

# PLEASE NOTE VENUE

## GENERAL PURPOSES COMMITTEE AGENDA



Friday 28 September 2007

at 10.00am

in Training Room 2  
at 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 17 AUGUST 2007**
4. **ITEMS REQUIRING DECISION**
  - 4.1 Final 2006/2007 Statement of Accounts and Audit Commission Annual Governance Report - *Chief Financial Officer*
5. **ANY OTHER ITEMS WHICH THE CHAIRMAN CONSIDERS ARE URGENT**

# GENERAL PURPOSES COMMITTEE

## MINUTES AND DECISION RECORD

17 August 2007

The meeting commenced at 10.00 a.m. at Belle Vue Community, Sports and Youth Centre, Hartlepool

### **Present:**

Councillors: John Marshall (in the Chair)  
Stephen Akers-Belcher, Timothy Fleming, Sheila Griffin and Jane Shaw

In accordance with Paragraph 4.1 of the Council's procedure rules Councillor Carl Richardson attended as Substitute for Councillor Gerald Wistow

Officers: Tony Brown, Chief Solicitor  
Mike Ward, Chief Financial Officer  
Jo Wilson, Democratic Services Officer

### **11. Apologies for Absence**

Apologies were submitted on behalf of Councillors Henery, Dr Morris and Wistow.

### **12. Declarations of interest by members**

None.

### **13. Confirmation of the minutes of the meeting held on 29<sup>th</sup> June 2007**

Confirmed

### **14. Confirmation of the minutes of the meeting held on 25<sup>th</sup> July 2007**

Confirmed – subject to the addition of Councillor Gladys Worthy as a substitute attendee for Councillor Akers-Belcher.

## 15. **Business Report** *(Chief Solicitor)*

The Chief Solicitor advised members as to a number of items which had arisen following discussion at a previous meeting as follows

### **Approval of Council Accounts – Remit of Committee**

Members had previously queried the nature and extent of their remit in relation to the approval of Council accounts. The Chief Solicitor advised that their task was to determine that the accounts as maintained by the Chief Financial Officer were a proper reflection of the Council's financial position at the account date and were presented in a manner according with proper accounting practice. The Committee should address itself to the accuracy and completeness of the accounts as a record of financial transactions and resources. However they were not entitled to ask how these transactions and resources were managed. These were questions for the executive members and committees responsible for determining such matters.

Following this advice members raised a number of questions:

#### **Was General Purposes Committee the correct forum to approve the Council accounts? Could the responsible Portfolio Holder be a more appropriate avenue?**

The Chief Solicitor advised that the nature of General Purposes Committee was to deal with those issues not covered by existing Committees. However Audit Committee might be a better forum. Members indicated their support of this, particularly given the level of financial expertise amongst Audit Committee members. As this was a non-executive function officers were unable to take it to the Portfolio Holder for approval.

#### **If members were not entitled to question the management of transactions and resources at this meeting where could they?**

The Chief Solicitor advised that members were perfectly entitled to ask any questions, the issue was what questions they should ask to discharge their function in this matter. Questions could also be raised at relevant Scrutiny Forums and Council meetings.

#### **Why had the District Auditor not attended the meeting when the accounts were discussed?**

The Chief Financial Officer indicated that the District Auditor had no involvement in the process until the accounts had been seen and approved by General Purposes Committee and the various Scrutiny forums. The District Auditor would attend the appropriate Audit Committee meeting.

Following this discussion members indicated they wished future consideration of Council accounts to be passed to Audit Committee. The Chief Solicitor would take a report on this matter to the next available Audit Committee before starting the necessary constitutional process.

### **Publication of School Governors Addresses**

Members had previously indicated information as to who made the decision regarding contact arrangements for school governors. The Chief Solicitor reported that there was no legislation or policy guidance on this issue from the Department for Children, Schools and Families, aside from a requirement that schools have a constitution which fulfils the requirements of regulations. No specific guidance on the extent to which the full particulars of governors, including their addresses, should be in the public domain was available. Such decisions were a matter for the governing bodies of individual schools and it was not a matter for the Council or Education Authority. It was accepted that a governor's address was personal information under the Data Protection Act and therefore the school would be acting lawfully by establishing a policy that contact with an individual governor should be via the school and should not be released without the consent of the individual concerned.

Members queried whether a condition could be attached as part of the recruitment process for School Governors allowing their personal contact details to be made public. However the Chief Solicitor noted that given the small proportion of Governors appointed by the Council this would not strike at the issue. It was also indicated that schools often found it difficult to recruit Governors and one concern people had was the violation of their privacy. They needed to be reassured that this would be protected. The Chair acknowledged that but felt that Resident Representatives were in a similar position and their details were in the public domain.

Members requested that a letter be sent to all schools on behalf of the Committee voicing their general concerns on this matter and asking for details of their existing governor contact system for information

### **Decision**

1. That the report be noted.
2. That a report be taken to Audit Committee recommending that approval of Council accounts be considered by that Committee in future.
3. That a letter be drafted by the Chief Solicitor for consideration by the Committee prior to despatch to all schools in Hartlepool voicing the concerns of the Committee in relation to School Governor contact details and requesting information on their current systems.

CHAIRMAN

CLLR JOHN MARSHALL

**Meeting of:** General Purposes Committee

**Date of Meeting:** 28<sup>th</sup> September, 2007

**Report of:** The Chief Financial Officer

**Subject:** FINAL 2006/2007 STATEMENT OF ACCOUNTS  
AND AUDIT COMMISSION ANNUAL  
GOVERNANCE REPORT

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## **1. PURPOSE OF REPORT**

1.1 The purposes of this report are to:-

- i) enable Members to approve the final 2006/2007 Statement of Accounts;  
and
- ii) to present the Audit Commission's Annual Governance Report.

## **2. BACKGROUND**

2.1 Authority to approve the annual Statement of Accounts has previously been delegated by Council to your Committee and the draft 2006/07 accounts were approved at your meeting on 29<sup>th</sup> June, 2007.

2.2 At that time Members were advised that a further report would be submitted once the Audit Commission completed their review of the draft 2006/2007 Statement of Accounts and related matters. It was anticipated that this meeting would take place on 28<sup>th</sup> September to enable the detailed audit work to be complete and to ensure the final accounts were approved before the 30<sup>th</sup> of September statutory deadline.

2.3 At your meeting in June Members suggested that from 2007/08 onwards it would be appropriate to transfer responsibility for approving the accounts to the Audit Committee. This issue is currently being pursued.

## **3. FINAL 2006/2007 STATEMENT OF ACCOUNTS**

3.1 At the time of preparing this report the Audit Commission had not finalised the Audit of the 2006/2007 Statement of Accounts, although this work was substantially complete and no significant issue have been identified. It is anticipated the audit will be complete within the next two days. The District Auditor will then finalise their Annual Governance Report.

3.2 Once the above work is complete and the Annual Governance Report has been issued I will let Members of this committee have a copy of:

- The Annual Governance report;
- The final audited Statement of Accounts;
- A brief report identifying any significant changes which have arisen from the audit of the draft accounts.

