

# AUDIT COMMITTEE AGENDA



**Monday, 30 June 2008**

**at 2.30 pm**

**in Committee Room A**

MEMBERS: AUDIT COMMITTEE:

Councillors Hall, McKenna, Plant, Preece, Turner, Wallace and Wistow

1. **APOLOGIES FOR ABSENCE**
2. **TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS**
3. **MINUTES**
  - 3.1 To confirm the minutes of the meeting held on 15 May 2008
4. **ITEMS FOR DISCUSSION/DECISION**
  - 4.1 Appointment of Vice Chair
  - 4.2 The 2007/2008 Statement Of Accounts – *Chief Financial Officer*
  - 4.3 Audit Committee Annual Review – *Head of Audit and Governance*
  - 4.4 Annual Governance Statement 2007/08 - *Chief Financial Officer*
5. **ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

# **AUDIT COMMITTEE**

## **MINUTES AND DECISION RECORD**

15 May 2008

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

### **Present:**

Councillor Preece (In the Chair)

Councillors Hall, G Lilley,

Officers: Chris Little, Assistant Chief Financial Officer  
Noel Adamson, Head of Audit and Governance  
Caroline Tyrrell, Audit Commission  
Sarah Bird, Democratic Services Officer

### **26. Apologies for Absence**

None.

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

None.

### **28. Confirmation of the minutes of the meeting held on 3 April 2008**

The minutes were accepted as an accurate record of the meeting.

### **29. Inquorate Meeting**

Councillor Lilley left the meeting therefore the meeting was then inquorate.

### **30. Audit Commission Report –Annual Audit and Inspection Letter** *(Chief Financial Officer)*

#### **Purpose of Report**

The report was presented in order to inform Members of the Audit committee that arrangements had been made for a representative from the Audit commission to be in attendance at the meeting to present the result of the Audit Commission's Annual Audit and Inspection Letter.

### **Issues for Consideration by the Committee**

The Audit Commission presented the Annual Audit and Inspection Letter to provide an overall summary of their assessment of the Council. The main messages for the Council included in this report were:-

- The Council has maintained its 4 star status and is improving strongly. It also received unqualified opinions on its accounts and its value for money arrangements and improvements have been made in priority areas
- The Council works well with its partners to deliver good services and an improving quality of life to the people of Hartlepool

It also noted that the Council needed to ensure that action was targeted on priority areas and financial strategies were made clearer for stakeholders. It was clarified that there was ongoing work to suggest ways of improvement on how to ensure that members of the public were aware of the financial strategies of the Council, one outcome of this had been an article in Hartbeat magazine.

### **Recommendation**

The Audit Committee noted the report of the Audit Commission.

## **31. Audit Commission Report – 2006/2007 Annual Governance Report** *(Chief Financial Officer)*

### **Purpose of Report**

The report was given in order to present the 2006/2007 District Auditor's Annual Governance Report.

### **Issues for Consideration by the Committee**

The District Auditor was required to report the conclusion of the Audit Commission's work in an Annual Governance report, the principal purposes of which 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
- To highlight opportunities for improvement to the Authority's Financial Statement/processes

The District Auditor issued the Annual Governance Report in September 2007 and this was submitted to members for consideration

at this meeting. The Audit Commission representative stated that the report was timely and issues raised were being addressed via an action plan. Attention was drawn to the adjustments to the financial statements on the report but it was noted that although in accounting terms these were deemed to be material errors, these changes did not affect the net cashflow of the Council. It was reported that a new software package had been purchased which should make it easier for staff to prepare the accounts and address this issue.

### **Recommendation**

The Audit Committee noted the report of the Audit Commission.

## **32. Audit Commission Report – Statement of Responsibilities for Auditors and Audited Bodies** *(Chief Financial Officer)*

### **Purpose of Report**

The report was presented to inform Members of the Committee that arrangements had been made for a representative from the Audit Commission to be in attendance at the meeting to answer any questions arising from the report.

### **Issues for Consideration by the Committee**

This report was presented to clarify to those who are responsible for the conduct of public business and for spending public money, their accountabilities for ensuring both that public business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this accountability, public bodies and their management (both Members and officers) were responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They were also required to report on their arrangements in their annual published governance statement. The Audit Commission representative stated that this was a standard document which had been recently revised to incorporate an emphasis on ensuring that Councils have adequate working papers, although this had not been a problem in Hartlepool. Attention was brought to the use of the District Auditor's signature in case this was subject to misuse.

### **Recommendation**

The Audit Committee noted the report of the Audit Commission.

### **33. Audit Commission Report –Hartlepool Ethical Standards** *(Chief Financial Officer)*

#### **Purpose of Report**

The report was presented in order to inform Members that arrangements had been made for a representative of the Audit Commission to be in attendance at the meeting to present the results of the Hartlepool Ethical Standards Report.

#### **Issues for Consideration by the Committee**

The report noted the Audit Commission's assessment of the Council's arrangements for maintaining high standards of ethical behaviour being understood by Councillors and senior officers and complied with. The findings of the Audit Commission were included in the report and recommendations had been made which had been accepted and actions planned to ensure their implementation.

It was reported that there was a strong awareness of the ethical agenda by councillors and officers of the Council, being generally much more positive than the national average. Another item worthy of note was that there was clarity among councillors regarding the Member's Code of Conduct, but not about when an interest should be entered in the Member's register. Advice about this had recently been circulated by the Chief Solicitor and it was hoped that this should remind Members to complete their annual declaration. A Member highlighted the finding that communications of the ethical agenda to the public was good with around 70% of Members and officers feeling the importance of high ethical standards being well communicated. The Chair felt that the attention of the Standards Committee should be drawn to this report.

#### **Recommendation**

The Audit Committee noted the report of the Audit Commission.

### **34. Approval of 2007/2008 Statement of Accounts** *(Chief Financial Officer)*

#### **Purpose of Report**

The report was presented in order to advise Members of the proposal to transfer responsibility for approving the Annual Statement of Accounts to the Committee. It also explained the Audit Committee role in discharging the responsibility if the proposal was approved by Council.

#### **Issues for Consideration by Committee**

The report outlined how the Council is required to produce an Annual Statement of Accounts in accordance with various statutory provisions and accounting regulations. The primary responsibility for ensuring the Statement of Accounts complied with these requirements rests with the Chief Financial Officer. This responsibility includes certifying that the Statement of Accounts “presents fairly the financial position of the council at the end of the financial year”. Once this certification has been given Members are required to approve the draft Statement of Accounts

The Council’s external auditor then provides a formal audit opinion before Members approve the Final Statement of Accounts. This opinion provided Members with the final assurance that the accounts were an accurate record of the Council’s financial position.

The chair suggested that if the responsibilities of Committee were to be increased then the membership should reflect this as there had been a number of occasions when the Committee meetings had not been quorate.

### **Decision**

The Committee noted the report and noted that subject to decision of Council on 29 May 2008, the 2007/2008 Statement of Accounts would be submitted to the Audit Committee for approval on 27 June 2008.

## **35. Audit Committee Annual Review** *(Head of Audit and Governance)*

### **Purpose of Report**

The report was presented in order to inform Members of the work undertaken by the Audit Committee during the municipal year in order for it to meet the requirements of its role and responsibilities as laid down by Council.

### **Issues for consideration by the Committee**

The report outlined the activities undertaken by the Audit Committee during the previous financial year which allow it to fulfil its remit and also satisfied the Council’s obligation under Regulation 6 of the Accounts and Audit Regulations 2003 as amended 2006, that the relevant body conduct an annual review of its system of internal audit.

### **Decision**

The work undertaken by the Committee in 2007/08 was to be reported to and endorsed by Council but as the meeting was inquorate then this would be considered at the next meeting of the Committee.

### **36. Internal Audit Outcome Report 2007/08** *(Head of Audit and Governance)*

#### **Purpose of Report**

The report was given to inform Members of the outcomes of audit work covering the period April 2007 to March 2008.

#### **Issues for Consideration by the Committee**

The report gave information for Members on the standards of financial administration and management arrangements operating within the Authority, together with a progress report on the extent of implementation of audit recommendations. The report also detailed the performance of Internal Audit in 2007/08 on a range of key performance indicators and the Head of Audit and Governance had reached the opinion that key systems were operating soundly and that there was no fundamental breakdown in controls resulting in material discrepancy. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of Hartlepool Borough Council's financial affairs.

#### **Decision**

The Audit Committee noted the report.

### **37. Annual Governance Statement** *(Chief Financial Officer)*

#### **Purpose of Report**

The report was presented to inform Members of the implications to the Council of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement; that the Council publish an Annual Governance Statement (AGS) with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.

#### **Issues for Consideration by the Committee**

The report which had been circulated, considered why the Council needs an AGS, who is responsible, and how the AGS was produced. A member asked whether there was a timescale for the production of the Code of Corporate Governance and was informed that this would depend on consultation with officers through the Corporate Management Team, the Constitution Working Group, Constitution Committee and then Council but it was hoped to have this done by the end of the financial year.

**Decision**

The Members noted the 2007/08 Annual Governance Statement.

The meeting concluded at 10.35 am.

CHAIR



# AUDIT COMMITTEE

30<sup>th</sup> June, 2008



**Report of:** Chief Financial Officer

**Subject:** THE 2007/2008 STATEMENT OF ACCOUNTS

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## 1. PURPOSE OF REPORT

- 1.1 To enable Members to approve the Council's 2007/2008 Statement of Accounts.

## 2. BACKGROUND

- 2.1 The Council is required by statute to produce the 2007/2008 Statement of Accounts in a specified format within three months of the year-end, i.e. by 30<sup>th</sup> June. The accounts are subject to audit prior to publication by 30<sup>th</sup> September.
- 2.2 The Statement of Accounts has been prepared in accordance with the approved closure strategy.

## 3. FINANCIAL IMPLICATIONS

- 3.1 None.

## 4. RECOMMENDATIONS

- 4.1 It is recommended that Members approve the 2007/2008 Statement of Accounts.

**Report of:** Chief Financial Officer

**Subject:** THE 2007/2008 STATEMENT OF ACCOUNTS

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**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to enable Members to approve the Council's 2007/2008 Statement of Accounts in accordance with the requirements of the Accounts and Audit Regulations 2003.
- 1.2 This will be achieved by considering the following: -
- i) Background
  - ii) The 2007/2008 Draft Statement of Accounts
  - iii) Recommendations

**2. BACKGROUND**

- 2.1 In accordance with the Accounts and Audit Regulations 2003, all Local Authorities are required to produce an annual Statement of Accounts. These regulations have required Councils to bring forward the completion of the Annual Statement on a planned basis, so that from 2005/2006 the accounts must be produced by 30<sup>th</sup> June.
- 2.2 This is a challenging deadline particularly in relation to the 2007/2008 accounts as significant accounting changes have been introduced, including changes to capital accounting arrangements and more detailed disclosure of the Council's borrowings and investments. On a practical basis the Accounts actually had to be completed by 19<sup>th</sup> June, 2008 to ensure the statutory publication requirements for Council reports were met.
- 2.3 The regulations also require Members to approve the Statement of Accounts prior to audit by the Audit Commission and subsequent publication. This responsibility is now undertaken by this Committee, but was previously discharged by the General Purposes Committee. A detailed report was submitted to your Committee on the 15<sup>th</sup> May 2008 to explain the role of the Chief Financial Officer, the Audit Committee and the External Auditors in approving the Statement of Accounts. This report is attached at Appendix A for Members information.
- 2.4 This report enables Members to discharge their specific responsibility in relation to the approval of the Statement of Accounts. If it should be necessary to amend the accounts during the course of the audit, any major amendments will be reported to Members.

- 2.5 The Statement of Accounts reflects the provisional 2007/2008 Outturn Strategy approved by Council on 14<sup>th</sup> February, 2008 and the final 2007/2008 Outturn Strategy approved by Cabinet on 27<sup>th</sup> May 2008. The final Outturn Strategy was also considered and noted by Scrutiny Co-ordinating Committee on 30<sup>th</sup> May 2008.
- 2.6 The provisional 2007/2008 Outturn Strategy advised Members that there was an underspend on corporate budgets. Council determined to earmark these resources to offset anticipated departmental overspends and a deficit on the Collection Fund. After reflecting these factors a net underspend of £31,000 was forecast and this amount was earmarked to be returned to General Fund Balances. Council also determined that if the final outturn was better than anticipated that these resources should be transferred to General Fund Balances.
- 2.7 The final outturn strategy advised Cabinet that the final position was more favourable than anticipated. This reflected a reduction in departmental overspends and a net increase in the overall corporate underspend.
- 2.8 The final outturn strategy reminded Members that it has previously been reported that the Council needs to maintain uncommitted General Fund Balances equivalent to 3% of the net budget requirement. It would be prudent to calculate this figure on the basis of the net budget for 2010/2011 as this will future proof the Medium Term Financial Strategy and avoid the need for in-year contributions in 2009/2010 and 2010/2011. On this basis the minimum requirement is £3.2m.
- 2.9 The level of General Fund Balances at 31<sup>st</sup> March, 2008 has increased owing to the net underspend against the 2007/2008 budget. In addition, General Fund Balances will benefit from the repayment of the Bonus Buy-out Loan and from a reduction in the cost of Equal Pay Protection.
- 2.10 On the downside Members have previously been advised that General Fund Balances will need to meet the cost of Equal Pay claims arising from Employment Tribunal cases submitted by employees or their legal representative. It was not previously possible to quantify this potential liability as the number and value of case was uncertain. There is now an increasing probability that these cases will be settled in the current financial year. Therefore, for planning purposes it would be prudent to anticipate a cost to the General Fund of £0.76m. Part of this cost (£0.398m) has now been paid and the remaining amount (£0.362m) is expected to be paid in 2008/09.
- 2.11 After reflecting the above factors it is anticipated that General Fund Balances will exceed the minimum requirement as summarised in the following table:

Summary of General Fund Balance

	<u>£'000</u>
Balance 01.04.07	3,709
<u>Add</u>	
Contribution from 2007/2008 Outturn	695
Repayment of Bonus Buy Out Loan	800
<u>Less</u>	
Earmarked for Equal Pay Protection Cost	(300)
Payment of Equal Pay Employment Tribunal Claims	<u>(398)</u>
Actual Balance at 31.03.08	4,506
<u>Less</u>	
Earmarked for potential Equal Pay Employment Tribunal claims	(362)
<u>Less</u>	
Minimum 3% Requirement	<u>(3,200)</u>
Net Uncommitted General Fund Balances	<u>944</u>

- 2.12 This Uncommitted General Fund Balances provide a degree of cover for the Council to meet the risks it might face in 2008/2009, in particular, for its income streams. The final figure reported above is £48,000 more than the figure reported to Cabinet, as the final outturn was marginally better than anticipated.

