRECEPTS

Details of precepts on the Collection Fund are shown below:

2005/2006 £000		2006/2007 £000
31,653	Hartlepool Borough Council	33,472
3,900	Cleveland Police Authority	4,125
1,386	Cleveland Fire Authority	1,465
36,939		39,062

GROUP ACCOUNTS

1. INTRODUCTION

In accordance with the 2006 SORP, the 2006/2007 Statement of Accounts includes Group Accounts and comprises the following additional financial statements:

- Group Income and Expenditure Account
- Reconciliation of the Single Entity Income and Expenditure Account Surplus or Deficit in the Group Income and Expenditure Account Surplus or Deficit
- Group Balance Sheet
- Group Cash Flow Statement
- Group Statement of Total Recognised Gains and Losses

The Group Accounts include the accounts of the following:

- Tees Valley Connexions Partnership Ltd (an Associate company)
- CADCAM Applications and Support Company Ltd (a Joint Venture company)

The consolidated financial statements for Tees Valley Connexions Partnership Ltd. are for the period ending 31st March, 2007. This is a company set up by the Council in conjunction with the three other Tees Valley local authorities and Darlington Borough Council, to undertake the provision of advice and guidance to young people. The company is a private company limited by guarantee and consequently does not have share capital. Each of the members is liable to contribute an amount not exceeding £1 towards the assets of the company in the event of liquidation. None of the members receive dividends. As one of five members, the Councils share in the company equates to a 20% interest.

The figures consolidated within the Group Account statements are based on pre-audited accounts. A copy of the company accounts is available from the Finance Director, Tees Valley Connexions, Calvert's Lane, Stockton-on-Tees, TS18 1SW.

The consolidated financial statements for CADCAM Ltd. are for the period ending 31st March, 2007. This is a company, which was inherited from the former Cleveland County Council by the Council and the three other Tees Valley local authorities. The company offered IT training and technology services. The Councils share of the company is 25% based on the Councils financial share. The company ceased trading on 1st April, 2004 and its future is under consideration. The figures consolidated within the Group Account statements are based on draft accounts. A copy of the company accounts is available from the Director of Finance, Middlesbrough Borough Council, Civic Centre, Middlesbrough, TS1 2QQ.

2. ACCOUNTING POLICIES

The accounting policies of the Group Accounts are in line with those of the Councils, except for the Tees Valley Connexions Partnership Ltd. The Accounts for 2006/2007 are not FRS17 compliant in terms of the accounting treatment for pensions. The Financial Statements for this year have been prepared on a cessation basis and in order to show a true and fair view a cessation valuation, under regulation 78(2) has been obtained. This liability will be funded from the Tees Valley Connexions Partnership Ltd reserves.

GROUP INCOME & EXPENDITURE ACCOUNT

2005/2006 Net Expenditure £000		2006/2007 Gross Expenditure £000	2006/2007 Gross Income £000	2006/2007 Net Expenditure £000
1,377	Central Services to the Public	14,083	12,414	1,669
88	Court Services	179	0	179
21,986	Cultural, Environmental and Planning Services	39,162	16,523	22,639
60,737	Education Services	90,802	79,059	11,743
5,287	Highways, Road and Transport Services	8,912	2,020	6,892
1,783	Housing Services	33,508	32,889	619
29,410	Social Services	49,730	15,920	33,810
3,792	Corporate and Democratic Core	4,212	2	4,210
837	Non-distributed Costs	753		753
125,297	Gross Expenditure and Income	241,341	158,827	82,514
1	Share of Operating Result of Joint Venture			1
72	Share of the Operating Result of Associate			2
(775)	Income from Sale of Former Council Houses			(651)
124,595	Net Cost of Services			81,866
(236)	Profits or Losses on Disposal of assets not included within Individual Services			2,278
72	Local Precepts & Levies			87
59	Contribution to Housing Pooled Capital Receipts			32
4,281	Interest Payable			4,051
(3,337)	Interest and Investment Income			(3,108)
(8)	Share of Interest and Investment Income of Associates			(11)
2,144	Pensions Interest Cost and Expected Return on Pensions Assets			472
16	Pensions Interest Cost and Expected Return on Pensions Assets of Associate			0
0	Gains/Losses on the early repayment borrowing			(1,990)
127,586	Net Expenditure			83,677
(61,019)	General Government Grants			(33,472)
(30,045)	Non Domestic Rates Redistribution			(7,432)
(31,653)	Demand on Collection Fund			(35,159)
(440)	Transfers to/(from) the Collection Fund in respect of Surpluses/Deficits			(105)
4,429	Deficit for the Year			7,509

The net cost of Services for 2005/2006 have been restated to reflect changes between services in relation to depreciation.

RECONCILIATION OF THE SINGLE ENTITY INCOME AND EXPENDITURE ACCOUNT SURPLUS OR DEFICIT TO THE GROUP INCOME AND EXPENDITURE ACCOUNT SURPLUS OR DEFICIT

2005/2006 £000		2006/2007 £000
4,348	Deficit on the Council's Income and Expenditure Account for the Year	7,517
80	Add: Deficits/(Surplus) from other Entities Included in the Group Accounts relating to:	
1	- Associates	(9)
	- Joint Ventures	1
4,429	Group Account Deficit for the Year	7,509

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2005/2006 £000		2006/2007 £000
4,429	Deficit/(Surplus) for the year on the Income and Expenditure Account	7,509
1,324	Revaluations & Restatements Of Fixed Assets	(1,508)
(9,635)	Actuarial Gain in Pension Fund	(12,115)
10,712	Capital Expenditure not increasing asset values	8,086
(78)	Capital Income not Recognised in Income and Expenditure Account	(42)
228	Collection Fund Deficit Decrease/(Increase)	30
834	Restatement of Pensions Reserve for Associate	(834)
7,814	Movement in Net Worth in Year	1,126