3.3 A representative of the Audit Commission will attend your meeting to highlight the key issues identified in the Annual Governance report and to answer any questions. The principle purposes of the Annual Governance Report are:

- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the Auditor and those charged with governance;
- to share information to assist both the Auditor and those charged with Governance to fulfil their respective responsibilities; and
- to highlight opportunities for improvements to the Authority's financial statements/processes.

#### **4. RECOMMENDATIONS**

4.1 At your meeting Members will be asked to consider the following recommendations: -

- i) Note the report.
- ii) Approve the Final 2006/2007 Statement of Accounts, which will incorporate the changes agreed with the District Auditor.

**Meeting of:** General Purposes Committee

**Date of Meeting:** 28<sup>th</sup> September, 2007

**Report of:** The Chief Financial Officer

**Subject:** FINAL 2006/2007 STATEMENT OF ACCOUNTS  
AND AUDIT COMMISSION ANNUAL  
GOVERNANCE REPORT

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## **1. PURPOSE OF REPORT**

1.1 The purposes of this report are to: -

- i) enable Members to approve the final 2006/2007 Statement of Accounts;  
and
- ii) to present the Audit Commission's Annual Governance Report.

## **2. BACKGROUND**

2.1 As indicated in the report issued with the main agenda papers Members were advised that a further report would be issued once the Audit Commission completed their review of the draft 2006/2007 Statement of Accounts. It was indicated that this report would include a copy of the Audit Commission's Annual Governance Report and final 2006/07 Statement of Accounts, which would include any amendments agreed with the auditors. These documents are attached at Appendices A and B respectively.

## **3. ANNUAL GOVERNANCE REPORT**

3.1 The principle purposes of the Annual Governance Report are:

- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the Auditor and those charged with governance;
- to share information to assist both the Auditor and those charged with Governance to fulfil their respective responsibilities; and
- to highlight opportunities for improvements to the Authority's financial statements/processes.

3.2 A copy of the Annual Governance Report is attached at Appendix A. The report indicates that the Audit Commission have now substantially completed the Audit of the 2006/2007 Statement of Accounts and their recommendations



are detailed in the Annual Governance Report. Should any further matters arise, which is unlikely, the auditor will raise them at your meeting on 28<sup>th</sup> September. The Auditor will also answer any questions on the Annual Governance Report. The report indicates that the Auditor proposes issuing an unqualified audit opinion on 28<sup>th</sup> September, which is the opinion we would wish to receive.

#### **4. FINAL 2006/2007 STATEMENT OF ACCOUNTS**

4.1 Details of the amendments which have been made to the draft accounts during the audit are detailed in paragraphs 16 to 20 of the Governance report. In summary these issues relate to the following areas and were made to improve the presentation of the statements and improve compliance with the Statement of Recommended Practice. (SORP):

- The cash flow statement supporting notes were amended to reflect a number of misstatements and to provide reconciliation to the income and expenditure account. These changes improve the presentation of information in the Accounts, but do not affect the Authority's overall cash position; and
- Additional notes were included after the income and expenditure account to explain changes to last year's reported position, required because of the new local government accounting code for 2006/07.

3.3 There are no issues within the Annual Governance Report which affect the level of the Authority's reserves which were reported in the draft statement of accounts.

3.4 A copy of the final 2006/07 Statement of Accounts is attached at Appendix B.

#### **5. RECOMMENDATIONS**

5.1 It is recommended that Members: -

- i) Note the report.
- ii) Approve the Final 2006/2007 Statement of Accounts detailed at Appendix B, which incorporates the changes agreed with the auditors detailed in the Annual Governance report.

AUDIT COMMISSION

ANNUAL GOVERNANCE  
REPORT 2006/07

Annual Governance Report

September 2007



# Annual Governance Report

**Hartlepool Borough Council**

**Audit 2006/07**

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 Local Government Act 1999 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**

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/member 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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## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the General Purposes Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
  - where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the General Purposes Committee on 28 September 2007. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved;
  - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
  - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan agreed in April 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

## Key messages

- 6 Our work on the financial statements is substantially complete, although there are still outstanding issues to be resolved. In particular, our work on fixed assets has yet to be concluded. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with you on 28 September. We propose issuing an unqualified audit opinion on 28 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 28 September 2007 (a draft report is attached at Appendix 3).

## Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete.
- 10 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.



## Accounts and Statement on Internal Control

- 11 Our work on the financial statements is substantially complete, although there are still outstanding issues to be resolved. In particular, our work on fixed assets has yet to be concluded.
- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The final draft of the letter of representation has been attached as Appendix 5.

### Unadjusted misstatements

- 15 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

### Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. The most significant items are detailed below for your attention.
- 17 The cash flow statement and accompanying notes were amended to correct a number of misstatements, which in accounting terms were deemed to be material errors, although these changes did not affect the net cashflow position of the Council:
  - non domestic rates income from ratepayers was understated by £4.7m;
  - non domestic rates income from the pool was £5.3m overstated; and
  - the financing section of the statement contained overall material errors of £48m on the cash outflows and £43m on the cash inflows.

- the SORP specifies that there should be a reconciliation of surplus/deficit on the income and expenditure account to the net cash flow. The draft statement was incorrect because it reconciled to the increase/decrease in general fund balances.
- 18 The government grants deferred account was reduced by £2.1m, with a matching increase in the capital financing account. This related to assets which had been disposed of, and offset the loss on disposal of £2.1m. This reduced the deficit on the income and expenditure account but had no impact on the general fund balance.
- 19 The pension fund actuary valued assets at 31 December 2006 rather than 31 March 2007. As a result, the pension liability recorded in Hartlepool BC's accounts was understated by £3.286m. There is no impact on the income and expenditure or general fund balance. A note was added to the statements to explain the understatement.
- 20 Additional notes were included after the income and expenditure account to explain the changes to last year's reported position, required because of the new local government accounting Code for 2006/07

## Accounting practices

- 21 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.
- 22 The financial statements provided for audit were of a good standard, largely reflecting the new requirements for 2006/07. The number of minor errors was reduced from those identified last year.
- 23 Comparative figures were restated to reflect changes in the classification of some reserves. These changes were not required by a change in accounting policy, nor were they fundamental accounting errors, so it may have been more appropriate to account for the changes in 2006/07 than to restate last year's balances.

### **Recommendation**

*R1 Prior period adjustments should be made only where this is required by accounting standards. Any proposal to include such an adjustment in future should be discussed in advance with the auditor.*

- 24 The whole of government accounts consolidation pack has not yet been prepared. The deadline for submission for the audited pack is 1 October 2007.

**Recommendation**

*R2 Prepare whole of government accounts consolidation pack and supporting working papers at the same time as the financial statements.*

- 25 Working papers provided to support the financial statements were improved on last year but could be further improved, and reduce audit time, if they included evidence to demonstrate that figures from the main feeder systems were accurately included in the ledger.