### **3. THE 2007/2008 DRAFT STATEMENT OF ACCOUNTS**

- 3.1 As indicated earlier in the report new accounting requirements have been introduced for 2007/2008.
- 3.2 The draft Statement of Accounts is attached to this report and in summary this document provides the following information: -

i) Chief Financial Officer's Foreword

The foreword provides an overview of how the Authority is funded and gives details of the main financial and operational factors affecting the Authority in 2007/2008.

ii) Statement of Accounting Policies

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

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

iii) Statement of Responsibilities for the Statement of Accounts

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

iv) Income and Expenditure Account

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

- Net Cost of Service

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

- (Surplus)/Deficit for Year

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

- Statement of Movement on the General Fund Balance

This statement reconciles the movement on the Income and Expenditure Account back to a cash basis and effectively reverses out the FRS 17 Pension charge detailed above. The statement finishes with the Authority's total General Reserves of £17.269m. Details of the items included in this amount are provided in Note 32, Page 56 of the attached Statement of Accounts. An overview of reserves is provided in (v) below.

v) Balance Sheet as at 31<sup>st</sup> March, 2008

The Balance Sheet shows the value of the Authority's assets, liabilities and other balances as at 31<sup>st</sup> March, 2008 and I would comment on a number of items: -

a) Investments

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

b) Long Term Loans Borrowing

This is monies the Council has borrowed to finance capital expenditure. During 2007/2008 action was taken to manage the Authority's Loans Portfolio in accordance with the approved Treasury Management Strategy which aims to minimise the interest payable on long term borrowing.

c) Earmarked Reserves and General Fund Balances

At the 31st March 2007, the Authority's Earmarked Reserves and General Fund balances increased to £32.522m (£32.193m in 2006/2007). These figures include Schools Balances and Capital Reserves which increased during 2007/08.

As these reserves are ring-fenced for schools expenditure and rephased capital expenditure commitments a more accurate assessment of the Council's financial position can be obtained by excluding these reserves from the overall total. On this basis the Councils the Councils revenue reserves and balances reduced from £27.956m at 31st March 2007, to £26.047m, as summarised below:

	Balance at 31.03.07 £'000	Balance at 31.03.08 £'000	Increase/ (decrease) £'000
Earmarked Reserves	13,162	15,253	
General Fund Balances	19,031	17,269	
Total Reserves and Balances	32,193	32,522	329
<u>Less</u>			
Schools Balances	(3,050)	(3,982)	
Capital Reserves	(1,187)	(2,493)	
Net Reserves and Balances	27,956	26,047	(1,909)

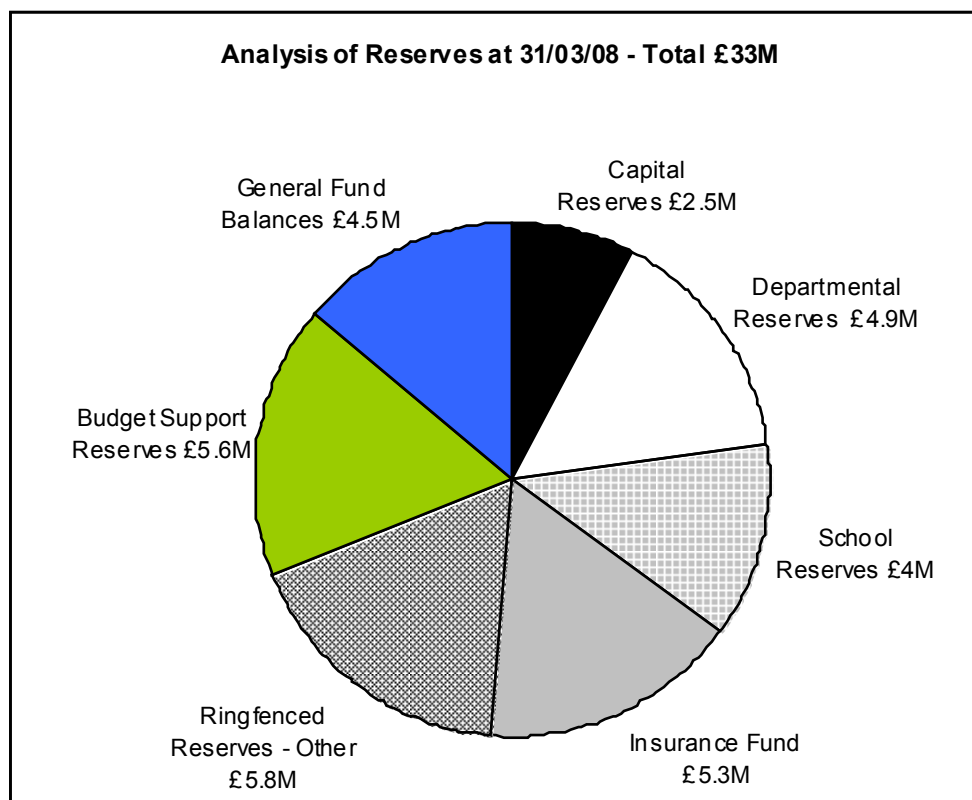
The reduction in net Reserves and Balances largely reflects the planned use of the Budget Support Fund.

Further details of the movement in Reserves and Balances are set out in the Statement of Accounts and the following issues are brought to Members attention in respect of General Fund Reserves.

In considering the level of reserves and balances at 31<sup>st</sup> March, 2008, Members need to remember that significant commitments have already been identified against these resources. A detailed schedule of reserves and balances was included in the Budget and Policy Framework report submitted to

Council on 14<sup>th</sup> February, 2008. This report outlined the planned use of balances for the period 2008/2009 to 2010/2011, which includes the use of reserves to support the revenue budget. The schedule also identified that the aggregate value of reserves and balances is forecast to reduce over the next three years as resources are used to meet commitments and support the revenue budget.

The position at 31<sup>st</sup> March, 2008 is summarised below:



d) Equal Pay Back Pay Account

This was a new item for the previous years Accounts and was included to comply with new accounting regulations. The balance on this account is the estimated cost of Equal Pay settlements arising from Employment Tribunal cases against the Council which have not yet been paid. These amounts will be paid in 2008/09 and at that time these costs will, as reported previously, need to be funded from the element of General Fund Balances set aside for such liabilities.

vi) Cash Flow Statement

The Cash Flow Statement shows the receipt and payment of cash arising from transactions with third parties for revenue and capital purposes. At the time this report was issued the cash flow statement

had not been completed. These details will be issued on 25<sup>th</sup> June 2008 to enable Members to read these sheets before your meeting on 30<sup>th</sup> June 2008.

vii) The Collection Fund

This is a separate fund that records all transactions relating to Council Tax, Non Domestic Rates and residual Poll Tax. In total it shows a deficit at 31<sup>st</sup> March, 2008, of £0.309m, which is broadly in line with expectations. The Council's share of this deficit has been reflected in the 2007/08 Outturn Strategy.

viii) Notes to the Core Statement

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

ix) Auditor's Report

The Auditor's Report shown is an example of the statement that will be included once the District Auditor has completed the audit of the 2007/2008 Accounts.

x) Annual Governance Statement

The statement replaces the Statement of Internal Control and sets out the Authority's responsibilities for ensuring the Authority has an appropriate system of internal control. This statement was first introduced for 2002/2003. Further changes have been made in 2005/2006 and future years. To comply with these requirements revised arrangements for completing the statement have been developed, which included scrutiny of the statement by this Committee on 15<sup>th</sup> May 2008.

xi) Glossary of Terms

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

## 5. RECOMMENDATIONS

5.1 It is recommended that Members:-

- i) Note the report.
- ii) Approve the 2007/2008 Statement of Accounts.



## APPENDIX A

### **Extract from report submitted to the Audit Committee on 15<sup>th</sup> May 2008 - arrangement for Approval of 2007/08 Statement of Accounts**

#### **1. PURPOSE OF REPORT**

- 1.1 To advise Members of the Audit Committee of the proposal to transfer responsibility for approving the Annual Statement of Accounts to your Committee. The report will also explain the Audit Committee role in discharging this responsibility if this proposal is approved by Council on 22<sup>nd</sup> May, 2008.

#### **2. BACKGROUND**

- 2.1 In previous years authority to approve the Council's Annual Statement of Accounts has been delegated to the General Purpose Committee. Following the approval of the 2006/2007 Statement of Accounts the General Purpose Committee suggested that this responsibility should be discharged by the Audit Committee. This suggestion reflects your Committee's existing governance responsibilities in relation to a range of issues which support the Annual Statement of Accounts, including:

- approval of the Annual Governance Statement (formerly known as the Statement of Internal Control);
- consideration of the reports submitted by the Council's Head of Audit and Governance on the adequacy of internal control arrangements and audit reviews undertaken during the year; and
- consideration of reports from the Council's External Auditors.

- 2.2 The proposal to transfer this responsibility to your Committee has been considered by the Constitution Committee and referred to Council on 17<sup>th</sup> April, 2008 for consideration. Council deferred consideration of this proposal to the meeting on 22<sup>nd</sup> May, 2008. As the 2007/2008 Statement of Accounts will need to be approved by 30<sup>th</sup> June, 2008, this report is being submitted to explain to Members what their role will be if Council approve the proposal to transfer responsibility of this function to your Committee.

#### **3. SPECIFIC RESPONSIBILITIES**

- 3.1 As Councils are responsible for spending a significant amount of public funding and determining Council Tax levels there are specific legal obligations on local authorities governing how they must conduct their financial affairs.
- 3.2 These regulations include specific requirements in relation to the Annual Statement of Accounts, specifically: -

- The Accounts and Audit Regulation 2003, which is supported by the following regulations:
    - The Audit Commission Act 1998;
    - The Local Government and Housing Act 1989; and
    - The Local Government Act 1972.
- 3.3 The above regulations specify the arrangements local authorities must follow to ensure they adopt high standards for managing public funds. The key requirements are detailed in the following paragraphs and highlighted the responsibilities of the Chief Financial Officer and the Audit Committee in relation to the preparation and approval of the Annual Statement of Accounts.
- 3.4 The Local Government Act 1972 requires all local authorities to appoint a “Responsible Financial Officer”, also known as the Section 151 Officer. The 1972 Act also defines the role of the Section 151 Officer as “the person who is responsible for the administration of the financial affairs of a local authority and the person who is responsible for keeping the accounts of the local authority”.
- 3.5 The Accounts and Audit Regulations 2003 (the 2003 Regulations) set out specific responsibilities of the “Responsible Financial Officer”, which in Hartlepool is the Chief Financial Officer and the responsibilities of Members and the External Auditors, which are summarised below:

#### **Responsibilities of Chief Financial Officer**

- **Accounting Records and Control Systems (paragraph 5 of the 1972 Act)**

The Chief Financial Officer is responsible, on behalf of the Council, for determining its:

- Accounting records, including the form of accounts and supporting accounting records.
- Accounting control systems, which include ensuring financial transactions are recorded accurately and promptly, measures are in place to detect inaccuracies and fraud and the establishment of management arrangements to ensure the segregation of duties for financial transactions.

- **Signing of Statement of Accounts (paragraph 10 of the 1972 Act)**

The Chief Financial Officer must certify that the Statement of Accounts “presents fairly the financial position of the Council at the end of the financial year”. To provide this certification the Chief Financial Officer is responsible for ensuring the Statement of Accounts have been prepared in accordance with all relevant regulations and in particular in accordance with the CIPFA Code of Practice on Local Authority Accounting. The

Chief Financial Officer must provide this certification before the Statement of Accounts are considered by Members.

### **Responsibility of Members – Approval of Statement of Accounts**

Members are responsible for approving the Statement of Accounts which the Chief Financial Officer has certified. This approval has to be given as soon as practical after the end of the financial year and no later than 30<sup>th</sup> June, immediately following the end of the financial year. In most authorities this responsibility is delegated to a specific committee to ensure the 30<sup>th</sup> June deadline is achieved.

The Accounting and Audit Regulations 2003 do not specify what issue Members need to consider before they approve the Statement of Accounts, other than to ensure the Chief Financial Officer has certified the Statement of Accounts.

As part of the approval process last year the Chief Solicitor provided advice to the General Purposes Committee to clarify their specific role in approving the Statement of Accounts, which is equally valid for your Committee. The Chief Solicitor advised Members that “their task was to determine that the accounts 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 practice. The Committee should address itself to the accuracy and completeness of the account as a record of financial transactions and resources. However, they were not entitled to ask how these transactions and resources were managed. There were questions for the executive members and committees responsible for determining such matters”.

The Chief Solicitor also advised that “Members were perfectly entitled to ask any questions the issue was what questions, they should ask to discharge their function in relation to approving the Statement of Accounts. Questions could also be raised at relevant Scrutiny Forums and Council meetings.

Members are provided with the following information to enable them to discharge this responsibility:

- a report will be submitted by the Chief Financial Officer to highlight the main issues included in the Statement of Accounts. This report will also provide Members with details of any changes to the Council’s expected financial position at 31<sup>st</sup> March, 2008. This report will specifically highlight any changes to the position which was reported to Council on 14<sup>th</sup> February, 2008;
- regular reports have been submitted to your committee by the Head of Audit and to governance during 2007/2008 detailing progress on audit work and the results of this work. These reports have confirmed that appropriate control arrangements are in place, or recommended areas which need improving;

- the Annual Governance Statement has been submitted to your Committee. This statement provides the assurance that appropriate systems and procedures were in place during 2007/2008 to manage the Council.