GROUP BALANCE SHEET

31st March 2006 £000	31st March 2007 £000		31st March 2007 £000	31st March 2007 £000
		FIXED ASSETS		
		Operational Assets		
		Council Dwellings	92	
95		Other Land and Buildings	177,519	
169,315		Vehicles, Plant and Equipment	6,199	
5,871		Community Assets	18,026	
15,109		Infrastructure Assets	83,388	
81,202		Non-operational Assets -		
		Investment properties	12,591	
12,901		Assets Under Construction	2,070	
4,685		Assets Held For Disposal	4,142	
10,495	299,673			304,027
		OTHER LONG TERM ASSETS		
		Long-term Investments	2,056	
17,856		Long Term Debtors	300	
206	18,062			
	317,735	TOTAL LONG TERM ASSETS		306,383
(612)		Share in Net Assets of Associate	231	
190		Share in Gross Assets of Joint Venture	104	
(225)		Share in Gross Liabilities of Joint Venture	(140)	
	(647)			195
		CURRENT ASSETS		
		Stocks and Works in Progress	923	
797		Debtors	24,698	
20,504		Investments	34,040	
27,936		LATS	233	
158		Imprests & Cash in Hand	55	59,949
55	49,450			
		CURRENT LIABILITIES		
		Temporary Short Term Loans	19,252	
83		Creditors and other balances	21,163	
14,485		Capital Grants and Contributions Unapplied	3,858	
1,650		Bank Overdraft	8,045	52,318
4,285	20,503			
	346,035	TOTAL ASSETS LESS CURRENT LIABILITIES		314,209
		Provisions	2,881	
2,466		Long Term Borrowing	51,829	
83,902		Deferred Capital Receipts	28	
53		Government Grants Deferred Account	99,214	
89,261		Liability Related to Defined Benefit Pension Scheme	65,394	219,346
74,364	250,046			
	95,989	TOTAL ASSETS LESS LIABILITIES		94,863
		Fixed Asset Restatement Account	16,305	
26,633		Capital Financing Account	111,481	
111,102		Usable Capital Receipts Reserve	0	
1,197		Earmarked Reserves	14,018	
12,915		Pensions Reserve	(65,394)	
(74,364)		Equal Pay Back Pay Account	(773)	
0		Profit and Loss and Other Reserves of Group Entities	195	
(647)		Income & Expenditure Reserve	19,031	
19,153	95,989			94,863
	95,989	TOTAL EQUITY		94,863

GROUP CASH FLOW STATEMENT

The group cash flow statement shows for 2006/2007 the inflows and outflows of cash arising from transactions with third parties.

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
	REVENUE ACTIVITIES		
	Cash Outflows		
107,929	Cash Paid to and on Behalf of Employees	114,092	
76,400	Other Operating Costs	84,255	
26,564	Housing Benefit Paid Out	27,891	
59	Payments to the Capital Receipts Pool	32	
0	Collection Fund Disbursements :		
5,286	Police/Fire Precepts	5,591	
24,296	Payment to NNDR Pool	20,128	
240,534			251,989
	Cash Inflows		
(28,257)	Council Tax	(29,632)	
(24,687)	Non-Domestic Rate Income : From Ratepayers	(19,913)	
(30,045)	Non-Domestic Rate Income : From NNDR Pool	(35,159)	
(60,511)	Revenue Support Grant	(6,787)	
(26,574)	DWP Grants for Benefits	(28,139)	
(57,692)	Other Government Grants	(104,060)	
(21,287)	Cash Received for Goods and Services	(37,481)	
(249,053)			(261,171)
(8,519)	NET REVENUE ACTIVITIES		(9,182)
	SERVICING OF FINANCE		
	Cash Outflows		
3,376	Interest Paid	4,522	
	Cash Inflows		
(2,548)	Interest Received	(2,497)	
828	NET SERVICING OF FINANCE		2,025
	CAPITAL ACTIVITIES		
	Cash Outflows		
28,699	Purchase of Fixed Assets	21,238	
8,235	Purchase of Deferred Charges	9,843	
36,934			31,081
	Cash Inflows		
(50)	Sale of Fixed Assets	(1,515)	
(25,189)	Capital Grants Received	(21,620)	
(25,239)			(23,135)
11,695	NET CAPITAL ACTIVITIES		7,946
4,004	NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING		789

MANAGEMENT OF LIQUID RESOURCES

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
3,595	Net Increase/(Decrease) in Short Term Deposits	3,047	
3,595	NET INCREASE/(DECREASE) IN SHORT TERM DEPOSITS		3,047

FINANCING

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
	CASH OUTFLOWS		
32,581	Repayment of Amounts Borrowed	77,026	
47,682	Repaid Short Term Loans	90,997	
4,017	Temporary Investments	3,057	
17,000	Long Term Investments	0	
101,280			171,080
	CASH INFLOWS		
(64,998)	New Loans Raised	(45,000)	
(45,164)	New Short Term Loans	(109,997)	
0	Long Term Investments	(15,800)	
(110,162)			(170,797)
	NET FINANCING		
(8,882)			283
	INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(4,119)

NOTES TO THE GROUP FINANCIAL STATEMENT

1. CONSOLIDATED COMPANY ACCOUNTS

The Council's share in the companies operating results of the companies which been consolidated are shown below:

Connexions 2005/2006 £000	CADCAM 2005/2006 £000		Connexions 2006/2007 £000	CADCAM 2006/2007 £000
2,586	0	Turnover	2,309	0
5	(1)	Profit/(Loss) Before Tax	11	(1)
0	0	Taxation	0	0
5	(1)	Profit/(Loss) After Tax	11	(1)

2. INVESTMENTS

The following investments are held in the balance sheet:

The value of shares held by the Council in Durham Tees Valley Airport Limited (formerly Teesside International Airport) is £659,000 based on a shareholding of 2.47%. The Company has produced accounts for the financial year to 31st March, 2006. Issues of note include a loss on the Profit and Loss Account of £2,661,000 (previous year loss of £1,051,000) and a net asset position of £21,982,000 (previous year £23,223,000). Further information and copies of their accounts are available from the Registered Office – Peel Dome, The Trafford Centre, Manchester, M17 8PL.