**Recommendation**

*R3 Prepare a working paper to clearly show that the full year's figures from each of the main feeder systems are accurately included in the ledger.*

## Systems of internal control

- 26 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.
- 27 A new financial ledger was implemented at the start of 2006/07. There were minor initial problems with some automated aspects of the system, which were identified through the Authority's validation reporting arrangements. This issue was raised with the supplier and will be rectified when the Authority implements the current release of the software in 2007/08 the system.
- 28 Journals, used to action amendments in the ledger, are completed electronically. In some instances there is often little narrative included or other supporting information to explain why the amendment was necessary.

**Recommendation**

*R4 Ensure all journals are supported by sufficient narrative to explain the amendment and why it is necessary.*

- 29 In order to identify material transactions with related parties, which have to be disclosed in the statements, all members and senior officers are required to complete an annual declaration. At the time of the audit there were three declarations from new members which had not been returned. Two of these have subsequently been received. There were 12 unreturned forms from existing members. None of these have been received to date.

***Recommendation***

*R5 Complete and return the annual declaration of interests by the deadline for preparation of the statements.*

- 30** We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 31** We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.
- 32** At the time the SIC was approved, Internal Audit had not completed all of the planned work on financial systems. It was not made clear that some of the assurance was based on previous year's audit work.

**33**

***Recommendation***

*R6 Ensure all relevant Internal Audit work is completed before the SIC is approved.*

## Use of resources

### Work performed

- 34 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources - the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion included the following elements:
- data quality work; and
  - the best value performance plan.
- 35 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.

### Data quality work

- 36 We are currently finalising our data quality review and will report our findings to the relevant officers.

### Best value performance plan

- 37 Our work in respect of the Authority's 2006/07 best value performance plan (BVPP) was completed in December 2006. No recommendations were made to the Audit Commission or the Secretary of State.

## Audit fee update

- 38 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

**Table 1**

	<b>Plan 2006/07</b>	<b>Actual 2006/07</b>
Accounts and Statement on Internal Control	147,200	147,200
Use of Resources	73,300	73,300
Total Audit Fees	220,500	220,500
Grants certification work	17,126	17,126
Other work - whole of government accounts	1,500	1,500

- 39 The analysis above shows that our audit fee has been contained within the totals you have already agreed.

## Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
8	Prior period adjustments should be made only where this is required by accounting standards. Any proposal to include such an adjustment in future should be discussed in advance with the auditor.	2	Chief Accountant	Yes		2007/08 accounts
8	Prepare whole of government accounts consolidation pack and supporting working papers at the same time as the financial statements.	2	Chief Accountant	No	Will consider resource implications of doing this at the same time as preparing accounts, as current arrangements are most effective use of our limited resources within time constraints for preparing draft accounts and meeting statutory deadlines for issuing reports.	2007/08 accounts
8	Prepare a working paper to clearly show that the full year's figures from each of the main financial systems are accurately included in the ledger	3	Chief Accountant	Ye	Clarify with Auditor exact requirements and why existing working papers do not provide adequate audit trail and discuss savings from reduction in audit time.	2007/08 accounts
9	Ensure all journals are supported by sufficient narrative to explain the amendment and why it is necessary	2	Chief Accountant	Yes	Subject to limitations of field for recording comments, which in some instances may mean comment is referenced to supporting working paper	October 2007
9	Complete and return the annual declaration of interests by the deadline for preparation of the statements	2	Assistant Chief Executive	Yes		2007/08 accounts

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Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
9	Ensure all relevant Internal Audit work is completed before the SIC is approved	H	Head of Audit and Governance	Y	Fundamental System work for 2006/07 was completed to the extent that allowed us to place reliance on the work carried out for the purposes of the SIC although audits that involved Integra were not agreed at that time. We anticipate all fundamental system work will be completed for 2007/08 for the new governance statement purposes as Integra will have bedded in and we will have our agreed timetable in place as discussed for completing the fundamental financial systems	2007/08 accounts



## **Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity**

- 1** We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

## Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	31 March 2006	April 2006	General Purposes Committee
Interim audit memorandum	June 2007		Audit Committee
Annual governance report	September 2007	September 2007	General Purposes Committee
Opinion on financial statements	28 September 2007		General Purposes Committee
Use of resources conclusion	28 September 2007		General Purposes Committee
Final accounts memorandum	October 2007		Audit Committee
BVPP report	December 2006	December 2006	Chief Financial Officer
Data quality report	November 2007		Audit Committee
Performance reports <ul style="list-style-type: none"> <li>• Drug misuse</li> <li>• Arson</li> <li>• Your business at risk</li> </ul>	Various	September 2006 July 2007 August 2006	Audit Committee
Annual audit letter	Draft December 2007 Final by March 2008		All members

## Appendix 4 – Proposed auditor’s report

### 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 31 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.

28 September 2007

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 31 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 2006/07 on 4 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.

28 September 2007

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

## **Appendix 5 – Draft management representation letter**

(To be on HBC headed paper)

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

### **Hartlepool Borough Council - Audit for the year ended 31 March 2007**

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of Hartlepool Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

We confirm the reasonableness of assumptions relating to fair value measurements and that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

#### **Specific representations**

##### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Members meetings, have been made available to you.

##### **Fixed assets**

We confirm that the St John Vianney Early Years Centre annex is owned by Hartlepool Borough Council and that it is included in the financial statements in accordance with relevant accounting standards.

### **Group entities**

We confirm that the representations within this letter also apply to the group accounts and that the Council has identified and consolidated all its material interests in companies within the group accounts.

### **Related party transactions**

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties.
- Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

### **Irregularities**

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud and error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We have assessed the risk of material misstatement of the statement of accounts due to fraud and consider this risk to be low.



**Post balance sheet events**

Since the date of approval of the financial statements by Members of the General Purposes Committee, there has been one post balance sheet event.

Actuarial calculations are based on asset values as at 31 December 2006 rather than 31 March 2007. The resulting 1.04 per cent difference in asset values when pro-rated across admitted bodies is £3.287m which is £874,000 above the materiality level for Hartlepool Borough Council which stands at £2.413m. We have not amended for this in the statement of accounts.