In practice, to discharge this responsibility Members need to place reliance upon the technical advice and the formal certification of the Statement of Accounts by the Chief Financial Officer when they approve the draft Statement of Accounts. The External Auditors opinion on this document then provides Members with the final assurance before they approve the final Statement of Accounts.

### **External Auditors Responsibilities**

Once the Statement of Accounts have been certified by the Chief Financial Officer and approved by Members they will be subject to a detailed review by the Council's External Auditors.

This review will provide a robust challenge of the Statement of Accounts prepared by the Chief Financial Officer and will provide Members with the final reassurance that the Statement of Accounts comply with relevant legal and accounting requirements.

At the end of this review the External Auditors may make recommendations to amend the Statement of Accounts and the Chief Financial Officer will consider these issues. Once the Chief Financial Officer and External Auditors have agreed any changes a revised version of the Statement of Accounts will be submitted to your Committee. The External Auditors will also submit a formal report on the Statement of Accounts. Depending on the outcome of the External Auditor's review the Audit Committee will be asked to note that there have been no changes to the Statement of Accounts submitted in June, or asked to approve amendments agreed with the External Auditor.

## **4. PRACTICAL CONSIDERATIONS**

- 4.1 The Council is a complex organisation and this is reflected in the Council's financial arrangements. This means the production of the Annual Statement of Accounts is an extremely complex and time consuming task. For example, in 2007/2008 the Council had 392 capital projects totalling £33.6m, which all need to be accounted for in the 2007/2008 Statement of Accounts and over £250m of revenue expenditure.
- 4.2 The 2007/2008 Statement of Accounts will also need to reflect some significant changes in the accounting arrangements which local authorities are required to follow.
- 4.3 As a small unitary authority we cannot dedicate staff full time to the production of the Statement of Accounts, as staff still have to undertake day to day activities during this period. These tasks include Treasury

Management activities, submission of grant claims and day to day support of financial systems and budget holders. In addition, finance staff will also be involved in the accounting and budgeting issues arising from the implementation of a new pay and grading system.

- 4.4 In view of the above constraints the achievement of 30<sup>th</sup> June deadline for approving the 2007/2008 Statement of Accounts will be extremely challenging. On a practical basis the real deadline is 18<sup>th</sup> June, 2008, as this is the date papers need to be completed by for submission to your proposed meeting on 27<sup>th</sup> June, 2008.

## **5. CONCLUSION**

- 5.1 The Council is required to produce an Annual Statement of Accounts in accordance with various statutory provisions and accounting regulations. The primary responsibility for ensuring the Statement of Accounts complies with these requirements rests with the Chief Financial Officer. This responsibility includes certifying that the Statement of Accounts “presents fairly the financial position of the Council at the end of the financial year”. Once this certification has been given Members are required to approve the draft Statement of Accounts.
- 5.2 The Council’s External Auditor then provides a formal audit opinion before Members approve the Final Statement of Accounts. This opinion provides Members with the final assurance that the accounts are an accurate record of the Council’s financial position.

**DRAFT**

**STATEMENT OF ACCOUNTS**

**2007/2008**

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

# HARTLEPOOL BOROUGH COUNCIL- STATEMENT OF ACCOUNTS 2007 /2008

STATEMENT OF ACCOUNTS.....	1
CHIEF FINANCIAL OFFICER'S FOREWORD .....	3
1. INTRODUCTION .....	3
2. SIGNIFICANT FINANCIAL AND OPERATIONAL ARRANGEMENTS 2007/2008.....	3
3. FINANCIAL POSITION AT 31 <sup>ST</sup> MARCH, 2008.....	5
4. PENSIONS.....	10
5. STATEMENT OF ACCOUNTS.....	10
6. ACCOUNTING POLICIES.....	11
7. INSPECTION OF ACCOUNTS.....	11
8. CHAIRMAN'S DECLARATION.....	11
STATEMENT OF ACCOUNTING POLICIES .....	12
1. GENERAL.....	12
2. FIXED ASSETS.....	12
3. GOVERNMENT GRANTS.....	13
4. DEFERRED CHARGES.....	13
5. BASIS OF CHARGES FOR CAPITAL.....	13
6. CAPITAL RECEIPTS.....	13
7. DEBTORS AND CREDITORS.....	14
8. STOCKS AND WORK IN PROGRESS.....	14
9. COST OF SUPPORT SERVICES.....	14
10. RESERVES AND PROVISIONS.....	14
11. REVENUE BALANCES.....	15
12. INVESTMENTS.....	15
13. PENSIONS.....	15
14. LEASES.....	16
15. FOREIGN CURRENCY TRANSLATION.....	16
16. REPURCHASE OF BORROWING.....	16
17. VALUE ADDED TAX.....	16
18. EXCEPTIONAL, EXTRAORDINARY ITEMS AND PRIOR PERIOD ADJUSTMENTS.....	16
19. POST BALANCE SHEET EVENTS.....	16
20. IMPAIRMENT OF FIXED ASSETS.....	16
21. CONTINGENT LIABILITIES.....	16
22. FINANCIAL LIABILITIES.....	16
23. FINANCIAL ASSETS.....	17
STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS .....	18
INCOME AND EXPENDITURE ACCOUNT.....	19
STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE .....	20
STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES .....	22
BALANCE SHEET .....	23
CASH FLOW STATEMENT.....	25
NOTES TO THE FINANCIAL STATEMENT .....	28
1. OPERATING AND FINANCE LEASES.....	28
2. PUBLICITY.....	28
3. PENSION COSTS.....	29
4. DEFERRED CHARGES.....	32
5. OFFICER'S REMUNERATION.....	32
6. MEMBERS ALLOWANCES.....	33
7. RELATED PARTY TRANSACTIONS AND INTEREST IN COMPANIES.....	33
8. TRADING ACCOUNTS.....	34
8.1 Building Regulations.....	34
8.2 Former DSO Operations.....	34
8.3 Other Trading Operations.....	35
9. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970.....	35
10. DEDICATED SCHOOLS GRANT.....	36
11. CONTRIBUTION TO/(FROM) SCHOOL RESERVES.....	36
12. SECTION 137 EXPENDITURE.....	36
13. EXTERNAL AUDIT FEES.....	37
14. MOVEMENT OF FIXED ASSETS.....	38
14.1 Capital Expenditure and Financing.....	39
14.2 Major Disposals of Assets.....	39
14.3 Main Items of Capital Expenditure in Year.....	39
14.4 Significant Capital Expenditure Commitments at 31 <sup>st</sup> March, 2008.....	39
14.5 Assets Held.....	40
14.6 Custodian Authority Assets.....	40

14.7	Fixed Asset Valuation.....	41
15.	LONG TERM DEBTORS.....	41
16.	CURRENT DEBTORS.....	41
17.	LANDFILL ALLOWANCES TRADING SCHEME (LATS).....	41
18.	CREDITORS AND OTHER BALANCES.....	42
19.	BANK BALANCE.....	42
20.	PROVISIONS.....	42
21.	FINANCIAL INSTRUMENTS BALANCES.....	43
22.	FINANCIAL INSTRUMENTS GAINS/LOSSES.....	44
23.	FAIR VALUE OF ASSETS AND LIABILITIES CARRIED AT AMORTISED COST.....	44
24.	DISCLOSURE OF NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS.....	45
25.	DEFERRED CAPITAL RECEIPTS.....	50
26.	GOVERNMENT GRANTS DEFERRED ACCOUNT.....	50
27.	REVALUATION RESERVE.....	51
28.	CAPITAL ADJUSTMENT ACCOUNT.....	51
29.	USEABLE CAPITAL RECEIPTS RESERVE.....	52
30.	CAPITAL GRANTS AND CONTRIBUTIONS UNAPPLIED.....	52
31.	EARMARKED RESERVES.....	53
32.	GENERAL FUND BALANCES.....	55
33.	EQUAL PAY BACK PAY ACCOUNT.....	56
34.	CONTINGENT LIABILITIES.....	56
35.	POST BALANCE SHEET EVENTS.....	57
36.	EURO.....	57
37.	LOCAL AREA AGREEMENT.....	58
	COLLECTION FUND.....	59
	NOTES TO THE COLLECTION FUND.....	60
1.	COUNCIL TAX.....	60
2.	NON DOMESTIC RATES.....	61
3.	PRECEPTS.....	61
	ANNUAL GOVERNANCE STATEMENT.....	65
1.	SCOPE OF RESPONSIBILITY.....	65
2.	THE PURPOSE OF THE GOVERNANCE FRAMEWORK.....	65
3.	SIGNIFICANT INTERNAL CONTROL ISSUES UPDATE FROM 2006/2007 STATEMENT.....	66
4.	THE INTERNAL CONTROL ENVIRONMENT.....	66
5.	REVIEW OF EFFECTIVENESS.....	69
6.	SIGNIFICANT INTERNAL CONTROL ISSUES.....	71
	MEMORANDUM NOTES.....	72
1.	TRUST FUNDS.....	72
	GLOSSARY OF TERMS.....	73



# 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 2007/2008.
- Provide a brief explanation of the Council's financial position at 31<sup>st</sup> March, 2008.
- 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 2007 /2008

### FINANCIAL ISSUES

In advance of the start of the financial year 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 2008/2009 and 2009/2010.

During 2007/2008 these forecasts were updated and rolled forward to cover the three years commencing 2008/2009, which is the period covered by the Government current three year settlement for Councils.

The preparation of the 2007/2008 budget was difficult and made more challenging as a result of the continuation of the "floor damping" arrangements and the implementation of Single Status.

The "floor damping" arrangements mean that changes introduced to local government funding from 1<sup>st</sup> April, 2006, will be phased in over a number of years. As a result the Council has not received the full amount of grant the Government assessed we need. The Government initially informed the Council that we would lose £3.5m over the two years 2006/2007 and 2007/2008. 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 2007/2008 of 3.7%. This was slightly higher than the Government's minimum increase for authorities with Education and Social Services responsibilities of 2.7%.

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 2007/2008, which included the following main elements:

- The Adult and Community Services budget was increased by £0.966m (3.6%). This reflected a base budget increase of 3% and additional resources 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. The main factor was the additional cost of implementing the Single Status pay agreement.
- Efficiency savings of £2.1m were implemented, together with budget savings of £0.9m from service department's budgets.
- Reserves of £2.5m were earmarked 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 2007/2008 are set out in Section 3 below.

As indicated earlier the budget strategy was rolled forward to cover the three years 2008/2009 to 2010/2011. These forecasts indicate that the Council faces small deficits in 2009/2010 and 2010/2011 of £0.402m and £0.237m respectively. These forecasts reflect the following key planning assumptions:

- Pay awards and inflation increases of 2.5% in 2009/2010 and 2010/2011;
- Costs pressures in excess of inflation do not exceed £1.5m per annum;
- The achievement of annual efficiencies of 3% and
- Council Tax increases by 3.9% per annum.

### OPERATIONAL ISSUES

Details of the Authority's achievements during 2007/2008 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 2007/2008 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 Local Area Agreement primary objective is to deliver better genuinely sustainable commitments through better outcomes for local people. In addition, the LAA will:

- Improve Central and Local Government relations;
- Enhance efficiency;
- Strengthen partnership workings;
- Framework to which Local Authorities can enhance their community leadership role.

Hartlepool Borough Council is the accountable body and received £7.933m in 2007/2008.

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 completed detailed evaluations of all jobs during 2007/2008 and a new pay and grading structure was approved in May, 2008. Implementation

of the new pay and grading structure, including protection arrangements, was back-dated to 1<sup>st</sup> April, 2007 and these costs are reflected in the 2007/2008 accounts.

Pending the implementation of a new pay and grading structure the Authority had negotiated equal pay settlements with specific groups 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 was partly been funded from underspends against previous years budgets and partly from a review of the Authority's reserves.

The Authority settled a number of Equal Pay Tribunal cases during 2007/2008 and these costs were funded from General Fund Balances, as planned. A number of Equal Pay Tribunal cases remained outstanding at the 31<sup>st</sup> March, 2008 and any costs arising from these cases will also be funded from General Fund Balances.

### 3. **FINANCIAL POSITION AT 31<sup>ST</sup> MARCH, 2008**

This section details the financial position at 31<sup>st</sup> March, 2008, 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 2007/2008 the Council's net General Fund budget, which is the amount funded from Government Grant and Council Tax, was £136.467m. This is the budget net of the planned use of reserves of £2.76m.

In total, actual net expenditure in 2007/2008 was £138.229m, as summarised in the table below. The table shows that expenditure on the provision of services exceeded the approved budget owing to increased demographic pressures and lower levels of income than anticipated. A number of these trends will continue beyond 2007/2008 and these issues have been reflected in the Council's budgets for 2008/2009 and future years. These additional costs have been partly offset from higher investment income which has arisen owing to cash balances and interest rates being higher than anticipated when the budget was set.