In addition, the Council holds shares in SITA Tees Valley Limited, (formerly Cleveland Waste Management) with a value of £197,000, equating to 16.5% of a shareholding in the company. SITA Tees Valley Limited have produced accounts for the financial year to 31st December, 2005, that includes a profit on the Profit and Loss Account of £4,014,000 (previous year profit of £4,047,000) and a net asset position of £29,972,000 (previous year £32,517,000). Further information on their accounts is available from the Registered Office, SITA House, Grenfell Road, Maidenhead, Berkshire, SL6 1ES.

In accordance with the Local Government Act 1989, the Council is required to identify interests in subsidiary and associate companies and where appropriate prepare consolidated accounts. The above companies do not fall within these requirements as the Authority holds a minority of the share values.

There are also a number of organisations where the council has a varying degree of interest and or influence, but do not meet the criteria for inclusion within the Group Account Statements. These are:

- Tees Valley Urban Regeneration Company
- Tees Forest
- LGUI

- Business Link Teesside
- Shopmobility
- Age Concern
- Hartlepool Revival
- Safe in Tees Valley
- Tomorrow Tees Valley
- North East Museums, Libraries and Archives Council
- North East Transport Information Service
- Northern Grid for Learning

3. CONSOLIDATED COMPANIES

The following table summarises the balance sheets of the companies consolidated within the Group Accounts.

Connexions 2005/2006 £000	CADCAM 2005/2006 £000		Connexions 2006/2007 £000	CADCAM 2006/2007 £000
125	0	Fixed Assets	0	0
585	190	Current Assets	681	104
(222)	(225)	Liabilities Due Within One Year	(450)	(140)
959	0	Liabilities Due After One Year or More	0	0

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARTLEPOOL BOROUGH COUNCIL

Opinion on the Financial Statements

We have audited the financial statements of Hartlepool Borough Council and its Group for the year ended 31st March, 2007, under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Hartlepool Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Financial Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

We review whether the statement on internal control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published April, 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence

relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority and its Group as at 31st March, 2007 and its income and expenditure for the year then ended.

Signature: _____ Date: _____

Mr S Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. 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.

We are required by Section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in Section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under Section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December, 2006, we are satisfied that, in all significant respects, Hartlepool Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March, 2007.

Best Value Performance Plan

We issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2006/2007 in December 2006. We did not identify any significant matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Signature: _____

Date: _____

*Mr S Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH*

STATEMENT ON INTERNAL CONTROL

1. SCOPE OF RESPONSIBILITY

1.1 Hartlepool Borough Council is responsible for ensuring that:

- Its business is conducted in accordance with the law and proper standards,
- Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

1.2 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.

1.3 In discharging these overall responsibilities, Hartlepool Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

2.1 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 assurance 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.

2.2 In order to facilitate the completion of the Statement, an officer working group has been formed and a programme of work developed. To ensure that the Statement has been given sufficient corporate priority and profile, the working group included both the Chief Financial Officer and the Assistant Chief Executive. As part of the process presentations have been made to departmental management teams and regular updates given to both the Chief Executives Management Team and Corporate Management Team (CMT).

3. SIGNIFICANT INTERNAL CONTROL ISSUES UPDATE FROM 2005/2006 STATEMENT

3.1 Progress has been made over the course of 2006/2007 to address weakness in the system of internal control identified as part of the 2005/2006 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

Issue Raised	Action Undertaken
Disaster Recovery/Business Continuity	A revised strategy was determined and reported to CMT on the 23 rd October 2006 with the principles agreed for the development of the Business Continuity Plan. Service identification and classification has been achieved.
Partnership Protocols	Scoping exercise undertaken and reported to CMT. Framework implementation.
Adoption of a Code of Corporate Governance	Await outcome of CIPFA/SOLACE Code of Corporate Governance consultation.

4. THE INTERNAL CONTROL ENVIRONMENT

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

Hartlepool Borough Council has adopted a constitution, which sets out how the Council operates, how decisions are made, the procedures that are followed to ensure that these decisions are efficient and transparent, and sets out the terms of reference for the Portfolio and Committee structure. The constitution was developed in accordance with the Local Government Act 2000 and it sets out the delegated responsibilities to Key Officers such as the Monitoring Officer and Section 151 Officer.