Signed on behalf of Hartlepool Borough Council

Signed

Name

Position

Date

Signed

Name

Position: Chief Financial Officer

Date

## Appendix 6 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.

<b>Code criteria</b>	<b>Description</b>	<b>VFM conclusion</b>
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate
7	The body has put in place arrangements to manage and improve value for money.	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate
10	The body has put in place arrangements for managing performance against budgets.	Adequate

<b>Code criteria</b>	<b>Description</b>	<b>VFM conclusion</b>
11	The body has put in place arrangements for the management of its asset base.	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate

## 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 31<sup>st</sup> 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 1<sup>st</sup> 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](mailto: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 1<sup>st</sup> 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 31<sup>st</sup> 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 31ST MARCH, 2007**

This section details the financial position at 31<sup>st</sup> 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: -

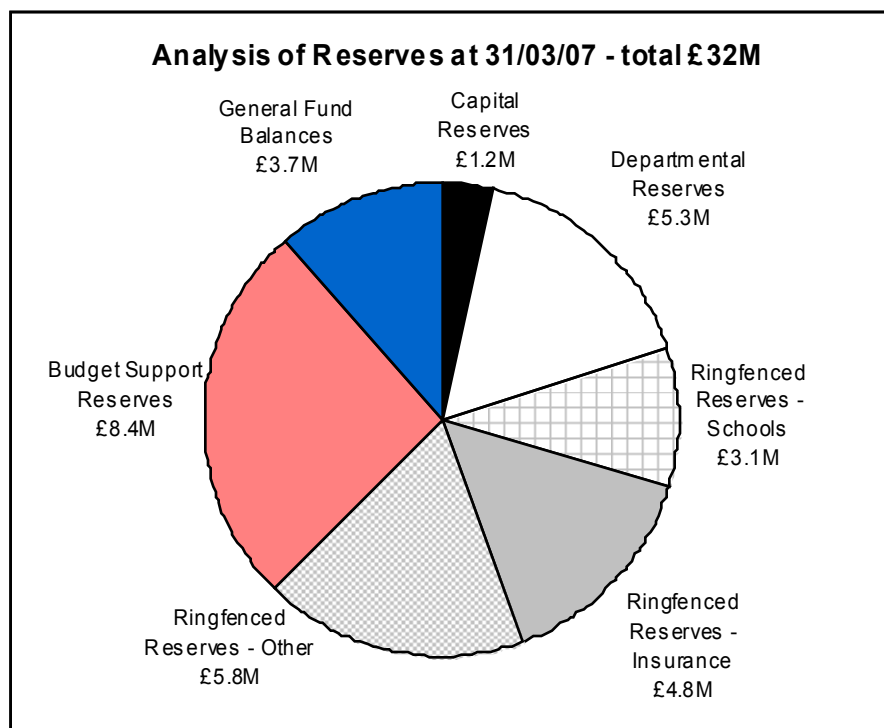
<b>Service Budgets</b>	<b>2006/2007 Final Budget £'000</b>	<b>2006/2007 Actual Expenditure/ Income £'000</b>	<b>2006/2007 Variance Adverse/ (Favourable) £'000</b>
Adult & Community Services	28,894	28,740	(154)
Children's Services	71,280	71,254	(26)
Neighbourhood Services	14,880	15,496	616
Regeneration & Planning	4,327	4,268	(59)
Resources	4,091	3,940	(151)
Corporate Costs	1,484	1,157	(327)
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
<b>Total General Fund Expenditure</b>	<b>130,696</b>	<b>131,913</b>	<b>1,217</b>

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

	<b>£'000</b>	<b>%</b>
Dedicated Schools Grant	54,529	41.9
Central Government Grants	7,432	5.2
Share of National Non-Domestic Pool	35,159	27.0
Council Tax (HBC Charge on Collection Fund)	33,472	25.8
Share of Collection Fund Surplus	104	0.1
	<b>130,696</b>	<b>100</b>

At the 31<sup>st</sup> 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%
<b>Total</b>	<b>31,081</b>	<b>100%</b>
<b>Capital Financing</b>		
Capital Receipts	2,680	9%
Loans	7,703	25%
Other	20,698	66%
<b>Total</b>	<b>31,081</b>	<b>100%</b>

At 31<sup>st</sup> 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	3,858
Borrowing	9,979
Capital Funding Reserves	<u>1,956</u>
	<u>15,793</u>

The Council received £1.473m 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 31<sup>st</sup> 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 31<sup>st</sup> 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	%
<b>Expenditure</b>		
Cleveland Police Authority Precept	4,125	6.9
HBC Precept	33,472	56.2
Cleveland Fire Authority Precept	1,466	2.5
Payment to NNDR Pool	20,128	33.8
Other	380	0.6
	<b>59,571</b>	<b>100</b>
<b>Income</b>		
Council Tax	39,235	65.9
NNDR from Rate Payers	20,306	34.1
	<b>59,541</b>	<b>100</b>
<b>Net Deficit/(Surplus) In Year</b>	<b>30</b>	

### 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 1<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> March, 2007, is set out on pages 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 31<sup>st</sup> 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 18<sup>th</sup> June, 2007 to 13<sup>th</sup> July, 2007.

Michael W Ward  
Chief Financial Officer  
Date: 28<sup>th</sup> September, 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 29<sup>th</sup> June, 2007.

Councillor J Marshall  
Chair of General Purposes Committee  
Date: 28<sup>th</sup> September, 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, a Member of the Royal Institute of Chartered Surveyors, 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 1<sup>st</sup> 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 Income and Expenditure Account. 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. All properties are depreciated on a straight line basis over forty years.

#### 6. **CAPITAL RECEIPTS**

In accordance with the relevant regulations all income from the disposal of assets received after 1<sup>st</sup> 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 30 of the Financial Statements (Page 48).

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 2.47% 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 Councils 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 31<sup>st</sup> 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 1<sup>st</sup> April, 2006 to 31<sup>st</sup> March, 2007.

Michael W Ward  
Chief Financial Officer  
29<sup>th</sup> 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	<b>Net Cost of Services</b>	241,341	158,827	82,514	
(236)	(Profits) or Losses on the disposal of fixed assets			174	
72	Local Precepts & Levies			87	
59	Contribution to Housing Pooled Capital Receipts			32	
4,281	Interest Payable and Similar Charges			2,061	
(3,337)	Interest and Investment Income			(3,108)	
2,144	Pension interest cost and expected return			472	
(775)	Income from sale of former Council Houses			(651)	
127,505	<b>Net Operating Expenditure</b>			81,581	3
(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	<b>(Surplus) / Deficit for the Year</b>			5,413	

The 2005/06 comparative figures have been restated to reflect the adoption of three significant new accounting policies:

- capital financing charges for the use of fixed assets are no longer made to the service revenue accounts, support services and trading accounts;
- credits for government grants deferred are now included in service revenue accounts, support services and trading accounts rather than credited as a corporate income item;
- gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

A further reclassification has been made resulting in a £1.598m increase to expenditure on Cultural, Environmental and Planning and the overall deficit for 2005/2006.

The above changes have no impact on the reported General Fund Balance for the year 2005/2006.

In 2006/2007 the Council received Dedicated Schools Grant of £54.529m, which is included within Gross Income for Education Services. Government funding for schools was included within Central Government Grants in 2005/2006. There have been some other changes relating to the reclassification of earmarked and general fund balances. This is covered in more detail in notes to the Statement of the Movement on the General Fund Balance on page 19.

# 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	5,413
(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	(4,196)
(1,231)	<b>(Increase)/Decrease in General Fund Balance for the Year</b>	1,217
(19,017)	General Fund Balance brought forward	(20,248)
(20,248)	<b>General Fund Balance carried forward</b>	(19,031)
3,676	Amount of General Fund Balance held by Schools under local management schemes	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.