The remaining amount (£1.762m) has been funded from the Council's reserves and the main changes in reserves include:

- An increase in Schools Balances of £0.932m, which are ring-fenced for use by schools;
- A net decrease in General Fund balances of £2.694m, which is broadly in line with the planned use of reserves in 2007/2008. A detailed analysis of the General Fund Reserves is provided on page 55, note 32;

## Summary of 2007/2008 Financial Position

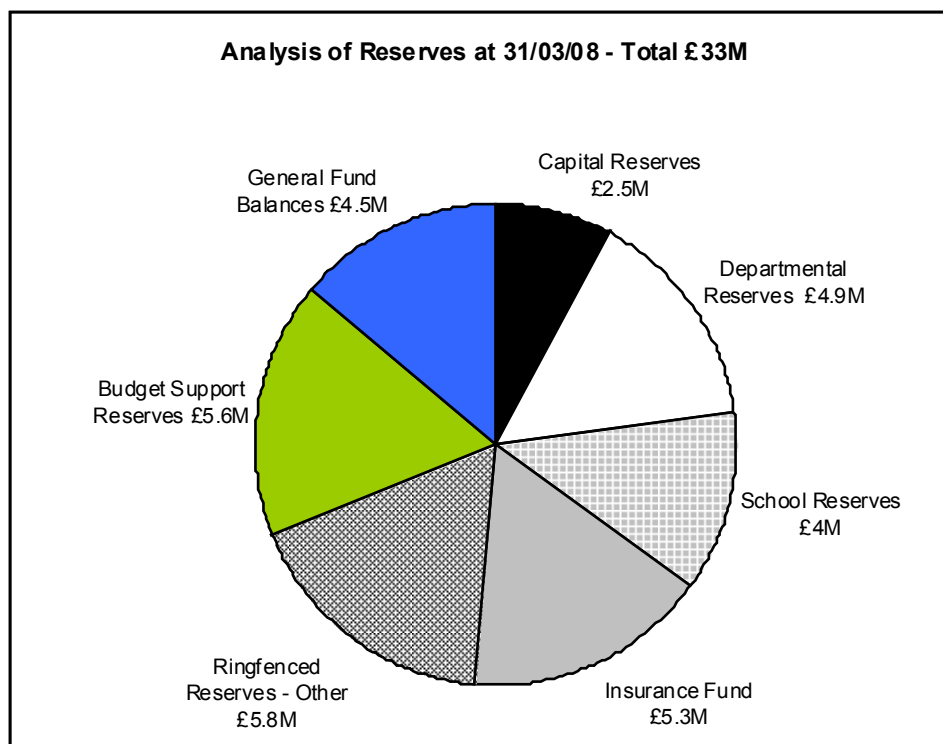
<b>Service Budgets</b>	<b>2007/2008 Approved Budget  £'000</b>	<b>2007/2008 Actual Expenditure/ Income  £'000</b>	<b>2007/2008 Variance Adverse/ (Favourable)  £'000</b>
Adult & Community Services	30,300	31,133	833
Children's Services	22,963	23,155	192
Schools	51,386	50,454	(932)
Neighbourhood Services	14,218	14,353	135
Regeneration & Planning	5,372	5,498	126
Resources	4,106	3,839	(267)
Corporate Costs	8,122	9,797	1,675
<b>Total General Fund Expenditure</b>	<b>136,467</b>	<b>138,229</b>	<b>1,762</b>

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

	<b>£'000</b>	<b>%</b>
Dedicated Schools Grant	57,377	42.0%
Revenue Support Grant	6,250	4.6%
Share of National Non-Domestic Pool	37,240	27.3%
Council Tax (HBC Charge on Collection Fund)	35,346	25.9%
Share of Collection Fund Surplus	254	0.2%
	<b>136,467</b>	<b>100.0%</b>

At the 31<sup>st</sup> March 2008, the Authority's Earmarked Reserves and General Fund balances increased to £32.522m (£32.193m in 2006/2007). These figures include Schools Balances, which are earmarked for spending by schools, and Capital Reserves, which are earmarked for capital commitments rephased to 2008/2009. If these resources are excluded the Council's revenue reserves and balances reduced from £27.956m at 31<sup>st</sup> March, 2007, to £26.047m at 31<sup>st</sup> March, 2008.

These reserves consist of seven main components:



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

- Termination Costs Reserve (£0.8m) to cover potential retirement and/or redundancy liabilities arising from the achievement of efficiency savings;
- Tall Ships Reserve (£0.7m) to support the Tall Ships visit in 2010;
- Business Transformation (£0.5m) to cover the costs of implementing the Business Transformation Programme;
- Building Schools for the Future Reserve (£0.5m) to cover one-off costs of implementing this programme, which are not covered by the Government capital grant;
- Lotteries Reserve (£0.4m) to cover grants and donations to local organisations;
- Interest Equalisation Reserve (£0.4m) to cover the potential risk that higher interest costs may be incurred if LOBO loans need to be refinanced.

Budget Support Reserves – this reserve is earmarked to support the revenue budget over four years, commencing 2008/2009. The value of this reserve at 31<sup>st</sup> March, 2008, is less than the planned use over the next four years. It was anticipated that this shortfall would be bridged from future income received from Housing Hartlepool from the "Right to Buy" income sharing agreement. It is now anticipated that these monies will be received over a longer period owing to the impact of the credit crunch and the slow down in the housing market. A strategy for bridging this temporary shortfall will be developed as part of the 2009/2010 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 53 to 56.

### CAPITAL PROGRAMME

In 2007/2008 the Council had a total Capital Programme of £20.689m. An analysis of this expenditure is shown below, together with an analysis of how this expenditure was financed.

<b>Expenditure</b>	<b>£'000</b>	<b>%</b>
Other Schemes	5,789	29%
School Improvements	4,995	24%
Housing Investment Programme	3,162	15%
Civic Centre Maintenance	2,241	11%
New Deal for Communities Partnership	1,291	6%
Disabled Facilities and Housing Grants	909	4%
Single Programme Initiatives	833	4%
Highway Maintenance & Construction	819	4%
SRB - North Hartlepool Partnership	650	3%
<b>Total</b>	<b>20,689</b>	<b>100%</b>
Capital Financing		
Capital Receipts	(2,541)	12%
Loans	(5,716)	28%
Other	(12,432)	60%
<b>Total</b>	<b>(20,689)</b>	<b>100%</b>

At 31<sup>st</sup> March, 2008, the Council had capital commitments arising from slippage of programmed capital spending into 2008/2009 of £17.1m. These commitments can be funded from the following resources, which can be rephased to 2008/2009.

	<u>£'000</u>
Government Grants	5,801
Borrowing	9,306
Capital Funding Reserves	<u>2,033</u>
	17,140

The Council received £4.2m from the sale of assets during 2007/2008.

### 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 deficit as at 31<sup>st</sup> March, 2008, has been reflected in the Council's 2008/2009 budget.

The Council set a Council Tax for the year of £1,496.20 for Band D properties, excluding parish precepts where these applied. This comprised £1,282.15 for the Council's own

services, £158.10 for the Cleveland Police Authority and £55.95 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 27,830 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 59 to 61 and summarised below.

	<b>£'000</b>	<b>%</b>
<b><u>Expenditure</u></b>		
Cleveland Police Authority Precept	4,356	6.7
HBC Precept	35,346	54.4
Cleveland Fire Authority Precept	1,542	2.4
Payment to NNDR Pool	23,216	35.8
Other	450	0.7
	<b>64,910</b>	<b>100.0</b>
<b><u>Income</u></b>		
Council Tax	41,123	63.6
NNDR from Rate Payers	23,370	36.2
Other	108	0.2
	<b>64,601</b>	<b>100.0</b>
<b>Net Deficit/(Surplus) In Year</b>	<b>309</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. During 2007/2008 the Council arranged new borrowings of £15m to finance the Capital Programme. £10m of this new borrowing came from the Public Works Loans Board (PWLb) and £5m from market borrowing known as LOBOs (Lenders Option, Borrowers Option).

The Council had planned to undertake further borrowing during 2007/2008. This borrowing has been deferred owing to the impact of the credit crunch. The Council's cash investments were reduced to provide the necessary liquidity. This position has avoided exposure to higher interest rates on new borrowing and more importantly reduced external cash investments during a period of market uncertainty.

As indicated in the 2007/2008 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. Owing to the credit crunch there is an increased risk that the lenders will exercise these options. 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. 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 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 for 2007/2008. This amount is earmarked for specific projects, including highways improvements, repairs to the Civic Centre and the multi-storey car park.

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, 2008, there was a deficit on the Pensions Reserve of £53.629m (£65.392m in 2006/2007) which increased the net worth of the Council. 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 29) to the Financial Statements.

#### 5. **STATEMENT OF ACCOUNTS**

The Council's statement of accounts for the year ending 31<sup>st</sup> March, 2008, is set out on pages 18 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, 2008;
- 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 Council previously produced Group Accounts, which included the accounts of the following companies:

- Tees Valley Connexions Partnership Ltd., as Associate company;
- CADCAM Applications and Support Company Ltd., as a Joint Venture company.

For 2007/2008 the Council has not produced Group Accounts because The Tees Valley Connexions Partnership was ended at 31<sup>st</sup> March, 2007 and CADCAM have been excluded on the basis of materiality.

## **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 17. 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 2006/2007 have been shown where appropriate.

## **7. 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 2007/2008 financial year the inspection period was 30<sup>th</sup> June, 2008 to 25<sup>th</sup> July, 2008.

Michael W Ward  
Chief Financial Officer  
Date: 30<sup>th</sup> June, 2008

## **8. CHAIRMAN'S DECLARATION**

I confirm that the accounts set out on pages 3 to 61 were approved by the Audit Committee at the meeting held on 30<sup>th</sup> June, 2008.

Councillor A Preece  
Chair of Audit Committee  
Date: 30<sup>th</sup> June, 2008

# 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 tangible 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 which 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. Revaluations carried out during 2007/08 were carried out by the Temporary Estates Manager (covering maternity leave) in accordance with the above. 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. From 1<sup>st</sup> April, 2007, increases in asset valuations are charged to the Revaluation Reserve.

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. Where impairment has been identified as part of the annual review or as a result of a valuation exercise, this has been accounted for by:

- Where attributable to the clear consumption of economic benefits the loss is charged to the relevant service revenue account

- Otherwise – written off against any revaluation gains attributable to the asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss has been charged to the Income and Expenditure Account but there was no accumulated revaluation gains in the Revaluation Reserve for the asset, an amount up to the value of the loss is transferred from Revaluation Reserve to the Capital Adjustment Account.

The Council does not hold any Intangible Fixed Assets.

### 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 40 years, garages over 30 years.

Revaluation gains have also been depreciated, with an amount equal to the difference between current value depreciation charged on assets and the historical cost depreciation transferred annually from the Revaluation Reserve to the Capital Adjustment Account.

### 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 52 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 31 (Page 53) to the Financial Statements. In accordance with accounting regulations a number of specific reserves are classified as General Fund Balances and detailed at Note 32 of the Financial Statements (Page 55).

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 20 (Page 42) 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 31 (Page 53) 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. Investments are made in accordance with the appropriate statutory regulations and the Council's Treasury Management Strategy.

## 13. **PENSIONS**

The Council has adopted FRS17 for the 2007/2008 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 29) to the Financial Statements.

**14. LEASES**

The accounting policy is detailed in Note 1 (Page 28) 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 35 to the Balance Sheet (Page 57).

**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 34 (Page 56) to the Financial Statements.

**22. FINANCIAL LIABILITIES**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the

Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

## 23. **FINANCIAL ASSETS**

Financial assets are classified into two types:

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

### **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

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

Assets are maintained in the Balance Sheet at fair value. Values are based on the value of the Council's shareholding. Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL).

# **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, 2008.

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, 2007 to 31<sup>st</sup> March, 2008.

Michael W Ward  
Chief Financial Officer  
30<sup>th</sup> June, 2008



# INCOME AND EXPENDITURE ACCOUNT

2006/2007 Net Expenditure £000		2007/2008 Gross Expenditure £000	2007/2008 Gross Income £000	2007/2008 Net Expenditure £000	NOTE
1,669	Central Services to the Public	15,088	13,123	1,965	
179	Court Services	181	3	178	
22,639	Cultural, Environmental and Planning Services	40,038	28,077	11,961	
22,582	Children's & Education Services	115,435	93,037	22,398	
6,892	Highways, Road and Transport Services	8,887	15,763	(6,876)	
619	Housing Services	35,224	34,644	580	
22,971	Adult Social Care	39,217	14,960	24,257	
4,210	Corporate and Democratic Core	4,366	398	3,968	
753	Non-distributed Costs	667	1,198	(531)	
<b>82,514</b>	<b>Net Cost of Services</b>	<b>259,103</b>	<b>201,203</b>	<b>57,900</b>	
174	(Profits) or Losses on the disposal of fixed assets			(1,122)	
87	Local Precepts & Levies			87	
32	Contribution to Housing Pooled Capital Receipts			4	
2,061	Interest Payable and Similar Charges			2,913	
(3,108)	Interest and Investment Income			(3,197)	
472	Pension interest cost and expected return			1,094	
(651)	Income from sale of former Council Houses			(377)	
<b>81,581</b>	<b>Net Operating Expenditure</b>			<b>57,302</b>	3
(33,472)	Demand on the Collection Fund			(35,346)	
(7,432)	Central Government Grants			(6,250)	
(35,159)	Non-domestic rates redistribution			(37,240)	
(105)	Transfers to/(from) the Collection Fund in respect of Surpluses/Deficits			(254)	
<b>5,413</b>	<b>(Surplus) / Deficit for the Year</b>			<b>(21,788)</b>	

The 2006/2007 comparative figures have been restated to reflect the adoption of the new Best Value Accounting Code of Practice (BVACOP) Service Expenditure Analysis (SEA). There are now no lines for Education Services and Social Services but new lines for Children's and Education Services and Adult Social Care have been introduced.

# 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.

2006/2007 £000		2007/2008 £000
5,413	Deficit/(Surplus) for the year on the Income and Expenditure Account	(21,788)
(4,196)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	23,550
<u>1,217</u>	<b>(Increase)/Decrease in General Fund Balance for the Year</b>	<u>1,762</u>
(20,248)	General Fund Balance brought forward	(19,031)
<u>(19,031)</u>	<b>General Fund Balance carried forward</b>	<u>(17,269)</u>
3,050	Amount of General Fund Balance held by Schools under local management schemes	3,982
15,981	Amount of General Fund Balance generally available for new expenditure*	13,287
<u>19,031</u>		<u>17,269</u>

\* 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 32, page 55.