- 4.2 Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. Human Resources (HR) policies identify suitable recruitment methods and ensure appropriate job descriptions exist for legal staff. Induction training is arranged by HR for all staff, departments have responsibility to provide induction training specific to their departmental needs. Legal Division procedures exist for monitoring new legislation, advising relevant departments, and members where appropriate. Legal personnel participate in training events.
- 4.3 Portfolio and Committee terms of reference are included in the constitution. A procedure is in place to ensure that all Portfolio and Committee agendas, minutes and supporting material are available to all staff on the Council's intranet and to the public on the Council's Internet site.
- 4.4 The constitution contains financial and contract procedure rules, and code of conduct for Members, which have been formally approved. Financial procedure rules have been updated and agreed by Council and contract procedure rules have also been updated to take into account new procurement procedures. The Authority has adopted the CIPFA Code on Treasury Management and complies with the Prudential Code. The constitution is available to all employees on the intranet and hard copy and to the public on the Internet. A register of gifts and hospitality is maintained for Members and Officers.
- 4.5 The full cabinet and a range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Authority.
- 4.6 HR has drawn up policies to ensure suitably qualified employees are employed in key areas, and supporting terms and conditions of employment for all employees cover all aspects of good employment. Induction courses for key new officers and all new members incorporate

- suitable training on corporate governance issues according to responsibilities and there is a general staff awareness programme in place.
- 4.7 A Health and Safety Policy has been approved and published and a Communication Strategy implemented to ensure general awareness.
 - 4.8 The Authority has adopted the Community Strategy aims as its own corporate objectives. The development of the Community Strategy by the Local Strategic Partnership followed an extensive consultation process. Public priorities were established and these are a key element of the budget setting process. The Local Area Agreement (LAA) (signed on 23rd March, 2006) further develops these arrangements and is the action plan for achieving the community strategy aims. LAA outcomes relating to the Council have been integrated into the Council's corporate plan, service plans and performance management arrangements to enhance management and political accountability.
 - 4.9 CMT has defined what it considers to be a partnership and an assurance framework is being developed to ensure that adequate governance arrangements are in place that are proportional to the responsibilities and risks of each partnership. The Authority has an ongoing programme of monitoring and reviewing arrangements in place in respect of the operation of its key partnerships. A framework of reporting by exception to Corporate Management Team operates and Internal Audit provides annual audit coverage of partnership arrangements. The Audit Committee has highlighted partnerships as a key area of interest and the Authority's control framework will be developed further and the committee regularly updated on progress. As the areas of Corporate Governance and Partnerships evolve, further changes to internal controls are envisaged to meet any future requirements under the revised Code of Corporate Governance and the Government's White Paper on the role and function of Local Government. The development of controls around corporate governance arrangements is a transitional, ongoing process that will build upon existing procedures.
 - 4.10 All departments produce departmental and service plans using a corporate framework to ensure that they reflect the corporate objectives. Departments also complete extensive consultation with service users, forums, partners and Viewpoint 1000 surveys. The feedback from these exercises is used to link service and departmental objectives to both the planning process for service delivery and to the corporate objectives. In order to further embed the process of risk management, control identification and the production of the SIC into the culture and management processes at the Council, risks to meeting departmental objectives and the controls to mitigate those risks are now recorded as part of the corporate service planning process at a departmental level. This has brought together service planning, risk management and control identification which has enabled a much more focussed and joined up approach to the use of management information and the production of the SIC. Progress against the Corporate Plan and departmental plans is reported to CMT, Cabinet and the Portfolio Holders on a quarterly basis.
 - 4.11 A corporate performance management framework approved by CMT and the Cabinet is operating across the Council. The framework sets out the process and timetable for reporting on performance. A Quality assurance/PI collection framework is in place with Internal Audit conducting an annual review of PIs assessed as high risk. The Performance Management database includes information relating to departmental and officer responsibility for the collation of data, target setting and addressing performance issues.
 - 4.12 Key performance indicators are identified in the corporate and departmental plans. Regular reports are presented to members on the delivery of performance targets and these include national and local comparisons.

- 4.13 Key policies such as the Corporate Complaints Procedure, Proceeds of Crime (Money Laundering), Whistle blowing Policy and Counter Fraud and Corruption Policy have been developed and approved for use across the whole Authority. The policies are available to employees via the intranet. Reports are made to portfolio holders every six months summarising, for example, the complaints dealt with and the outcome. The Authority is a member of the National Anti Fraud Network and also takes part in regular National Fraud Initiative reviews.
- 4.14 The Council agreed a Risk Management Strategy in December 2004 and this has been improved on a regular basis since, the latest updated version being agreed by Cabinet in January, 2006. The Strategy is available to all staff via the intranet. Key staff have undergone appropriate training and departmental risk champions lead on communicating the strategy to all relevant staff in their departments.
- 4.15 An annual review of strategy has been completed and approved by Corporate Risk Management Group (CRMG). The Risk Management annual work programme was approved by CRMG in March, 2007 and incorporated within service plan (Chief Execs). A CMT/Cabinet annual review of the Strategic Risk Register (SRR) was carried out in June, 2006. A Members training event was held on the 7th September, 2005 to raise the profile of Risk Management with Councillors as part of the decision-making process.
- 4.16 There is corporate support at senior management level for development of the Risk Management database with risk assessment procedures published and training given to officers (June, 2005).
- 4.17 Planned control measures in SRR/DRR are in Service Plans, linked as part of business planning for Departments as described in paragraph 4.10. The Performance Management Portfolio Holder is Hartlepool Borough Councils risk 'champion' and was involved in delivery of training to other Members. Each department also has a risk co-ordinator.

Risks and control measures relating to corporate and departmental plans are considered as part of the preparation of the Statement on Internal Control.