The 2005/06 comparative figures have been restated to reflect the reclassification of Earmarked Reserves and General Fund Balances. Details of these reclassifications are provided in notes 29 and 30. These restatements result in an increase in Earmarked Reserves and a decrease in General Fund

Balances for 2005/2006, but do not affect the combined total that remains £32.068m. This has the impact of increasing the surplus from £19,000 in 2005/06 to £1.231m as detailed below.

	£000
Original reported surplus for 2005/2006	19
Reclassification of transfers from General Fund Balances and Earmarked Reserves	1,095
Reclassification of transfers from School Balances	117
Revised surplus for 2005/2006	<u>1,231</u>

### 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
	<b>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</b>		
(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	(174)	
(11,618)	Net charges made for retirement benefits in accordance with FRS17	(12,436)	
(17,986)		(19,464)	
	<b>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</b>		
2,921	Minimum revenue provision for capital financing	2,973	
4,103	Capital expenditure charged in-year to the General Fund Balance	2,244	
(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		14,474	
	<b>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</b>		
302	Voluntary revenue provision for capital financing	381	
0	Transfer from Equal Pay Back Pay Account	(773)	
(3,439)	Net transfer to or from earmarked reserves	1,186	31
(3,137)		794	
(5,579)	<b>Net additional amount required to be credited to the General Fund Balance for the year</b>	(4,196)	

## 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	5,413	
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	<b>Movement in Net Worth in Year</b>	(136)	

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
	<b>FIXED ASSETS</b>			
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		
299,673			304,027	13
	<b>OTHER LONG TERM ASSETS</b>			
17,856	Investments	2,056		14
	Long Term Debtors :			
60	Mortgages and Housing Advances	35		15
285	Other	265	2,356	15
317,874			306,383	
	<b>TOTAL LONG TERM ASSETS</b>			
	<b>CURRENT ASSETS</b>			
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		
49,311			59,949	
	<b>CURRENT LIABILITIES</b>			
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
20,503			52,318	
346,682	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		314,014	
	<b>LONG TERM LIABILITIES</b>			
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	97,110		26
74,364	Liability Related to Defined Benefit Pension Scheme	65,394		3
250,046			217,242	
<b>96,636</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>96,772</b>	
26,633	Fixed Asset Restatement Account	16,305		24
111,102	Capital Financing Account	113,585		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
<b>96,636</b>	<b>TOTAL EQUITY</b>		<b>96,772</b>	

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.

## **CASH FLOW STATEMENT**

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
107,929	Cash Paid to and on Behalf of Employees	113,288	
76,400	Other Operating Costs	79,021	
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	24,788	
<u>240,534</u>			<u>250,611</u>
	<b>Cash Inflows</b>		
(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	(36,189)	
<u>(249,053)</u>			<u>(259,879)</u>
<b>(8,519)</b>	<b>NET REVENUE ACTIVITIES</b>		<b>(9,268)</b>
	<b>SERVICING OF FINANCE</b>		
	<b>Cash Outflows</b>		
3,376	Interest Paid	4,522	
	<b>Cash Inflows</b>		
(2,548)	Interest Received	(2,497)	
<u>828</u>	<b>NET SERVICING OF FINANCE</b>		<u>2,025</u>
	<b>CAPITAL ACTIVITIES</b>		
	<b>Cash Outflows</b>		
28,699	Purchase of Fixed Assets	21,238	
8,235	Purchase of Deferred Charges	9,843	
<u>36,934</u>			<u>31,081</u>
	<b>Cash Inflows</b>		
(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>	<b>NET CAPITAL ACTIVITIES</b>		<u>7,946</u>
<b>4,004</b>	<b>NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING</b>		<b>703</b>

## MANAGEMENT OF LIQUID RESOURCES

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

## FINANCING

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
	<b>CASH OUTFLOWS</b>		
32,581	Repayment of Amounts Borrowed	77,073	
47,682	Repaid Short Term Loans	90,828	
21,017	Investments	52,100	
101,280			220,001
	<b>CASH INFLOWS</b>		
(64,998)	New Loans Raised	(45,000)	
(45,164)	New Short Term Loans	(109,997)	
0	Long Term Investments	(58,900)	
(110,162)			(213,897)
	<b>NET FINANCING</b>		6,104
(8,882)			
<b>1,283</b>	<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(3,760)</b>

## RECONCILIATION OF SURPLUS TO NET CASHFLOW

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
4,348	<b>(SURPLUS)/(DEFICIT) AS PER INC &amp; EXP ACCOUNT</b>		<b>5,413</b>
	<b>NON CASH TRANSACTIONS</b>		
(4,594)	Depreciation & Government Grants Deferred Amortisation	(5,858)	
(2,010)	Deferred Charges	(996)	
(3,039)	Additional Pension Costs calculated in accordance with FRS 1	(3,147)	
236	Profit/(Loss) on Sale of Fixed Assets	(174)	
(9,407)			(10,175)
	<b>ADJUSTMENT FOR ITEMS ON ACCRUALS BASIS</b>		
(3,249)	Increase/(Reduction) in Debtors	4,332	
383	(Increase)/(Reduction) in Creditors	(6,678)	
428	Increase/(Reduction) in Other Net Current Assets	250	
(2,438)			(2,096)
	<b>MOVEMENT ON OTHER FUND BALANCES</b>		
(2,078)	Contribution to/(from) Earmarked Reserves/Provisions	(415)	
228	Collection Fund Deficit/(Surplus)	30	
(1,850)			(385)
	<b>ITEMS CLASSIFIED ELSEWHERE</b>		
3,376	Interest Payable	(4,522)	
(2,548)	Interest Receivable	2,497	
0	Finance Leases	0	
828			(2,025)
<b>(8,519)</b>	<b>NET CASH FLOW FROM REVENUE ACTIVITIES</b>		<b>(9,268)</b>

## RECONCILIATION OF FINANCING AND CASH TO BALANCE SHEET

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
(5,287)	Financing		3,057
1,283	Cash		(3,760)
(4,004)			(703)
(64,915)	Long Term Loans (Financial Statement Note 22)	32,073	
35,016	Temporary Loans	(19,169)	
21,017	Investments	(6,800)	
3,595	Liquid Resources	(3,047)	
1,283	Cash & Imprests	(3,760)	
<b>(4,004)</b>			<b>(703)</b>

## ANALYSIS OF GOVERNMENT GRANTS

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
	<b>REVENUE</b>		
(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)
	<b>CAPITAL</b>		
(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)
<b>(200,011)</b>			<b>(195,765)</b>

# 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 31<sup>st</sup> 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.

	<b>Vehicles, Plant and Equipment</b>				<b>Land and Property £000</b>
	<b>Council £000</b>	<b>Housing Hartlepool £000</b>	<b>Northgate £000</b>	<b>Total £000</b>	
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
	<b>1,200</b>	<b>6</b>	<b>3</b>	<b>1,209</b>	<b>895</b>

The Council entered into a finance lease for two refuse vehicles on 27<sup>th</sup> 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: -

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

## 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).

This is a defined benefit scheme. Although, the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. However it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits warded upon early retirement outside the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability relating to the Local Government Pension Scheme.