## 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.

2006/2007 £000		2007/2008 £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>		
(6,553)	Depreciation of fixed assets	(10,093)	
695	Government Grants Deferred amortisation	31,628	
(996)	Write downs of deferred charges to be finance from capital resources	(372)	
(174)	Net Profit(loss) on sale of fixed assets	1,148	
(12,436)	Net charges made for retirement benefits in accordance with FRS17	(12,593)	3
0	Reduction in valuation of fixed assets	(1,771)	
0	Retained Share of Housing Receipts	1	
(19,464)		7,948	
	<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>		
2,973	Minimum revenue provision for capital financing	3,074	
2,244	Capital expenditure charged in-year to the General Fund Balance	0	
(32)	Transfer of Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(4)	
9,289	Employer's contributions payable to the Teeside Pension Fund and retirement benefits payable direct to pensioners	9,301	3
14,474		12,371	
	<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>		
381	Voluntary revenue provision for capital financing	434	
(773)	Transfer to/(from) Equal Pav Back Pav Account	398	33
1,186	Net transfer to or from earmarked reserves	2,399	31
794		3,231	
	<b>Net additional amount required to be credited to the General Fund Balance for the year</b>	23,550	
(4,196)			

# STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

2006/2007 £000		2007/2008 £000	NOTE
5,413	Deficit/(Surplus) for the year on the Income and Expenditure Account	(21,788)	
(1,508)	Revaluations & Restatements Of Fixed Assets	(14,338)	27
(12,115)	Actuarial Gain in Pension Fund	(15,064)	3
8,086	Capital Expenditure not increasing asset values	0	28
0	Use of s278 Monies	(158)	
0	Sale of Assets ( de minimis)	14	
0	Available for Sale Financial Instruments Reserve	135	
(42)	Capital Income not Recognised in Income and Expenditure Account	0	27
30	Collection Fund Deficit Decrease/(Increase)	308	31x
<b>(136)</b>	<b>Movement in Net Worth in Year</b>	<b>(50,891)</b>	

This statement 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 2007 £000		31st March 2008 £000	31st March 2008 £000	NOTE
	<b>FIXED ASSETS</b>			
92	Council Dwellings	90		
177,519	Other Land and Buildings	185,133		
6,240	Vehicles, Plant and Equipment	6,891		
18,026	Community Assets	16,388		
83,388	Infrastructure Assets	85,864		
	Non-operational Assets -			
12,591	Investment Properties	13,646		
2,070	Assets Under Construction	5,635		
4,142	Assets Held For Disposal	1,570		
304,068			315,217	14
	<b>OTHER LONG TERM ASSETS</b>			
2,056	Investments	8,916		
	Long Term Debtors :			
35	Mortgages and Housing Advances	30		15
265	Other	313	9,259	15
306,424			324,476	
	<b>TOTAL LONG TERM ASSETS</b>			
	<b>CURRENT ASSETS</b>			
922	Stocks and Works in Progress	916		
24,633	Debtors	12,275		16
34,040	Investments	38,174		
233	Landfill Allowances Trading Scheme	38		17
55	Imprests & Cash in Hand	59		
0	Bank	3,965		19
59,883			55,427	
	<b>CURRENT LIABILITIES</b>			
19,252	Temporary Short Term Loans	171		
21,163	Creditors and other balances	27,566		18
3,858	Capital Grants and Contributions Unapplied	5,800		30
8,045	Bank Overdraft	0		
52,318			33,537	
313,989	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		346,366	
	<b>LONG TERM LIABILITIES</b>			
2,881	Provisions	6,416		20
51,829	Long Term Borrowing	67,535		
28	Deferred Capital Receipts	23		25
64,446	Government Grants Deferred Account	38,513		26
224	Deferred Liabilities	173		
65,394	Liability Related to Defined Benefit Pension Scheme	53,629		3
184,802			166,289	
<b>129,187</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>180,077</b>	
0	Revaluation Reserve	12,195		27
162,305	Capital Adjustment Account	188,212		28
0	Usable Capital Receipts Reserve	431		29
856	Available-for-sale Financial Instruments Reserve	721		
13,162	Earmarked Reserves	15,253		31
(773)	Equal Pay Back Pay Account	(375)		
(65,394)	Pensions Reserve	(53,629)		3
19,031	General Fund Balances	17,269		32
<b>129,187</b>	<b>TOTAL EQUITY</b>		<b>180,077</b>	

The Balance Sheet figures for 31<sup>st</sup> March, 2007, have been adjusted from those included in the Statement of Accounts for 2006/2007 to accommodate the implementation of the Revaluation Reserve (see Accounting Policy page 13). The Revaluation Reserve and Capital Adjustment Account replace the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA). The

Revaluation Reserve has been included in the Balance Sheet with a zero balance. The closing balance on the Revaluation Reserve at 31<sup>st</sup> March, 2008, only shows revaluation gains accumulated since 1<sup>st</sup> April, 2007. The 2006/2007 credit balance on the FARA was restated to derecognise Government grants deferred not directly attributable to an asset on the Asset Register. (See note 26, page 50).

A new line has been created for deferred liabilities in relation to the amount outstanding on a finance lease. This has resulted in the 2006/2007 value for debtors being reduced by £65,000 and the opening balance of the Capital Adjustment Account being reduced by £289.00.

The figure for Earmarked Reserves previously included £856,000 of investment reserves relating to Durham Tees Valley Airport and SITA Tees Valley. This has now been restated as the Available-for-Sale Financial Investments Reserve.

The 2006/2007 figure for Vehicles, Plant and Equipment has been restated to reflect the NPV of future rental payments rather than historic cost. The adjustment was credited to the Capital Adjustment Account. The opening balance for the Capital Adjustment Account has been amended to reflect the above changes.

## 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.

2006/2007 £'000		2007/2008 £'000	2007/2008 £'000
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
113,288	Cash Paid to and on Behalf of Employees		
69,115	Other Operating Costs		
27,891	Housing Benefit Paid Out		
32	Payments to the Capital Receipts Pool		
	Collection Fund Disbursements :		
5,591	Police/Fire Precepts		
24,788	Payment to NNDR Pool		
240,705			0
	<b>Cash Inflows</b>		
(29,632)	Council Tax		
(19,913)	Non-Domestic Rate Income : From Ratepayers		
(35,159)	Non-Domestic Rate Income : From NNDR Pool		
(6,787)	Revenue Support Grant		
(28,139)	DWP Grants for Benefits		
(111,766)	Other Government Grants		
(18,577)	Cash Received for Goods and Services		
(249,973)			0
<b>(9,268)</b>	<b>NET REVENUE ACTIVITIES</b>		<b>0</b>
	<b>SERVICING OF FINANCE</b>		
	<b>Cash Outflows</b>		
4,522	Interest Paid		
	<b>Cash Inflows</b>		
(2,497)	Interest Received		
2,025	<b>NET SERVICING OF FINANCE</b>		0
	<b>CAPITAL ACTIVITIES</b>		
	<b>Cash Outflows</b>		
21,238	Purchase of Fixed Assets		
9,843	Purchase of Deferred Charges		
31,081			0
	<b>Cash Inflows</b>		
(1,515)	Sale of Fixed Assets		
(21,620)	Capital Grants Received		
(23,135)			0
7,946	<b>NET CAPITAL ACTIVITIES</b>		0
<b>703</b>	<b>NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING</b>		<b>0</b>

**MANAGEMENT OF LIQUID RESOURCES**

2006/2007 £'000		2007/2008 £'000	2007/2008 £'000
(3,047)	Net Increase/(Decrease) in Short Term Deposits		
<b>(3,047)</b>	<b>NET INCREASE/(DECREASE) IN SHORT TERM DEPOSITS</b>		<b>0</b>

**FINANCING**

2006/2007 £'000		2007/2008 £'000	2007/2008 £'000
	<b>CASH OUTFLOWS</b>		
77,073	Repayment of Amounts Borrowed		
90,828	Repaid Short Term Loans		
52,100	Investments		
220,001			0
	<b>CASH INFLOWS</b>		
(45,000)	New Loans Raised		
(109,997)	New Short Term Loans		
(58,900)	Long Term Investments		
(213,897)			0
6,104	<b>NET FINANCING</b>		0
<b>(3,760)</b>	<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>0</b>

**RECONCILIATION OF SURPLUS TO NET CASHFLOW**

2006/2007 £'000		2007/2008 £'000	2007/2008 £'000
<b>5,413</b>	<b>(SURPLUS)/(DEFICIT) AS PER INC &amp; EXP ACCOUNT</b>		
	<b>NON CASH TRANSACTIONS</b>		
(5,858)	Depreciation & Government Grants Deferred Amortisation		
(996)	Deferred Charges		
(3,147)	Additional Pension Costs calculated in accordance with FRS 17		
(174)	Profit/(Loss) on Sale of Fixed Assets		
(10,175)			0
	<b>ADJUSTMENT FOR ITEMS ON ACCRUALS BASIS</b>		
4,332	Increase/(Reduction) in Debtors		
(6,678)	(Increase)/(Reduction) in Creditors		
250	Increase/(Reduction) in Other Net Current Assets		
(2,096)			0
	<b>MOVEMENT ON OTHER FUND BALANCES</b>		
(415)	Contribution to/(from) Earmarked Reserves/Provisions		
30	Collection Fund Deficit/(Surplus)		
(385)			0
	<b>ITEMS CLASSIFIED ELSEWHERE</b>		
(4,522)	Interest Payable		
2,497	Interest Receivable		
0	Finance Leases		
(2,025)			0
<b>(9,268)</b>	<b>NET CASH FLOW FROM REVENUE ACTIVITIES</b>		<b>0</b>



# **RECONCILIATION OF FINANCING AND CASH TO BALANCE SHEET**

2006/2007 £'000		2007/2008 £'000	2007/2008 £'000
3,057 (3,760)	Financing Cash		
(703)			0
32,073 (19,169) (6,800) (3,047) (3,760)	Long Term Loans (Financial Statement Note 22) Temporary Loans Investments Liquid Resources Cash & Imprests		
(703)			0

# **ANALYSIS OF GOVERNMENT GRANTS**

2006/2007 £'000		2007/2008 £'000	2007/2008 £'000
(35,159) (6,787) (28,139) (54,528) (49,532)	<b>REVENUE</b> NNDR Pool Revenue Support Grant DSS Grants for Rebates Other Dedicated Schools Grant Other		
(174,145)			0
(239) (252) (2,742) (6,579) (5,988) (1,553) (72) (272) (17) (181) (1,019) (1,736) 0 (461) (10) (50) 0 (82) (367)	<b>CAPITAL</b> ERDF SRB DFES ODPM DOH Other Community & Local Government Tees Valley Partnership Heritage Lottery Fund DEFRA LPSA Grant NDC NRF Big Lottery Fund English Nature Home Office Implementing Electronic Government Learning & Skills Council Sport England		
(21,620)			0
(195,765)			0

# 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 2007/2008 was £549,000 (2006/2007 - £560,117). The Council's outstanding obligations for operating leases are as follows:

	<b>Vehicles, Plant &amp; Equipment £000</b>	<b>Land &amp; Property £000</b>
Leases Expiring in 2008/2009	110	134
Leases Expiring between 2009/2010 and 2012/2013	1,008	372
Leases Expiring after 31st March 2013	0	474
	<b>1,118</b>	<b>980</b>

The Council is the lessor in relation to various Land & Property operating lease agreements. The aggregate rent income due in 2007/2008 was £144,000 (2006/2007 - £172,000). (The total value of these assets was £2,506,000 (2006/2007 - £1,761,000) with depreciation of £54,000 for the year (2006/2007 - £30,000).

The Council has a finance lease for two refuse vehicles. The total amount outstanding on this lease as at 31<sup>st</sup> March was £197,000. Of this, £66,000 is payable within the year and £131,000 over the following two years. The depreciation charge for 2007/2008 is £74,000, which is the total of depreciation charged to date. The finance charge for the period was £66,000 consisting of £51,000 principal and £15,000 interest.

## 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>2006/2007 £000</b>		<b>2007/2008 £000</b>
136	Direct Employee costs	125
236	Advertising - Staff Vacancies	287
824	Advertising - Other including statutory notices	504
12	Hartbeat Newspaper	5
<b>1,208</b>	<b>TOTAL</b>	<b>921</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 Children, Schools and Families. The Council's contribution to the Teacher's Pension Scheme in 2007/2008 amounted to £4,245,275 (£3,976,890 in 2006/2007) which represented 14.1% of pensionable pay (13.7% in 2006/2007). Nothing was paid as added year's contributions (none were paid in 2006/2007).

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 education 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 awarded 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 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. 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>2006/2007 £000</b>		<b>2007/2008 £000</b>
	<b><u>Income and Expenditure Account</u></b>	
	<b>Net Cost of Services</b>	
(11,708)	Current service cost	(11,413)
(119)	Past service cost	(11)
(137)	Settlements and Curtailments	(75)
	<b>Net Operating Expenditure</b>	
(13,918)	Interest cost	(16,849)
13,446	Expected return on assets in the scheme	15,755
<b>(12,436)</b>	<b>Net Charge to the Income &amp; Expenditure Account</b>	<b>(12,593)</b>
	<b><u>Statement of Movement in the General Fund Balance</u></b>	
12,436	Reversal of net charges made for retirement benefits in accordance with FRS17	12,593
(9,289)	Actual amount charged against the General Fund Balance for pensions in the year - employers' contributions payable to scheme	(9,301)
<b>3,147</b>	<b>Transfer from Pensions Reserve</b>	<b>3,292</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, 2008. The next formal valuation is due as at 31<sup>st</sup> March, 2010. 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 2008 per annum</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>
Rate of Salary increase	5.7%	5.3%	5.0%	4.9%	4.9%
Rate of Pension increase	3.7%	3.3%	3.0%	2.9%	2.9%
Rate for Discounting	6.6%	5.4%	4.9%	5.4%	6.5%

<b>Assets (Employer)</b>	<b>Long Term Return 31st March 2008 % per annum</b>	<b>Assets at 31st March 2008 £000</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>
Equities	7.10%	173,229	7.20%	172,689	7.00%	157,954
Gilts	4.30%	18,729	4.40%	17,208	4.20%	19,073
Bonds	6.60%	2,680	5.40%	3,904	4.90%	3,488
Property	6.60%	10,900	6.70%	11,449	6.50%	9,343
Cash	5.00%	28,305	5.00%	20,293	4.00%	15,924
<b>Total</b>	<b>6.60%</b>	<b>233,843</b>	<b>6.70%</b>	<b>225,543</b>	<b>6.50%</b>	<b>205,782</b>

<b>Net Pension Assets as at</b>	<b>31st March 2008 £000</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>
Estimated Employer Assets (A)	233,843	225,541	205,782	156,544	135,896
Present Value of Scheme Liabilities	274,315	277,346	266,331	224,203	171,531
Present Value of Unfunded Liabilities	13,156	13,589	13,815	13,302	11,567
Total Value of Liabilities (B)	287,471	290,935	280,146	237,505	183,098
Net Pension Asset/Liabilities (A)-(B)	(53,628)	(65,394)	(74,364)	(80,961)	(47,202)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £53.6m 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 £53.6m equates to 30% of the value of the Council's net assets (51% in 2006/2007).