- 4.18 A database has been established to hold the departmental, corporate and strategic risk registers. The database automatically notifies responsible officers of risks that need to be reviewed and progress is monitored on a quarterly basis by the CRMG, who then report to CMT and Cabinet. Departments may use a central funding pot for risk management to assist in the financing of risk mitigation.
- 4.19 The Council has long-standing, nationally and regionally recognised emergency planning arrangements through the Cleveland Emergency Planning Unit (EPU). The Council's Emergency Management Response Team (EMRT) meets monthly and exercises at least every six months.
- 4.20 Departmental business continuity plans have been developed and specific property and flu pandemic plans are in place. ICT resilience has been improved by remote access to Email and calendars and upgrading the UPS system.
- 4.21 Flu pandemic planning has identified critical services particularly in respect of vulnerable people, with alternative service provision arrangements identified as part of that process.
- 4.22 The Business Continuity Group meets on a quarterly basis. A revised strategy was reported to CMT on the 23rd October, 2006. The principles for the development of the Business Continuity Plan have been agreed. Each department has a lead officer responsible for business

continuity and the team reports to the CRMG. All senior managers have been briefed about business continuity.

- 4.23 All departments completed an annual review of diversity impact needs requirement assessments and identified steps to further improve access to services and these have been incorporated into service plans. This is part of a corporately agreed approach to mainstream diversity issues within the Council and implement the Equality Standard. All departments completed an annual review of diversity impact needs requirement assessments and identified steps to further improve access to services and these have been incorporated into service plans. This is part of a corporately agreed approach to mainstream diversity issues within the council and implement the Equality Standard. Briefings for managers in all departments have been completed and the corporate Diversity Steering Group and departmental diversity groups meet regularly to progress diversity matters. The Council invited a consultant from DIALOG (part of the I&DeA) to assess its progress through the Equality Standard for Local Government. The findings were reported to the Performance Management Portfolio Holder on 26th March, 2007 and an action plan is now being implemented.
- 4.24 Internal Audit reports on a regular basis to the Audit Committee on the effectiveness of the organisation's system of internal control. Recommendations for improvement are also made and reported on. Internal Audits performance is measured against standards agreed by management and Members. Internal Audit reporting arrangements have been formalised and strengthened as part of the review of financial procedure rules.
- 4.25 Other review bodies external to the Authority also make regular reports on efficiency, effectiveness and compliance with regulations. These reviews include major inspections by the Commission for Social Care, Department for Further Education and Skills, Ofsted and the Planning Inspectorate of the relevant section of the Authority. The Audit Commission has also undertaken a Comprehensive Performance Assessment and the Council has been assessed as 'excellent', the highest possible ranking. The results of these reviews are reflected in the Council's own development and improvement plans. Some services within the Authority have been accredited by Investors in People and Chartermark.

5. REVIEW OF EFFECTIVENESS

- 5.1 The Council has the responsibility for conducting, at least annually, a review of the system of internal control. The review of the effectiveness of internal control is informed by the work of Internal Audit and Senior Managers who have responsibility for the development and maintenance of the internal control environment. The review is also informed by the reports issued by external audit and other review agencies and inspectorates.
- 5.2 The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:
- Corporate Management Team agreed process for the review of the internal control environment. The risk inherent in meeting departmental objectives and the controls to mitigate those risks are now recorded as part of the corporate service planning process at a departmental level. This has brought together risk management, control identification and the process for compiling the evidence needed to produce the SIC. This enables managers to provide documented evidence regarding the controls within their service units as part of the service planning process. The controls in place are designed to negate the identified and recorded risks of not achieving service, departmental or corporate objectives. In order to ensure adequate controls are in place the procedures, processes and management arrangements in place to mitigate identified risks and the officers responsible

for them are also documented. Gaps in controls can be addressed as part of the regular reviews of departmental risks and control measures.


- Internal Audit – the Council has the responsibility for maintaining and reviewing the system of internal control and reviewing annually Internal Audit. In practice, the Council, and its External Auditors, takes assurance from the work of Internal Audit. In fulfilling this responsibility:
 - Internal Audit operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
 - Internal Audit reports to the Section 151 Officer and Audit Committee.
 - The Head of Audit and Governance provides an independent opinion on the adequacy and effectiveness of the system of internal control, quarterly update reports and an annual internal audit performance report to the audit committee.
 - Internal audit plans are formulated from an approved risk assessment package.
- External Audit – in their annual audit letter, comment on their overall assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from the Corporate Assessment and inspections that have been undertaken.
- Other review and assurance mechanisms: for example, Department for Further Education and Skills, Commission for Social Care, Investors in People, Chartermark.
- In the Comprehensive Performance Assessment by the Audit Commission, the overall report placed the Council in the 'excellent' corporate assessment category.

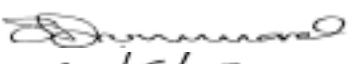
6. **SIGNIFICANT INTERNAL CONTROL ISSUES**


6.1 The following significant internal control issues have been identified:

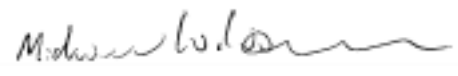
No	Issue	Action	Timescale	Responsible Officer
1	Disaster Recovery/ Business Continuity Arrangements	<ul style="list-style-type: none"> - Review Building Risk plan and finalise for distribution. Completed People Risk pro-forma to be considered. - Review People Risk plan and finalise for distribution. Completed Suppliers Risk pro-forma to be considered. - Review Suppliers Risk Plan and finalise for distribution. Completed ICT Risk pro-forma to be considered. - Review ICT Risk Plan and finalise for distribution. Review Programme and Set new Milestones 	July 2007	M Ward
			Oct 2007	M Ward
			Jan 2008	M Ward
			April 2008	M Ward
2	Partnership Protocols	<ul style="list-style-type: none"> - Further develop assurance framework. - Continue the rolling review of key partnerships to ensure that adequate corporate governance arrangements are in place that are proportional to the responsibilities and risks of each partnership. 	Sept 2007	M Ward
			April 2008	M Ward
3	Adoption of a Code of Corporate Governance	Await outcome of CIPFA/SOLACE Code of Corporate Governance consultation.	Publication of guidance	T Brown

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority and a plan to address weakness and ensure continuous improvement of the systems is in place.