- 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.

<b>2005/2006 £000</b>		<b>2006/2007 £000</b>
	<b><u>Income and Expenditure Account</u></b>	
	<b>Net Cost of Services</b>	
(9,145)	Current service cost	(11,708)
(159)	Past service cost	(119)
(169)	Settlements and Curtailments	(137)
	<b>Net Operating Expenditure</b>	
(12,894)	Interest cost	(13,918)
10,750	Expected return on assets in the scheme	13,446
<b>(11,617)</b>	<b>Net Charge to the Income &amp; Expenditure Account</b>	<b>(12,436)</b>
	<b><u>Statement of Movement in the General Fund</u></b>	
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)
<b>3,038</b>	<b>Transfer from Pensions Reserve</b>	<b>3,147</b>

#### 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 31<sup>st</sup> March, 2007. The next full valuation is due as at 31<sup>st</sup> March, 2007. The main assumptions used in the calculations and the Authority's assets and liabilities are detailed below:

<b>Assumptions as at</b>	<b>31st March 2007 per annum</b>	<b>31st March 2006 per annum</b>	<b>31st March 2005 per annum</b>	<b>31st March 2004 per annum</b>	<b>31st March 2003 per annum</b>
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%

<b>Assets (Employer)</b>	<b>Long Term Return 31st March 2007 % per annum</b>	<b>Assets at 31st March 2007 £000</b>	<b>Long Term Return 31st March 2006 % per annum</b>	<b>Assets at 31st March 2006 £000</b>	<b>Long Term Return 31st March 2005 % per annum</b>	<b>Assets at 31st March 2005 £000</b>
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
<b>Total</b>	<b>6.70%</b>	<b>225,543</b>	<b>6.50%</b>	<b>205,782</b>	<b>6.80%</b>	<b>156,544</b>

<b>Net Pension Assets as at</b>	<b>31st March 2007 £000</b>	<b>31st March 2006 £000</b>	<b>31st March 2005 £000</b>	<b>31st March 2004 £000</b>	<b>31st March 2003 £000</b>
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 31<sup>st</sup> 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 %
	<b>12,117</b>		<b>9,635</b>		<b>12,157</b>		<b>19,237</b>		<b>(46,600)</b>	

Following the annual audit of the Pension Fund Accounts by their auditor, it has been determined that there is a difference between the Actuary's calculation of Hartlepool Borough Council's share of the Pension Fund's asset valuation carried out as at 31<sup>st</sup> December 2006, compared to the calculation undertaken as at 31<sup>st</sup> March 2007. This resulted in an understatement of £3,286,000 in the value of the liability of £65,394,000 shown above.

#### 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
<b>31</b>	<b>11</b>	<b>42</b>		<b>48</b>	<b>16</b>	<b>64</b>

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 (£21.703m).

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.

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

## 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:

<b>2005/2006 Surplus/ (Deficit) £000</b>	<b>Former DSO Operations</b>	<b>2006/2007</b>		
		<b>Income £000</b>	<b>Expenditure £000</b>	<b>Operating Surplus/ (Deficit) £000</b>
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)
<b>145</b>	<b>TOTAL</b>	<b>21,290</b>	<b>22,338</b>	<b>(1,048)</b>

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

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	Expenditure	Operating Surplus/ (Deficit)
		£000	£000	£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
<b>145</b>	<b>TOTAL</b>	<b>21,290</b>	<b>21,019</b>	<b>271</b>

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

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	Expenditure	Surplus/(Deficit)
		£000	£000	£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 29<sup>th</sup> 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 below:

<b>2005/2006 £</b>	<b>SECTION 137 EXPENDITURE</b>	<b>2006/2007 £</b>
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
<b>366,280</b>	<b>TOTAL EXPENDITURE</b>	<b>364,190</b>

12. **EXTERNAL AUDIT FEES**

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

<b>2005/2006 £000</b>		<b>2006/2007 £000</b>
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
<b>261</b>		<b>336</b>

### 13. MOVEMENT OF FIXED ASSETS

	Operational Assets					
	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Total Operational 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	10,917	472	0	1,558	12,947
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	182,041	8,227	83,388	18,026	291,777
Depreciation For Year	(3)	(4,522)	(2,028)	0	0	(6,553)
Balance as at 31.3.07	(3)	(4,522)	(2,028)	0	0	(6,553)
<b>Net Book Value as at 31.3.07</b>	<b>92</b>	<b>177,519</b>	<b>6,199</b>	<b>83,388</b>	<b>18,026</b>	<b>285,224</b>

	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)	1,508	(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	310,580	304,909
Depreciation For Year	0	0	0	0	(6,553)	(5,236)
Balance as at 31.3.07	0	0	0	0	(6,553)	(5,236)
<b>Net Book Value as at 31.3.07</b>	<b>12,591</b>	<b>2,070</b>	<b>4,142</b>	<b>18,803</b>	<b>304,027</b>	<b>299,673</b>

### 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	Capital Expenditure Not Increasing Asset Values Non Enhancing Expenditure	8,086
			8,086	Deferred Charges	9,843
<b>36,392</b>		<b>31,081</b>	<b>36,392</b>		<b>31,081</b>

Expenditure on fixed assets includes £1.642m 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
<b>50</b>	<b>286</b>		<b>3,751</b>	<b>1,132</b>

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
	<b>14,158</b>



### 13.4 Significant Capital Expenditure Commitments at 31st March, 2007

At 31<sup>st</sup> 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 31<sup>st</sup> 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
<b>Council Dwellings</b>	2	2
<b>Operational Buildings</b>		
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	4
Special Schools	2	2
Youth Centres	5	5
Garages	38	38
Misc Operational Land & Buildings	37	34
<b>Non-Operational Land and Buildings</b>		
Investment Property	105	104
Surplus Assets held for Disposal	236	342
<b>Operational Equipment</b>		
Vehicles	73	109
<b>Community Assets</b>		
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 31<sup>st</sup> 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	<b>Housing Advances :-</b>			
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
<b>345</b>	<b>Total Long Term Debtors</b>	<b>76</b>	<b>121</b>	<b>300</b>

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

16. **CURRENT DEBTORS**

<b>2005/2006</b>		<b>2006/2007</b>		
		<b>Gross Debtor £000</b>	<b>Provision for Bad Debts £000</b>	<b>Net Debtor £000</b>
1,728	Council Tax Payers	3,053	1,527	1,526
0	Community Charge Payers	2	2	0
272	NNDR Payers	1,049	721	328
5,937	General and Other Debtors	13,096	2,505	10,591
3	Inland Revenue	3	0	3
11,302	Government Departments	10,691	0	10,691
262	Other Local Authorities	373	0	373
862	Payments in Advance	1,186	0	1,186
<b>20,366</b>		<b>29,453</b>	<b>4,755</b>	<b>24,698</b>

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 31<sup>st</sup> March, 2007 the Council had not sold any of its allowances allocated. At 31<sup>st</sup> 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 31<sup>st</sup> 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**

<b>2005/2006</b>		<b>2006/2007</b>
<b>£000</b>		<b>£000</b>
2,034	Inland Revenue	2,838
130	Government Departments	215
60	Other Local Authorities	278
3,384	Income In Advance	6,203
8,877	General and Other Creditors	11,629
<b>14,485</b>	<b>Total</b>	<b>21,163</b>

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 31<sup>st</sup> March, 2007 were £2.881m (£2.466m in 2005/2006), as detailed below.