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.

#### **ACTUARIAL GAINS AND LOSSES**

The actuarial gains identified as movements on the Pensions Reserve in 2007/2008 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, 2008.

	<b>31st March 2008</b>		<b>31st March 2007</b>		<b>31st March 2006</b>		<b>31st March 2005</b>		<b>31st March 2004</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Differences between the expected and actual return on assets	(18,333)	(7.8)%	860	0.4%	36,493	17.7%	7,327	4.7 %	19,942	14.7 %
Differences between actuarial assumptions about liabilities and actual experience	(11,539)	(4.0)%	0	0.0%	0	0.0%	9,412	4.0 %	(705)	(0.4)%
Changes in the demographic and financial assumptions used to estimate liabilities	44,929	0.0 %	11,257	3.9%	(26,858)	(9.6)%	(4,582)	(1.9)%	0	0.0 %
	<b>15,057</b>		<b>12,117</b>		<b>9,635</b>		<b>12,157</b>		<b>19,237</b>	

#### **4. DEFERRED CHARGES**

The net cost of deferred charges incurred, are charged to the Income and Expenditure Account. An amount of £5.730m 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 within the Statement of Movements on the General Fund Balance Section (£0.372m), or in the case of capital grants, credited directly to the relevant activity within Net Cost of Services (£5.359m 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 on the table on Page 33.

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 2006/2007	School Employees 2006/2007	Total 2006/2007	Remuneration Bracket (£)	Non School Employees 2007/2008	School Employees 2007/2008	Total 2007/2008
12	31	43	50,000 to 59,999	10	34	44
11	6	17	60,000 to 69,999	13	9	22
8	1	9	70,000 to 79,999	7	3	10
1	1	2	80,000 to 89,999	1	1	2
3	4	7	90,000 to 99,999	2	1	3
1	0	1	100,000 to 109,999	3	0	3
0	0	0	110,000 to 119,999	0	0	0
0	0	0	120,000 to 129,999	0	1	1
0	0	0	130,000 to 139,999	0	1	1
1	0	1	140,000 to 149,999	0	0	0
0	0	0	150,000 to 159,000	1	0	1
<b>37</b>	<b>43</b>	<b>80</b>		<b>37</b>	<b>50</b>	<b>87</b>

The figures for 2006/2007 have been restated to reflect recent changes to the SORP.

The bandings above are not indexed and therefore do not make any adjustment for inflationary increases each year. These cost of living increases, along with changes to the accounting practices in recent years, has resulted in an increase in the numbers disclosed.

The number of full time equivalent staff in 2007/2008 was 3,498 compared to 3,368 in 2006/2007.

#### 6. MEMBERS ALLOWANCES

In 2007/2008 the Council's fifty three (53) Members (Councillors) were paid a total of £404,000 (2006/2007 – £376,000), 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 2007/2008.

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 (£16.765m).

The Council provides various support services, predominately in relation to financial and legal services to Cleveland Fire Authority, see Note 9 (Page 35). In particular, the Council's Chief Solicitor (Mr T 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 29).

The Council previously produced Group Accounts, which included the accounts of the following companies:

- Tees Valley Connexions Partnership Ltd., as Associate company;
- CADCAM Applications and Support Company Ltd., as a Joint Venture company.

For 2007/2008 the Council has not produced Group Accounts because The Tees Valley Connexions Partnership was ended at 31<sup>st</sup> March, 2007 and CADCAM have been excluded on the basis of materiality.

CADCAM 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 Council has a 25% share in the company. The company ceased trading on 1st April, 2004 and its future is under consideration. The draft accounts for the year ended 31<sup>st</sup> March 2008, shows that the company made a loss of £2,000 and that the company has a negative net worth of £144,000. A copy of the company accounts is available from the Director of Finance, Middlesbrough Borough Council, Civic Centre, Middlesbrough, TS1 2QQ

## 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>2006/2007</b>		<b>2007/ 2008</b>		
Total Building Control £000		Chargeable £000	Non Chargeable £000	Total Building Control £000
441	Expenditure	250	198	448
235	Income	228	0	228
<b>(206)</b>	Surplus/(Deficit) for the year	<b>(22)</b>	<b>(198)</b>	<b>(220)</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:



2006/2007 Surplus/ (Deficit)  £000	Former DSO Operations	2007/ 2008		
		Income  £000	Expenditure  £000	Operating Surplus/ (Deficit)  £000
(5)	Building Maintenance	4,179	4,073	106
(96)	Highway Works	3,363	3,127	236
(240)	Grounds Maintenance	2,668	2,459	209
23	Vehicle Maintenance	3,812	3,774	38
(350)	Refuse Collection	2,116	1,863	253
(228)	Other Cleaning	1,738	1,558	180
(43)	Building Cleaning	2,264	2,272	(8)
(109)	School Catering	3,952	3,907	45
<b>(1,048)</b>	<b>TOTAL</b>	<b>24,092</b>	<b>23,033</b>	<b>1,059</b>

76	DSO reserve at beginning of year	0
(1,048)	Surplus/(Deficit) for the year	1,059
972	Contribution from (to) General Fund	(1,059)
<b>0</b>	<b>DSO Reserve at the year end</b>	<b>0</b>

The previous years deficit included the bonus buy out payment of £1.2m. The surplus in the current year partly reflects a reduction in employee costs following the bonus buy out. This amount has been returned to the General Fund.

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, Leisure and Tourism Services. The statement below details the costs of providing these services.

2006/2007 Surplus/(Deficit) £000		2007/2008		
		Income £000	Expenditure £000	Surplus/(Deficit) £000
18	Catering	154	145	9
(835)	Leisure Management	381	1,170	(789)

## 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 £167,000 (£210,000 in 2006/2007), 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 2007/2008, including Fleet Maintenance and Building Maintenance, Payroll, Legal Services, Property Services, Grounds Maintenance and Building Cleaning, IT. The income from these services amounted to £1,283,000 (£681,000 in 2006/2007), which represented the cost of the services provided.

The Council also provided the following services at cost:

- Legal services to Hartlepool Revival Ltd - £2,000 (£33,000 in 2006/2007);
- Management & Evaluation services to Hartlepool Revival Ltd - £33,000 (£31,000 in 2006/2007);
- Property services to Hartlepool Revival Ltd - £40,000 (£16,000 in 2006/2007);
- Legionella risk assessments to Middlesbrough Borough Council - £53,000 (£63,000 in 2006/2007);
- Legionella risk assessments to Erimus Housing - £4,000 (£4,000 in 2006/2007).

#### 10. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. The Council is able to supplement the Schools Budget from its own resource although it did not do so in 2007/2008.

Details of the deployment of DSG receivable for 2007/2008 are as follows: -

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000	Individual Schools Budget £000	Total £000
Original Grant Allocation to Schools Budget for the current year in the Council's budget	7,878	49,491	57,369
Adjustment to finalised grant allocation	8	0	8
<b>DSG receivable for the year</b>	<b>7,886</b>	<b>49,491</b>	<b>57,377</b>
Actual Expenditure for the Year	7,621	49,544	57,165
<b>Over/(Under)-spend for the year</b>	<b>(265)</b>	<b>53</b>	<b>(212)</b>
Planned top-up funding of ISB from Council Resources	0	0	0
Over/(Under)-spend from prior year	(107)	(51)	(158)
<b>Over/(Under)-spend carried forward to 2008/09</b>	<b>(372)</b>	<b>2</b>	<b>(370)</b>

#### 11. 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 32 to the Financial Statements (page 55).

#### 12. 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 in the table on page 37:

<b>2006/2007</b> <b>£</b>	<b>SECTION 137 EXPENDITURE</b>	<b>2007/2008</b> <b>£</b>
23,750	Belle Vue Sports Association	23,750
3,919	Blakelock Elderly Care Coop Ltd	2,612
6,650	Churches	6,850
12,157	Epilepsy Outlook	7,109
0	Harbour	10,336
0	Hart Gables	5,000
0	Hart Parish Council	400
31,818	Hartlepool Access Group	30,242
0	Hartlepool Catholic Boys Boxing Club	5,000
13,720	Hartlepool Centre for the Deaf	13,720
73,514	Hartlepool Citizen's Advice Bureau	74,801
22,818	Hartlepool Community Studio	21,360
3,563	Hartlepool Families First	12,375
20,095	Hartlepool Peoples Centre	23,118
549	Hartlepool Swimming Club	520
28,403	Hartlepool Voluntary Development Agency	29,714
127	Hartlepool Youth Choir	300
7,339	Headland Development Company	4,892
8,550	Headland Future Ltd	5,700
4,988	Manor Residents Association	3,325
9,711	North Tees Womens Aid	10,336
21,849	Owton Fens Community Association	27,192
0	Owton Manor N'hood Watch & Res.Assoc.	8,171
5,000	Relate North East	5,573
0	RESPECT	8,000
1,408	Scouts, Guides and Brownies	1,959
3,562	Victim Support & Witness Service	2,375
25,077	West View Advice & Resource Centre	30,324
20,977	West View Project	23,636
14,646	Wharton Trust	19,992
<b>364,190</b>	<b>TOTAL EXPENDITURE</b>	<b>418,682</b>

### 13. EXTERNAL AUDIT FEES

In 2007/2008 the Council incurred the following fees in relation to external audit and inspection.

<b>2006/07</b> <b>£000</b>		<b>2007/08</b> <b>£000</b>
185	Fees Payable for the audit services carried out by the appointed auditor	259
115	Fees in respect of statutory inspection	56
34	Fees for the certification of grant claims	27
2	Fees in respect of other Services	0
<b>336</b>		<b>342</b>

#### 14. 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 31.03.07	100	201,081	15,142	83,388	18,026	317,737
Accumulated Depreciation	(8)	(23,562)	(8,902)	0	0	(32,472)
Net Book Value as at 1.4.07	92	177,519	6,240	83,388	18,026	285,265
Revaluations and Restatements	0	12,896	0	0	(1,821)	11,075
Impairments	0	(3,294)	0	0	0	(3,294)
Additions	0	4,177	2,654	2,476	183	9,490
Disposals	0	(1,370)	0	0	0	(1,370)
Gross Book Value as at 31.3.08	92	189,928	8,894	85,864	16,388	301,166
Depreciation For Year	(2)	(4,795)	(2,003)	0	0	(6,800)
Balance as at 31.3.08	(2)	(4,795)	(2,003)	0	0	(6,800)
<b>Net Book Value as at 31.3.08</b>	<b>90</b>	<b>185,133</b>	<b>6,891</b>	<b>85,864</b>	<b>16,388</b>	<b>294,366</b>

	Non-operational Assets				2007/08 Total Operational & Non Operational Assets £000	2006/07 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 31.03.07	12,591	2,070	4,142	18,803	336,540	<b>325,592</b>
Accumulated Depreciation	0	0	0	0	(32,472)	<b>(25,919)</b>
Net Book Value as at 1.4.07	12,591	2,070	4,142	18,803	304,068	<b>299,673</b>
Revaluations and Restatements	1,291	(80)	282	1,493	12,568	<b>1,507</b>
Impairments	0	0	0	0	(3,294)	<b>0</b>
Additions	0	3,645	1,822	5,467	14,957	<b>13,150</b>
Disposals	(236)	0	(4,676)	(4,912)	(6,282)	<b>(3,751)</b>
Gross Book Value as at 31.3.08	13,646	5,635	1,570	20,851	322,017	<b>310,579</b>
Depreciation For Year	0	0	0	0	(6,800)	<b>(6,552)</b>
Balance as at 31.3.08	0	0	0	0	(6,800)	<b>(6,552)</b>
<b>Net Book Value as at 31.3.08</b>	<b>13,646</b>	<b>5,635</b>	<b>1,570</b>	<b>20,851</b>	<b>315,217</b>	<b>304,027</b>

#### 14.1 Capital Expenditure and Financing

Financing			Expenditure		
2006/2007 £000		2007/2008 £000	2006/2007 £000		2007/2008 £000
2,680	Capital Receipts	2,541	13,152	<u>Capital Expenditure Increasing Asset Values</u> Fixed Assets	14,957
7,703	Loans	5,716			
20,698	Other	12,432		<u>Capital Expenditure Not Increasing Asset Values</u> Deferred Charges	5,732
			8,086		
			9,843		
<b>31,081</b>		<b>20,689</b>	<b>31,081</b>		<b>20,689</b>

Expenditure on fixed assets includes £3.646m 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.