CHIEF EXECUTIVE: 
DATE: 25th May 2007

MAYOR: 
DATE: 29/5/07

MONITORING OFFICER: 
DATE: 29/5/07

CHIEF FINANCIAL OFFICER (SECTION 151 OFFICER): 
DATE: 22nd May 2007

MEMORANDUM NOTES

1. TRUST FUNDS

The Council acts as trustee of the Preston Simpson Scholarship Fund that was set up by the family of a soldier killed in World War I to provide funds for the purchase of musical instruments or grants towards music scholarships by young persons residing in Hartlepool. This is not included in the Balance Sheet and was previously audited separately.

The Council also acts as a trustee of the Doughty Fund that was set up following a bequest from Colonel Henry Doughty. This is available to support any charitable objects within the Hartlepool area.

From 1996/1997 the Council has acted as trustee for ten Educational Trust Funds that were inherited from Cleveland County Council. Only three of these are active, and are used to provide funds for the following purposes:

- Music awards for girls;
- Pupil achievement awards;
- Pursuit of Education awards.

All of the trust funds administered by the Council fall below the threshold set by the Charities Act 1996 and therefore no longer require an Audit Certificate.

The balances held by the Council on behalf of various Trust funds are as follows: -

Balance at 1st April 2006 £		Income £	Expenditure £	Balance at 31st March 2007 £
3,921	Preston Simpson Scholarship Fund	1,559	100	5,380
3,833	Doughty Fund	165	0	3,998
151,280	Education Trust Funds	10,741	5,310	156,711
159,034		12,465	5,410	166,089

At 31st March, 2007, the Preston Simpson Scholarship Fund consisted of a cash investment with Hartlepool Borough Council of £5,380 and external investments with a value of £16,923 as at 31st December, 2006 (£15,372 as at 31st December, 2005). The prior year comparative has been restated to show the actual cash held by the Council.

As at 31st March, 2007, the Doughty Fund consisted wholly of a cash balance investment with the Council.

As at 31st March, 2007, the Education Trust Fund cash balance of £156,711 was invested with Hartlepool Borough Council. The Sterndale Trust Fund (one of the Education Trust Funds) also had external investments with Threadneedle Investments valued at £99,395 as at 5th April, 2007 (£90,320 as at 5th April, 2006).

External investments for the above Trust Funds are not shown in the Council's Financial Management System.

GLOSSARY OF TERMS

ACCRUAL

A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- Recognising;
- selecting measurement bases for; and
- presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the Income and Expenditure Account or Balance Sheet it is to be presented.

ACQUIRED OPERATION

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the Local Authority that are acquired in the period.

ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
- the actuarial assumptions have changed.

AUDIT

An independent examination of the Authority's activities, either by Internal Audit or the Authority's external auditor, which is the Operations Directorate of the Audit Commission.

BALANCE SHEET

A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

BALANCES

The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

CAPITAL CHARGE

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure that adds to and not merely maintains the value of an existing fixed asset.

CAPITAL RECEIPT

Proceeds from the sale of a fixed asset that is land or building.

CLASS OF FIXED ASSETS

The classes of fixed assets required to be included in the accounting statements are:

Operational assets

- Council dwellings
- Other land and buildings
- Vehicles, plant, furniture and equipment
- Infrastructure assets
- Community Assets

Non-operational assets

- Subdivided as appropriate to the individual Authority

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

COLLECTION FUND

The fund to hold all details relating to the Council Tax, National Non-Domestic Rates and residual Community Charge.

COMMUNITY ASSETS

Assets that the Local Authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

COMMUNITY CHARGE

The form of local taxation for the period April 1990 to March 1993, based on individuals; commonly called the Poll Tax.

CONSISTENCY

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

BALANCE SHEET

The combined fund balance sheets of an Authority, excluding trust funds.

CONSTRUCTIVE OBLIGATION

An obligation that derives from an Authority's actions where:

- a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Authority has indicated to other parties that it will accept certain responsibilities; and
- b) as a result, the Authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

CONTINGENT ASSET

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 Local Authority's control.

CONTINGENT LIABILITY

A contingent liability is either:

- a) 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 or;
- b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

COUNCIL TAX

The form of local taxation operated from April 1993, based on properties.

CREDITOR

An amount owed by an organisation for work done, goods received, or services rendered to the organisation within the accounting period but for which payment has not been made.

CURRENT ASSET

An asset where the value may change because the volume held can vary through day to day activity, for example physical stockholdings.

CURRENT LIABILITY

An amount that will become payable or could be called in within the next accounting period, for example creditor, cash overdrawn.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business and termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

DEBT OUTSTANDING

Amounts borrowed to finance capital expenditure that are still to be repaid.

DEBTOR

An amount due to the Authority within the accounting period but not received at the Balance Sheet date.

DEFERRED CHARGE

Expenditure that may properly be deferred, but which does not result in, or remain matched with, tangible assets, for example improvement grants.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits 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).

DEFINED CONTRIBUTION SCHEME

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

DIRECT SERVICE ORGANISATION (DSO)

The term is used to cover both Direct Labour Organisations (DLO's) established under the Local Government, Planning and Land Act 1980 and DSO's established under the Local Government Act 1988.

DISCONTINUED OPERATIONS

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the Local Authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the Local Authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

DISCRETIONARY BENEFITS

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) regulations (Northern Ireland) 2001.