<b>2005/2006 £000</b>		<b>2006/2007 £000</b>	<b>Notes</b>
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
<b>2,466</b>		<b>2,881</b>	

- 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 31<sup>st</sup> March, 2007, (see Note 16, Page 40).

22. **LONG TERM BORROWING**

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

<b>Balance at 31st March 2006 £000</b>		<b>Balance at 31st March 2007 £000</b>
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
<b>83,902</b>		<b>51,829</b>

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.

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

24. **FIXED ASSET RESTATEMENT ACCOUNT**

<b>2005/2006 £000</b>		<b>2006/2007 £000</b>
38,719	Opening Balance	26,634
(10,713)	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
<b>26,633</b>		<b>16,305</b>

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.

<b>2005/2006 £000</b>		<b>2006/2007 £000</b>
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	2,799
(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
<b>111,102</b>		<b>113,585</b>

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.

<b>2005/2006 £000</b>		<b>2006/2007 £000</b>
73,079	Opening Balance	89,261
16,824	Capital Grants received in year	10,648
(642)	Transferred to Capital Financing Reserve	(2,799)
<b>89,261</b>		<b>97,110</b>

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.

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

28. **CAPITAL GRANTS AND CONTRIBUTIONS UNAPPLIED**

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

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

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

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

29. **EARMARKED RESERVES**

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
	<b>Capital Reserves</b>					
625	Capital Funding	2,473	(1,998)	0	1,100	a
85	Maritime Av Remedial	4	(2)	0	87	b
710	<b>Total Capital Reserves</b>	2,477	(2,000)	0	1,187	
	<b>Collection Fund Reserve</b>					
178	Collection Fund Surplus	0	(30)	0	148	c
178	<b>Total Collection Fund Reserve</b>	0	(30)	0	148	
	<b>Investment Reserves</b>					
659	Teesside Airport	0	0	0	659	d
197	Cleveland Waste	0	0	0	197	d
856	<b>Total Investment Reserves</b>	0	0	0	856	
	<b>Specific Revenue Reserves</b>					
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	g
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	<b>Total Revenue Reserves</b>	4,255	(2,504)	0	11,827	
<b>11,820</b>		<b>6,732</b>	<b>(4,534)</b>	<b>0</b>	<b>14,018</b>	

Earmarked reserves have been restated as a result of a reclassification of reserves to ensure compliance with the 2006 SORP. Changes from the 2005/2006 financial statements are as follows:

	£000
Original Total	12,915
<b>Transfers from General Fund Balance</b>	
Managed Revenue Underspends	1,958
Strategic Change Reserves	452
A2L	81
Broadband Implementation	90
<b>Transfer to General Fund Balance</b>	
School Reserves	(3,676)
Restated Total	11,820



The above reclassification has not resulted in a change to the overall combined total of Earmarked Reserves and General Fund Balances, which remains at £32.068m

Details of earmarked reserves are set out below.

- 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	<b>Schools Reserves</b>	3,232	(3,858)	0	3,050	a
	<b>Non School General Fund Balances</b>					
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	<b>Total General Fund Balances</b>	9,671	(10,888)	0	19,031	

General Fund Balances have been restated following the reclassification of reserves as detailed in Note 29, page 45. The above reclassification has not resulted in a change to the overall combined total of Earmarked Reserves and General Fund Balances, which remains at £32.068m

- 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 68 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	<b>COLLECTION FUND</b>	2006/2007 £000	2006/2007 £000	Notes
	<b>INCOME</b>			
	<b>Council Tax :</b>			
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	
	<b>Non Domestic Rates :</b>			
24,375	Income Collectable From Business Ratepayers	20,306		2
36	Reduced Provision for Non-Payment of NNDR	0		
			20,306	
0	Residual Community Charges		0	
0	<b>Contributions for estimated residual Community Charges</b>		0	
<b>61,674</b>	<b>TOTAL INCOME</b>		<b>59,541</b>	
36,939	Precepts		39,063	3
37	Increased Provision for Non-Payment of Council Tax	80		
0	Increased Provision for Non-Payment of NNDR	63		
			143	
	<b>Non Domestic Rates :</b>			
24,296	Payment to National Pool		20,128	2
115	Cost of Collection Allowance		115	
1	Residual Community Charges			
	<b>Contributions for previous years estimated</b>			
	<b>Council Tax Surplus :</b>			
441	Hartlepool Borough Council	104		
54	Cleveland Police Authority	13		
19	Cleveland Fire Authority	5	122	
-	<b>Contributions for estimated residual Community Charges</b>		0	
<b>61,902</b>	<b>TOTAL EXPENDITURE</b>		<b>59,571</b>	
(228)	Surplus/(Deficit) for the year		(30)	
406	Surplus/(Deficit) at the beginning of the year		178	
<b>178</b>	<b>Surplus/(Deficit) at the end of the year</b>		<b>148</b>	

# 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
<b>TOTALS</b>		<b>41,125</b>	<b>31,721</b>					<b>45,258</b>

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)
<b>37,263</b>		<b>39,235</b>

## 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)
<b>24,296</b>	Contribution to NNDR Pool	<b>20,128</b>

## 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	1,466
<b>36,939</b>		<b>39,063</b>



# 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 31<sup>st</sup> 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 31<sup>st</sup> 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 1<sup>st</sup> 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
<b>125,297</b>	<b>Gross Expenditure and Income</b>	<b>241,341</b>	<b>158,827</b>	<b>82,514</b>
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)
<b>124,595</b>	<b>Net Cost of Services</b>			<b>81,866</b>
(236)	Profits or Losses on Disposal of assets not included within Individual Services			174
72	Local Precepts & Levies			87
59	Contribution to Housing Pooled Capital Receipts			32
4,281	Interest Payable			2,061
(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
<b>127,586</b>	<b>Net Expenditure</b>			<b>81,573</b>
(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)
<b>4,429</b>	<b>Deficit for the Year</b>			<b>5,405</b>

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	5,413
80	Add: Deficits/(Surplus) from other Entities Included in the Group Accounts relating to:	(9)
1	- Associates	1
	- Joint Ventures	
<b>4,429</b>	<b>Group Account Deficit for the Year</b>	<b>5,405</b>

## 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	5,405
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	<b>Movement in Net Worth in Year</b>	(978)