#### 14.2 Major Disposals of Assets

2006/2007			2007/2008	
Open Market Value Existing Use £000	Sale Proceeds £000		Open Market Value Existing Use £000	Sale Proceeds £000
0	17	Disposals - Land	5,867	3,843
3,751	1,115	Disposals - Buildings	400	400
<b>3,751</b>	<b>1,132</b>		<b>6,267</b>	<b>4,243</b>

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

#### 14.3 Main Items of Capital Expenditure in Year

	£000
Civic Centre Refurbishment	2,241
North Central Hartlepool Housing Regeneration	1,639
NDC Area Remodelling	1,523
DSO Vehicle Purchase	645
Coastal Arc Central Attractors - Maritime Experience	638
	<b>6,686</b>

#### 14.4 Significant Capital Expenditure Commitments at 31<sup>st</sup> March, 2008

At 31<sup>st</sup> March, 2008, the Council's approved Capital Expenditure Commitments amounted to £17.1m, of which £15.1m 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, 2008, related to the Transport Interchange and the outstanding commitment amounted to £2.5m. The Council may also need to meet the costs of a number of Land Tribunal Claims. (See Note 34 vii) page 57).

#### 14.5 **Assets Held**

Fixed assets owned by the Council include the following: -

	<b>Number of Assets</b>	
	<b>31st March 2007</b>	<b>31st March 2008</b>
<b>Council Dwellings</b>	2	2
<b>Operational Buildings</b>		
Administrative Buildings	30	30
Car Parks	24	24
Cemetery Lodges	2	2
Commercial Property - Offices	1	1
Community Centres	8	8
Crematorium	1	1
Depots	3	3
Garages	38	27
Leisure Centres / Sports Halls	4	4
Libraries	6	6
Misc Operational Land & Buildings	34	33
Museums	4	4
Nurseries	1	1
Nursery Schools	1	1
Primary Schools	20	20
Public Halls	3	3
Secondary Schools	4	4
Social Service Establishments	14	12
Special Schools	2	2
Youth Centres	5	5
<b>Non-Operational Land and Buildings</b>		
Investment Property	104	99
Surplus Assets held for Disposal	342	83
<b>Operational Equipment</b>		
Vehicles	109	146
<b>Community Assets</b>		
Allotments	15	15
Cemeteries -	3	3
Other Areas of Open Space	46	46
Parks & Open Spaces	444	444
Recreation Areas & Parks	20	22

#### 14.6 **Custodian Authority Assets**

The assets included in the Balance Sheet exclude assets, valued at £115,000 as at 31<sup>st</sup> March, 2008, 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.

#### 14.7 Fixed Asset Valuation

Community assets and infrastructure assets were valued at cost.

The Council owns an 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.

#### 15. LONG TERM DEBTORS

Balance at 1st April 2007 £000		New Advances £000	Repayments Net of Transfer to Short Term Debtors £000	Balance at 31st March 2008 £000
	<b>Housing Advances :-</b>			
29	Council House Sales	0	5	24
6	Other	0	0	6
35		0	5	30
96	Car Loan Advances	156	107	144
169	Trincomalee Loan and Advances	0	0	169
265		156	107	313
<b>300</b>	<b>Total Long Term Debtors</b>	<b>156</b>	<b>112</b>	<b>343</b>

#### 16. CURRENT DEBTORS

2006/2007 Net Debtor £000		2007/2008		
		Gross Debtor £000	Provision for Bad Debts £000	Net Debtor £000
1,526	Council Tax Payers	2,938	1,420	1,518
0	Community Charge Payers	2	2	0
328	NNDR Payers	1,089	760	329
10,591	General and Other Debtors	5,856	2,082	3,774
770	HM Revenue and Customs	713	0	713
9,924	Government Departments	4,791	0	4,791
373	Other Local Authorities	400	0	400
1,121	Payments in Advance	750	0	750
<b>24,633</b>		<b>16,539</b>	<b>4,264</b>	<b>12,275</b>

Prior year figures have been adjusted to separately identify HM Revenue and Customs.

#### 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 sixteen financial years from 2005/2006 to 2020/2021. At 31<sup>st</sup> March, 2008, the Council had not sold any of its allowances allocated. At 31<sup>st</sup> March, 2008, the Council's available tradable LATS were £38,000 (£233,000 in 2006/2007). The value of LATS held has been impaired by £189,000 as a result of reducing their net realisable value to £5 per allowance from a previous value of £17.98 per allowance.

18. **CREDITORS AND OTHER BALANCES**

<b>2006/2007 £000</b>		<b>2007/2008 £000</b>
2,838	HM Customs and Excise	2,844
215	Government Departments	63
278	Other Local Authorities	831
6,203	Income In Advance	6,125
11,629	General and Other Creditors	17,703
<b>21,163</b>	<b>Total</b>	<b>27,566</b>

19. **BANK BALANCE**

The value of £3,965,000 includes unpresented cheques and undeared BACS transmissions of £2,798,000 on the Council's main account.

20. **PROVISIONS**

Total provisions at 31<sup>st</sup> March, 2008, were £6,416,000 (£2,881,000 in 2006/2007), as detailed below.

<b>2006/2007 £000</b>		<b>2007/2008 £000</b>	<b>Notes</b>
1,453	Equal Pay	867	a
97	Custodian Authority Property Charges	97	b
8	HRA Residual Liabilities	0	c
550	Litigation	430	d
773	Equal Pay Back Pay	375	e
0	Job Evaluation/Single Status	4,210	f
0	Schools Job Evaluation	437	g
<b>2,881</b>		<b>6,416</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.
- f) This provision has been created to fund the costs of the implementation of Single Status.
- g) This provision has been created to meet the costs arising from the implementation of Single Status within schools.



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, 2008, (see Note 16, Page 41).

## 21. FINANCIAL INSTRUMENTS BALANCES

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments.

	Long Term		Current	
	2007/2008 £000	2006/2007 £000	2007/2008 £000	2006/2007 £000
Financial Liabilities at Amortised Cost	67,654	51,829	225	19,252
Loans and Receivables	8,195	1,200	38,174	34,048
Available-for-Sale	721	856	0	0

Financial liabilities amortised costs includes borrowings and deferred liabilities in relation to finance leasing.

During the year the Council entered into £15,000,000 new long term borrowing and repaid all its temporary borrowing.

Included within the Available-for-Sale category are investments in the following companies: -

- Durham Tees Valley Airport Ltd - £524,000
- SITA Tees Valley Ltd - £197,000

The value of shares held by the Council in Durham Tees Valley Airport Limited (formerly Teesside International Airport) is £523,000 based on a shareholding of 2.47%. The value has been determined with reference to the net worth of the company as per their accounts for the financial year to 31<sup>st</sup> March, 2007. The reduction in value of £135,000 has been matched by a corresponding movement in the Available-for-Sale Financial Instruments Reserve.

Issues of note include a loss on the Profit and Loss Account of £1,916,000 (previous year loss of £2,661,000) and a net asset position of £21,204,000 (previous year £21,982,000). 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 £1,194,000 preference shareholding in the company. SITA Tees Valley Limited have produced accounts for the financial year to 31<sup>st</sup> December, 2006, that includes a profit on the Profit and Loss Account of £1,830,000 (previous year profit of £4,014,000) and a net asset position of £29,972,000 (previous year £29,972,000). 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.

Other issues to note are as follows:

Reclassification – No financial instruments were reclassified during the year.

De-recognition – No financial instruments were de-recognised during the year.

Collateral – The Council held no collateral or provided any collateral for any financial instruments.

Allowance for Credit Losses – Apart from general trade debtors the Council were not required to make any allowances for credit losses during the year.

Defaults and Breaches – The Council did not suffer from any defaults or breaches of any financial instruments during the year.

## 22. FINANCIAL INSTRUMENTS GAINS/LOSSES

The gains and losses recognised in the Income and Expenditure Account and Statement of Recognised Gains and Losses (STRGL) in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets		Total £000
	Liabilities measured at Amortised Cost £000	Loans and Receivables £000	Available-for-sale Assets £000	
Interest expense	(2,914)	-	-	(2,914)
Losses on derecognition	0	0	0	0
Impairment losses	0	0	0	0
<b>Interest payable and similar charges</b>	(2,914)	0	0	(2,914)
Interest Income	0	3,197	0	3,197
Gains on derecognition	0	0	0	0
<b>Interest and investment income</b>	0	3,197	0	3,197
Gains on revaluation			0	0
Losses on revaluation			(135)	(135)
Amounts recycled to the Income & Expenditure Account after Impairment			0	0
<b>Surplus arising on revaluation of financial assets</b>			(135)	(135)
<b>Net gain/(loss) for the year</b>	(2,914)	3,197	(135)	148

## 23. FAIR VALUE OF ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLb) redemption rules and prevailing PWLB redemption rates as at each Balance Sheet date, and include accrued interest. The fair values for non-PWLB debt have also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments. It should be noted that the redemption rules applying to PWLB debt changed on 1<sup>st</sup> November, 2007 and are less favourable than the previous procedures. As a result the fair value figures for 31<sup>st</sup> March, 2008, are relatively higher (more costly to redeem) than the 31<sup>st</sup> March, 2007, comparators;

- The fair values for loans and receivables have been determined by reference to the Public Works Loans Board (PWLB) redemption rules, which provide a good approximation for the fair value of a financial instrument and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each Balance Sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is likely to be immaterial;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than twelve months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values of financial liabilities are calculated are as follows:

	2007/2008		2006/2007	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB Debt	22,098	23,765	17,016	16,871
Market Loans	45,389	46,017	35,290	32,533
Total Debt	67,487	69,782	52,306	49,404

The fair values for temporary borrowing and trade creditors are assumed to be those of the carrying values and are excluded from the above table. The outstanding obligation relating to a finance lease has been excluded from the above table.

The fair values of financial assets are calculated as follows:

	2007/2008		2006/2007	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Money Market Loans maturing within 1 Year	24,744	24,744	34,048	34,048
Money Market Loans maturing after 1 Year	8,195	8,144	1,200	1,200
Money Market Funds	13,429	13,429	0	0
	46,368	46,317	35,248	35,248

The fair values of trade debtors and assets available for sale are equal to those of their carrying value and have been excluded from the above table.

The differences are attributable to fixed interest instruments payable being held by the Authority whose interest rate is higher than the prevailing rate estimated to be available at 31<sup>st</sup> March. This increases the fair value of financial liabilities and reduces the value of loans and receivables.

## 24. **DISCLOSURE OF NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS**

### **Key Risks**

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk– the possibility that other parties might fail to pay amounts due to the Council;

- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Refinancing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

### **Overall Procedures for Managing Risk**

The Council's overall Risk Management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance Prudential Indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual Treasury Management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by a Central Treasury team. The Council maintains written principles for overall Risk Management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience

of its customer collection levels over the last five financial years, adjusted to reflect current market conditions. The balances shown relate to principal amounts only and therefore do not include accrued interest.

	31st March 2008 £000	Historical Experience of Default %	Adjustment for Market Conditions at 31st March 2008 %	Estimated Maximum Exposure to Default £000
<b>Deposits with Banks and Financial Institutions</b>				
AAA Rated Counterparties	6,000	0	0	0
AA Rated Counterparties	5,000	0.018	0.018	1
A Rated Counterparties	14,200	0.007	0.007	1
<b>Unrated Building Societies</b>	3,500	0.007	0.007	0
<b>Local Authorities</b>	3,000	0	0	0
<b>AAA Rated Money Market Funds</b>	13,430	0	0	0
<b>Trade Debtors</b>	2,286	3.7	3.7	85

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for its trade debtors, such that £1,093,000 of the £2,286,000 balance is past its due date for payment. The past due amount can be analysed by age as follows:

	<b>£000s</b>
Less than 3 months	273
3 to 6 months	111
6 months to a year	86
More than a year	623
	<b>1,093</b>

Trade debtors are included within the 'General Debtors' category shown in Note 16.

Collateral – During the reporting period the Council held no collateral as security.

### **Liquidity Risk**

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the Risk Management procedures above (the setting and approval of Prudential Indicators and the approval of the Treasury and

Investment Strategy reports), as well through cash flow management procedures required by the Code of Practice.

## Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved Prudential Indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the Central Treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities (principal amounts) is as follows:

	<b>£000s</b>
Less than 1 year	225
Between 1 and 2 years	60
Between 2 and 7 years	72
Between 7 and 15 years	82
More than 15 years	66,731
	<b>67,170</b>

The maturity analysis of financial assets (principal amounts) is as follows:

	<b>£000s</b>
Less than 1 year	37,186
Between 1 and 2 years	0
Between 2 and 3 years	8,000
More than 3 years	0
	<b>45,186</b>

All trade and other payables are due to be paid in less than one year and trade debtors of £2,286,000 are not shown in the table above.

## Market Risk

**Interest rate risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrowing at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or the Statement of Recognised Gains and Losses (STRGL). However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and effect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Central Treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

If all interest rates had been 1% higher with all other variables held constant the financial effect would be:

	£'000
Increase in interest payable on borrowings	695
Increase in interest receivable on loans	(408)
Impact on Income and Expenditure Account	287
Decrease in fair value of fixed rate investment assets (impact on STRGL)	184
Decrease in fair value of fixed rate borrowings liabilities (no impact on I+E Account or STRGL)	12,873
	<b>13,631</b>

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost

**Price Risk** - The Council does not invest in equity shares but does have shareholdings in Durham Tees Valley Airport Limited (£524,000) and SITA Tees Valley Limited (£197,000). These shares are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the Statement of Recognised Gains and Losses (STRGL). A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £36,000 gain or loss being recognised in the STRGL for 2007/2008.

**Foreign Exchange Risk** - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

## 25. DEFERRED CAPITAL RECEIPTS

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

Balance at 1st April 2007 £000		Repayments £000	Balance at 31st March 2008 £000
28	Housing Advances - Council House Sales	5	23
<b>28</b>		<b>5</b>	<b>23</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.

2006/2007 £000		2007/2008 £000
89,261	Opening Balance	64,446
10,648	Capital Grants received in year	8,866
(2,799)	Transferred to Capital Adjustment Account	(863)
0	In Year write Down of Grants on Assets Sold	(3,172)
(32,664)	Derecognition of Previous Years Grants	(30,764)
<b>64,446</b>		<b>38,513</b>

The 2006/2007 balance on this account has been restated to reflect the derecognition of Government grants from years prior to 2006/2007 which could not be directly attributable to an asset on the Asset Register. This balance was debited to the Fixed Asset Restatement Account prior to the creation of the new Capital Adjustment Account.