EMOLUMENTS

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK Income Tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

ESTIMATION TECHNIQUES

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period;
- different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

EXCEPTIONAL ITEMS

Material items that derive from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

EXPECTED RATE OF RETURN ON PENSION ASSETS

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

EXTRAORDINARY ITEMS

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and reward may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

FIXED ASSETS

Tangible assets that yield benefits to the Authority and the services it provides for a period of more than one year.

GENERAL FUND

The main revenue account of the Authority which summarises the cost of all services provided by the Council which are paid for from Government grants, contributions from the Non Domestic Rates Pool, Council Tax and other income

GOING CONCERN

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS

Assistance by Government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

IMPAIRMENT

A reduction in the value of a fixed asset below its carrying amount on the Balance Sheet.

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INTEREST COST (PENSION)

For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVESTMENTS (PENSION FUND)

The investments of the pension fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development have been completed; and which is held for its investment potential, any rental income being negotiated at arm's length.

INVESTMENTS (NON-PENSIONS FUND)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments other than those in relation to the Pensions Fund that do not meet the above criteria should be classified as current assets.

LIQUID RESOURCES

Current asset investments that are readily disposable by the Authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

LOANS OUTSTANDING

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

LONG TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

MINIMUM REVENUE PROVISION

The least amount that must be put aside from revenue to repay debt.

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, that is the cost of its replacement or of the nearest equivalent asset adjusted to reflect the current condition of the existing asset.

NET DEBT

The Authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON-OPERATIONAL ASSETS

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

OPERATING LEASES

A lease other than a finance lease.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Local Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

POST BALANCE SHEET EVENTS

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- the accrued benefits for members in service on the valuation date

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute Actuaries.

PRIOR YEAR ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISION FOR CREDIT LIABILITIES

Amount that is set aside from sales of capital assets, European grants and revenue to repay debt.

PRUDENCE

The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

RATE OF RETURN ON CAPITAL

The profit of the Authority's DLO/DSO's expressed as a percentage of the value of capital employed.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an Authority include:

- Central Government;
- Local Authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- administering Authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors;
- These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payment of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the Authority, but also in relation to its related party.

RENEWALS ACCOUNTING

Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as depreciation charged for the period. Actual expenditure is capitalised as incurred. Renewals accounting may only be used for infrastructure assets.

RESEARCH AND DEVELOPMENT

Expenditure falling into one or more of the following broad categories:

- pure (or basic) research : experimental work undertaken primarily to acquire knowledge;
- applied research: original investigation undertaken to gain knowledge towards a specific practical objective;
- development: use of knowledge to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do 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, because these are not given in exchange for services rendered by employees.

SCHEME LIABILITIES

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

SETTLEMENT

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and

- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

STOCKS

Comprises the following categories:

- goods or other assets purchased for resale;
- consumable stores;
- raw materials and components purchased for incorporation into products for sale;
- products and services in intermediate stages of completion;
- long term contract balances;
- finished goods.

TOTAL COST

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

UNAPPORTIONABLE CENTRAL OVERHEADS

These are overheads for which no user now benefits and should not be apportioned to services.

USEFUL LIFE

The period over which the Authority will derive benefits from the use of a fixed asset.

VESTED RIGHTS

In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits;
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.

FURTHER INFORMATION

Copies of this document can also be provided on audiotape or in large print, Braille and ethnic minority languages on request. We can also be contacted via Tynetalk and enquiries in any language can be dealt with in person or on the telephone using Language Line instant translation service.

اگر آپ کو اس لیفلٹ کے اردو ترجمے کی ضرورت ہے تو برائے مہربانی نیچے دئے گئے فون نمبر پر رابطہ کریں۔

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GENERAL PURPOSES COMMITTEE

29 June 2007



Report of: Chief Financial Officer

Subject: AUDIT COMMISSION REPORT- AUDIT AND INSPECTION PLAN 2007/08.

1. PURPOSE OF REPORT

- 1.1 To inform Members of the General Purposes Committee of the content of the Audit Commission Report, Audit and Inspection Plan 2007/08.

2. BACKGROUND

- 2.1 The plan sets out the audit and inspection work that the Audit Commission propose to undertake for 2007/08. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
- audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to local circumstances; and
 - local risks and improvement priorities.

3. AUDIT COMMISSION REPORT

- 3.1 Attached, as Appendix 1, is the Audit and Inspection Plan 2007/08 report. The report outlines the work the Audit Commission will undertake in relation to the following areas:
- CPA and Inspection.
 - Work under the Audit Code of practice.
 - Assessing Risks.
 - Work Specified by the Audit Commission.
 - Voluntary Improvement Work.
 - Certification of Grant Claims and Returns.

- 3.2 The report also details the audit and inspection fee.

4. RECOMMENDATIONS

- 4.1 That the General Purposes Committee note the report of the Audit Commission.

Audit and Inspection Plan

May 2007



Audit and Inspection Plan

Hartlepool Borough Council

Audit 2007-2008

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Trust

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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www.audit-commission.gov.uk

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Introduction

- 1 This plan has been developed by the Relationship Manager and the appointed auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the statement on internal control (SIC)); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

CPA and Inspection

- 8 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as 4 stars.
- 10 We have also taken into account the CPA inspection reported in March 2007, recognising the key strengths and areas for improvement in the Council's performance.
- 11 Strengths in the Council's performance include:
 - a strong drive to improve life in Hartlepool, based on a very good understanding of needs;
 - excellent partnership working; and
 - good financial capacity.
- 12 Areas for improvement in the Council's performance include:
 - developing a formal approach to medium term financial planning; and
 - a strategic approach to working with the voluntary sector.
- 13 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.