# GROUP BALANCE SHEET

31st March 2006 £000	31st March 2007 £000		31st March 2007 £000	31st March 2007 £000
		<b>FIXED ASSETS</b>		
		<b>Operational Assets</b>		
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	
		<b>Non-operational Assets -</b>		
12,901		Investment properties	12,591	
4,685		Assets Under Construction	2,070	
10,495		Assets Held For Disposal	4,142	
	299,673			304,027
		<b>OTHER LONG TERM ASSETS</b>		
17,856		Long-term Investments	2,056	
206		Long Term Debtors	300	
	18,062			
	<b>317,735</b>	<b>TOTAL LONG TERM ASSETS</b>		<b>306,383</b>
(612)		<b>Share in Net Assets of Associate</b>	231	
190		<b>Share in Gross Assets of Joint Venture</b>	104	
(225)		<b>Share in Gross Liabilities of Joint Venture</b>	(140)	
	<b>(647)</b>			<b>195</b>
		<b>CURRENT ASSETS</b>		
797		Stocks and Works in Progress	923	
20,504		Debtors	24,698	
27,936		Investments	34,040	
158		LATS	233	
55	49,450	Imprests & Cash in Hand	55	59,949
		<b>CURRENT LIABILITIES</b>		
83		Temporary Short Term Loans	19,252	
14,485		Creditors and other balances	21,163	
1,650		Capital Grants and Contributions Unapplied	3,858	
4,285	20,503	Bank Overdraft	8,045	52,318
	<b>346,035</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>314,209</b>
2,466		Provisions	2,881	
83,902		Long Term Borrowing	51,829	
53		Deferred Capital Receipts	28	
89,261		Government Grants Deferred Account	97,110	
74,364	250,046	Liability Related to Defined Benefit Pension Scheme	65,394	217,242
	<b>95,989</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>96,967</b>
26,633		Fixed Asset Restatement Account	16,305	
111,102		Capital Financing Account	113,585	
1,197		Usable Capital Receipts Reserve	0	
11,820		Earmarked Reserves	14,018	
(74,364)		Pensions Reserve	(65,394)	
0		Equal Pay Back Pay Account	(773)	
(647)		Profit and Loss and Other Reserves of Group Entities	195	
20,248		Income & Expenditure Reserve	19,031	
	<b>95,989</b>			<b>96,967</b>
	<b>95,989</b>	<b>TOTAL EQUITY</b>		<b>96,967</b>

# 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
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
107,929	Cash Paid to and on Behalf of Employees	113,288	
76,400	Other Operating Costs	79,021	
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	24,788	
<b>240,534</b>			<b>250,611</b>
	<b>Cash Inflows</b>		
(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	(36,189)	
<b>(249,053)</b>			<b>(259,879)</b>
<b>(8,519)</b>	<b>NET REVENUE ACTIVITIES</b>		<b>(9,268)</b>
	<b>SERVICING OF FINANCE</b>		
	<b>Cash Outflows</b>		
3,376	Interest Paid	4,522	
	<b>Cash Inflows</b>		
(2,548)	Interest Received	(2,497)	
<b>828</b>	<b>NET SERVICING OF FINANCE</b>		<b>2,025</b>
	<b>CAPITAL ACTIVITIES</b>		
	<b>Cash Outflows</b>		
28,699	Purchase of Fixed Assets	21,238	
8,235	Purchase of Deferred Charges	9,843	
<b>36,934</b>			<b>31,081</b>
	<b>Cash Inflows</b>		
(50)	Sale of Fixed Assets	(1,515)	
(25,189)	Capital Grants Received	(21,620)	
<b>(25,239)</b>			<b>(23,135)</b>
<b>11,695</b>	<b>NET CAPITAL ACTIVITIES</b>		<b>7,946</b>
<b>4,004</b>	<b>NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING</b>		<b>703</b>

## MANAGEMENT OF LIQUID RESOURCES

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

## FINANCING

2005/2006 £'000		2006/2007 £'000	2006/2007 £'000
	<b>CASH OUTFLOWS</b>		
32,581	Repayment of Amounts Borrowed	77,073	
47,682	Repaid Short Term Loans	90,828	
21,017	Investments	52,100	
101,280			220,001
	<b>CASH INFLOWS</b>		
(64,998)	New Loans Raised	(45,000)	
(45,164)	New Short Term Loans	(109,997)	
0	Long Term Investments	(58,900)	
(110,162)			(213,897)
	<b>NET FINANCING</b>		6,104
<b>1,283</b>	<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(3,760)</b>

# 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	9	(1)
0	0	Taxation	0	0
5	(1)	Profit/(Loss) After Tax	9	(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 31<sup>st</sup> 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 31<sup>st</sup> 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.

<b>Connexions 2005/2006 £000</b>	<b>CADCAM 2005/2006 £000</b>		<b>Connexions 2006/2007 £000</b>	<b>CADCAM 2006/2007 £000</b>
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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 <sup>rd</sup> 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 23<sup>rd</sup> 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 7<sup>th</sup> 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 23<sup>rd</sup> 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 26<sup>th</sup> 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.

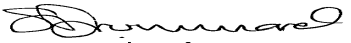
## 6. **SIGNIFICANT INTERNAL CONTROL ISSUES**


6.1 The following significant internal control issues have been identified:

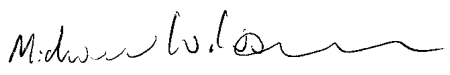
No	Issue	Action	Timescale	Responsible Officer
1	Disaster Recovery/ Business Continuity Arrangements	<ul style="list-style-type: none"> <li>- Review Building Risk plan and finalise for distribution. Completed People Risk pro-forma to be considered.</li> <li>- Review People Risk plan and finalise for distribution. Completed Suppliers Risk pro-forma to be considered.</li> <li>- Review Suppliers Risk Plan and finalise for distribution. Completed ICT Risk pro-forma to be considered.</li> <li>- Review ICT Risk Plan and finalise for distribution. Review Programme and Set new Milestones</li> </ul>	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"> <li>- Further develop assurance framework.</li> <li>- 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.</li> </ul>	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: 25<sup>th</sup> 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: -

<b>Balance at 1st April 2006 £</b>		<b>Income £</b>	<b>Expenditure £</b>	<b>Balance at 31st March 2007 £</b>
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
<b>159,034</b>		<b>12,465</b>	<b>5,410</b>	<b>166,089</b>

At 31<sup>st</sup> 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 31<sup>st</sup> December, 2006 (£15,372 as at 31<sup>st</sup> December, 2005). The prior year comparative has been restated to show the actual cash held by the Council.

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

As at 31<sup>st</sup> 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 5<sup>th</sup> April, 2007 (£90,320 as at 5<sup>th</sup> 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 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.

## **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 and 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.

### **VOLUNTARY REVENUE PROVISION**

The amount set aside for the repayment of debt in excess of the Minimum Revenue Provision.



## FURTHER INFORMATION

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