Work under the Code of Audit Practice

Financial statements

- 14 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 16 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

Use of resources

Value for money conclusion

- 17 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 18 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 19 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 21 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 22 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes:

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • Preparation of financial statements. • External reporting.
Financial management	<ul style="list-style-type: none"> • Medium-term financial strategy. • Budget monitoring. • Asset management.
Financial standing	<ul style="list-style-type: none"> • Managing spending within available resources.
Internal control	<ul style="list-style-type: none"> • Risk management. • System of internal control. • Probity and propriety.
Value for money	<ul style="list-style-type: none"> • Achieving value for money. • Managing and improving value for money.

- 23 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 24 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

Data quality

- 25 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 - management arrangements;
 - Stage 2 - completeness check; and
 - Stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 26 The work at stage 1 will link to our review of the Council's arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission's CPA assessment.

- 27 Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Best Value Performance Plan

- 28 We are required to carry out an audit of your best value performance plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

Assessing risks

- 29 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 30 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.
- 31 We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- Change in SORP requirements.
- 32 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 33 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Whole of government accounts (WGA)

- 34 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

National Fraud Initiative

- 35 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Voluntary improvement work

- 36 Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body.
- 37 We are not proposing to do any voluntary improvement work at the Authority during 2007/08.

Certification of grant claims and returns

38 We will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

The audit and inspection fee

- 39 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 40 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £270,850 which compares with the planned fee of £336,135 for 2006/07.
- 41 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions Hartlepool Borough Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 42 In addition we estimate that we will charge approximately £14,728 for the certification of claims and returns.
- 43 As indicated in paragraphs 3 and 33, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 40 above. Any changes to the fee will be agreed with you.

Other information

The audit and inspection team

- 44 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

Table 2

Name	Contact details	Responsibilities
Steve Nicklin Relationship Manager and District Auditor	s-nicklin@audit-commission.gov.uk 0191 4602023	The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders. Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and General Purposes Committee.
Caroline Tyrrell Audit Manager	c-tyrrell@audit-commission.gov.uk 0191 4011688	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Assistant Chief Executive and Chief Financial Officer.
Les Watson Area Performance Lead	l-watson@audit-commission.gov.uk 0191 4602023	Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.

Independence and objectivity

- 45 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 46 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 47 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or District Auditor in the first instance. Alternatively you may wish to contact the north east (sub) Region Interim Head of Operations, David Jennings.
- 48 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

Planned outputs

- 49 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

Table 3

Planned output	Indicative date
Opinion Audit Plan	30 November 2007
Data Quality report	30 September 2007
Interim Audit Memorandum (if required)	30 June 2008
Annual Governance report	22 September 2008
Opinion on the Financial Statements and Value for Money Conclusion	30 September 2008
Final Accounts Memorandum (to the Chief Financial Officer)	31 October 2008
Use of Resources report	31 December 2008
Annual Audit and Inspection Letter	Deadline to be confirmed by Audit Commission
BVPP report	31 December 2008

Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>The Council is increasingly delivering services in partnership with other bodies. Without robust performance management and governance arrangements, the costs and quality of services may deteriorate.</p>	<p>The Council has established a Children's Trust from April 2007 to formalise arrangements for some services.</p>	<p>Yes</p>	<p>We will carry out the following specific pieces of work:</p> <ul style="list-style-type: none"> • briefly review the Children's Trust arrangements in place to ensure the Trust; • review arrangements across Tees Valley for managing children's placements; • update our previous assessment of LAA management arrangements; • complete Phase 3 of our Health Inequalities cross cutting work. This will also consider equality and user focus; • review arrangements for working with and supporting the voluntary sector; and • consider arrangements for C&YP placements. 	<p>UoR KLOE 5.1 and 5.2</p>

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
The Council does not have a formal medium term financial strategy. This could lead to poor financial management.	Council has recognised the need for a more formal approach, although this is at an early stage.	Yes	Facilitate Council's development of a medium term financial strategy by sharing good practice in financial management.	KLOEs 2 and 3
High levels of staff sickness absence are costly and adversely affect services.		Yes	Review arrangements for managing sickness absence.	KLOE 5
Changes in staff and members could lead to poor governance.		Yes	Governance diagnostic to identify if there are potential governance issues.	KLOE 4

Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the [planned/actual] fee for 2006/07.

Table 4

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Audit		
Financial statements	163832	147,200
Use of resources (including BVPP)	60732	46116
Data quality	19694	27,184
Whole of government accounts	2367	
National Fraud Initiative	1050	
Total audit fee	247675	220500
Inspection		
Relationship management	14750	13747
Direction of Travel	16150	9082
Service inspection	0	0
Corporate inspection	0	92806
Total inspection fee	30900	115635
Total audit and inspection fee (less CLG grant)	270,850	336135
Certification of claims and returns	14728	17,126
Voluntary improvement work	0	0

- 2 The Audit Commission mid point scale fee for Hartlepool Borough Council is £195,640. The fee proposed for 2007/08 is +27 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.

- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

Specific audit risk factors

- 6 In setting the audit fee we have taken into account the following specific risk factors:
 - areas for improvement identified by the CPA; and
 - the implementation of a new payroll system.

Assumptions

- 7 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by [date];
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 8 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 9 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions Hartlepool Borough Council could take to reduce its audit and inspection fees

- 10 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have identified the following actions Hartlepool Borough Council could take:
- Formalise longer term financial planning.

Process for agreeing any changes in audit fees

- 11 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Assistant Chief Executive and Chief Financial Officer. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the general purposes committee.

Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and conclusions, it should be clearly differentiated within the audit plan as being ‘additional work’ and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.