## 27. REVALUATION RESERVE

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> April, 2007.

<b>2006/2007 £000</b>		<b>2007/2008 £000</b>
0	Opening Balance	0
0	Revaluations	12,566
0	Revaluation loss on disposed assets	586
0	Revaluation Depreciation	(347)
0	Impairment on Fixed Assets	(2,382)
0	Revaluation Charged to I & E	1,772
<b>0</b>		<b>12,195</b>

## 28. CAPITAL ADJUSTMENT ACCOUNT

This account records the consumption of historic cost over the life of the asset and deferred charges over the period that the Authority benefits from the expenditure 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 Capital Adjustment Account is summarised on page 52.

<b>2006/2007 £000</b>		<b>2007/2008 £000</b>
137,736	Opening Balance	162,305
(8,086)	Capital Expenditure not increasing assets values	0
(3,751)	Carrying Amount of Asset Disposal	(6,282)
1,259	Revaluations and Restatements	(1,771)
(6,553)	Depreciation	(6,800)
0	Impairments	(3,294)
0	Write Down of Deferred Charges	(109)
2,676	Capital Financing - Capital Receipts	3,551
1,120	Capital Financing - Revenue	0
2,799	Transferred from Government Grants Deferred	863
(913)	Write out Govt Grants in year	3,172
32,664	Derecognition of Govt Grants Deferred	26,909
0	Previous Years Grant Depreciation	3,855
3,354	Minimum Revenue Provision	3,508
0	Transferred from Historic Quay and Coast Defence Reserve	4
0	Difference between HC Dep'n and CV Dep'n	347
0	Transferred from s278 Account	158
0	Revaluation loss on disposed assets	(586)
	Impairment Revaluation	2,382
<b>162,305</b>		<b>188,212</b>

29. **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>2006/2007 £000</b>		<b>2007/2008 £000</b>
1,197	Opening Balance	0
1,515	Capital Receipts received in year from sale of assets: Recognised in Income and Expeniture Account	4,249
(32)	Less: Payments to Government Pool	(4)
(2,680)	Less : Capital Receipts Used to Finance Capital Expenditure	(3,814)
<b>0</b>		<b>431</b>

30. **CAPITAL GRANTS AND CONTRIBUTIONS UNAPPLIED**

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

<b>2006/2007 £000</b>		<b>2007/2008 £000</b>
1,650	Opening balance	3,858
21,703	Grants due in year	16,447
0	LPSA converted to Revenue	(280)
(19,495)	Grants applied during the year	(14,225)
<b>3,858</b>		<b>5,800</b>

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

	<b>2007/2008 £000</b>
Lithgo Close - Land Works	1,698
NDC Area Remodelling	1,500
	<b>3,198</b>

### 31. EARMARKED RESERVES

Balance at 31st March 2007 £000		Transfers in/(Out) Year £000	Balance at 31st March 2008 £000	Notes
	<b><u>Capital Reserves</u></b>			
1,100	Capital Funding	1,306	2,406	a
87	Maritime Av Remedial	0	87	b
<b>1,187</b>	<b>Total Capital Reserves</b>	<b>1,306</b>	<b>2,493</b>	
	<b><u>Specific Revenue Reserves</u></b>			
1,592	Managed Revenue Underspend	191	1,783	c
411	Lotteries Reserve	5	416	d
59	Museums Acquisition	3	62	e
2	Graves in Perpetuity	(2)	0	
4,811	Insurance Fund	492	5,303	f
152	School Rates	(46)	106	g
2,727	Strategic Change Reserves	(406)	2,321	h
92	Emergency Planning	(11)	81	i
81	A2L	0	81	j
90	Broadband Implementation	20	110	k
370	LABGI	0	370	l
150	Single Status Implementation	(150)	0	m
400	Job Evaluation Protection	(400)	0	n
90	Swimming Pool Maintenance	5	95	o
800	Tall Ships Reserve	(96)	704	p
0	Pride in Hartlepool	35	35	q
0	Remedial Repairs	41	41	r
0	Cashfinder savings	16	16	s
0	Other Fund School Balances	7	7	t
0	Interest Equalisation	400	400	u
0	Building Schools for the Future	489	489	v
0	Business Transformation	500	500	w
<b>11,827</b>	<b>Total Revenue Reserves</b>	<b>1,093</b>	<b>12,920</b>	
	<b>Transfer to Earmarked Reserves</b>	<b>2,399</b>		
	<b><u>Collection Fund Reserve</u></b>			
148	Collection Fund Surplus/(Deficit)	(308)	(160)	x
<b>13,162</b>	<b>Total Earmarked Reserves</b>	<b>2,091</b>	<b>15,253</b>	

Details of earmarked reserves are set out below.

- The Capital Funding Reserve is earmarked to partly finance specific expenditure rephased to 2008/2009.
- 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) These are reserves used to carry forward departmental underspends for specific spending plans in future years.
- d) The Lotteries Reserve, which consists of the proceeds of the Civic Lottery and donations received, is used for grants and donations to local organisations.
- e) The Museums Acquisition Reserve was set up to put monies aside for the acquisition of items for the Museum.
- f) 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.
- g) The Schools Rates Adjustment arises from reductions in school rates payable following the reassessment of rateable values.
- h) 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.
- i) 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.
- j) Reserve set aside for building the A2L Centre.
- k) This reserve will be used by the Children's Services Department to support ICT/Broadband activities in Schools.
- l) 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 2009/2010 Budget and Council Tax Strategy.
- m) This Reserve was set up to fund costs of undertaking detailed job evaluations.
- n) This Reserve was set up to provide additional resources to assist with the implementation of a New Pay and Grading System and meets the costs of providing protection to individual employees.
- o) 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.

- p) This Reserve has been set aside to support the Tall Ships visit in 2010.
- q) This Reserve was set up to carry forward the underspend on the Pride in Hartlepool revenue budget.
- r) This includes amounts set aside by Neighbourhood Services Internal Works to fund remedial repairs to works already undertaken.
- s) Relates to savings generated by the "Cashfinder Exercise".
- t) School balances generated from other funding.
- u) Amounts set aside to protect the Council from higher interest rates or replacement loans in the event of LOBO being called.
- v) An amount set aside for the implementation of Buildings Schools for the Future.
- w) An amount set aside to fund the Business Transformation Programme.
- x) The Collection Fund Accounts have been incorporated into the Balance Sheet since 1993/1994, by Regulation.

## 32. GENERAL FUND BALANCES

Balance at 31st March 2007 £000	<u>Fund</u>	Transfers in/(out) £000	Balance at 31st March 2008 £000	Notes
3,050	<b>Schools Balances</b>	932	3,982	a
	<b>Non School General Fund Balances</b>			
3,709	General Fund	797	4,506	b
400	Stock Transfer	(200)	200	c
163	Revenue Managed Underspend	(148)	15	d
1,685	Strategic Change Reserves	(84)	1,601	e
7,582	Budget Support Fund	(2,011)	5,571	f
15	Energy Saving Fund (climate Change Levy)	(1)	14	
216	Provision for High Cost Children	(216)	0	g
50	Strategic Procurement Review	0	50	h
132	Termination Costs	723	855	i
366	The Way Forward	(129)	237	j
1,000	Stock Transfer Warranty	(1,000)	0	k
30	Young Peoples Services	(30)	0	l
563	LPSA Reward	(329)	234	m
70	Cabinet Projects	(66)	4	n
15,981		(2,694)	13,287	
<b>19,031</b>	<b>Total General Fund Balances</b>	<b>(1,762)</b>	<b>17,269</b>	

- a) Reserves have arisen from the local management of schools. Further details are available from the Children's Services Department. The net balance of £3.982m consists of individual school balances of £4.122m less loans to schools of £0.140m.
- 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 three years up to 2008/2009, 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 years budgets.
- g) This Reserve was fully utilised in 2007/2008. This continuing budget pressure has now been included as part of the Budget Policy Framework.
- 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) This reserve is to fund the one-off costs of achieving efficiencies in 2008/2009 and 2009/2010.
- 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 has been reallocated to partly fund the cost of Job Evaluation protection.
- l) This Reserve was fully utilised in 2007/2008 by 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.

### 33. **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 20, page 42).

### 34. **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 2007/2008 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.
- ii) 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 2007/2008 this Authority's maximum liability could have been £104,200 (£99,300 in 2006/2007). 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 1<sup>st</sup> 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.

- iii) An indemnity given to NE Press to allow the Council to access their land to complete Highways works.
- iv) 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.
- v) A guarantee given to the Middlesbrough Pension Scheme for the staff transferred on the transfer of Housing Stock.
- vi) The cost of a number of Equal Pay Tribunals that may potentially arise following the settlement of Equal Pay claims.
- vii) The Council may need to meet the costs of a number of Land Tribunal Claims, which may potentially arise following settlement of these claims. If these costs arise it is envisaged that they can be funded from available capital resources.

### 35. **POST BALANCE SHEET EVENTS**

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

### 36. **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 2007/2008. 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.

### 37. **LOCAL AREA AGREEMENT**

The Council is a participant in a Local Area Agreement (LAA) – a partnership with other public bodies involving the pooling of Government grants to finance work towards jointly agreed objectives for public services. In 2007/2008, the LAA has completed the second year of its three-year agreement.

The primary objective is to deliver better genuinely sustainable commitments through better outcomes for local people. In addition, the LAA will:

- Improve Central and Local Government relations;
- Enhance efficiency;
- Strengthen partnership workings;
- Provide a framework to which Local Authorities can enhance their community leadership role.

The LAA partners are:

Public Sector bodies –

Hartlepool College of Further Education

Hartlepool Primary Care Trust

Cleveland Fire Brigade

Housing Hartlepool.

Voluntary Organisations –

DISC

Hartlepool Carers

Hartlepool Voluntary Development Agency

Owton Fens Community Association

Wharton Annexe

West View Employment Action Centre

Owton Manor West Neighbourhood Watch & Residents Association

ORCEL

Solid Rock Youth Project

Manor Residents

West View Project

Grange Road Methodist Church

Hartbeat Bamardos

Belle Vue Youth, Sports & Community Centre

Hartlepool Deaf Centre

Endeavour Home Improvements Agency

Anchor Trust Community Development Team

East Durham & Hartlepool Alzheimers Trust

Hartlepool MIND

Safe in Tees Valley

Hartlepool Borough Council is the Accountable Body and received £7.933m in 2007/2008.



## 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.

2006/2007 £000		2007/2008 £000	2007/2008 £000	Notes
	<b>INCOME</b>			
	<b>Council Tax :</b>			
29,329	Billed to tax payers	30,870		
9,906	Council Tax Benefits transferred from General Fund	10,253		
39,235			41,123	1
0	Reduced Provision for Non-Payment of Council Tax		108	
	<b>Non Domestic Rates :</b>			
20,306	Income Collectable from Business Ratepayers	23,370		2
0	Reduced Provision for Non-Payment of NNDR	0		
20,306			23,370	
<b>59,541</b>	<b>TOTAL INCOME</b>		<b>64,601</b>	
	<b>EXPENDITURE</b>			
	<b>Precepts</b>			
39,063			41,243	3
80	Increased Provision for Non-Payment of Council Tax	0		
63	Increased Provision for Non-Payment of NNDR	39		
			39	
	<b>Non Domestic Rates :</b>			
20,128	Payment to National Pool		23,216	2
115	Cost of Collection Allowance		115	
	<b>Contributions for previous years estimated</b>			
	<b>Collection Fund Surplus :</b>			
104	Hartlepool Borough Council	254		
13	Cleveland Police Authority	31		
5	Cleveland Fire Authority	11	296	
122				
<b>59,571</b>	<b>TOTAL EXPENDITURE</b>		<b>64,909</b>	
(30)	Surplus/(Deficit) for the year		(308)	
178	Surplus/(Deficit) at the beginning of the year		148	
<b>148</b>	<b>Surplus/(Deficit) at the end of the year</b>		<b>(160)</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 20. 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 32,029 Band D equivalents in 2007/2008 (31,721 for 2006/2007) and the basic amount of Council Tax for a Band D property was £1,496.20 (£1,426.73 in 2006/2007).

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	24,899	16,599	854.77	105.40	37.30	997.47	24,836
B	7/9	5,966	4,640	997.23	122.97	43.52	1,163.72	6,943
C	8/9	5,381	4,783	1,139.69	140.54	49.73	1,329.96	7,157
D	9/9	2,794	2,794	1,282.15	158.10	55.95	1,496.20	4,180
E	11/9	1,376	1,682	1,567.07	193.24	68.38	1,828.69	2,516
F	13/9	565	816	1,851.99	228.37	80.82	2,161.18	1,221
G	15/9	380	633	2,136.92	263.51	93.25	2,493.68	948
H	18/9	41	82	2,564.30	316.21	111.90	2,992.41	123
<b>TOTALS</b>		<b>41,402</b>	<b>32,029</b>					<b>47,923</b>

The income of £41,123,000 for 2007/2008 (£39,235,000 in 2006/2007) is determined from the following sources: -

<b>2006/2007 £000</b>		<b>2007/2008 £000</b>
45,258	Opening Liability	47,923
353	Net increase/(decrease) in liability	(95)
(51)	Disabled Relief	(60)
(4,475)	Discounts	(4,732)
(1,818)	Exemptions	(1,768)
(32)	Write Offs	(145)
<b>39,235</b>		<b>41,123</b>

## 2. NON DOM ESTIC RATES

National Non Domestic Rates (NNDR) is organised on a national basis. The Government specifies an amount, termed the Uniform Business Rate which was 44.4p in 2007/2008 (43.3p in 2006/2007) 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 £23.216m (£20.128m in 2006/2007).

The total non-domestic rateable value at the year-end was £60,162,005.

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

<b>2006/2007 £000</b>		<b>2007/2008 £000</b>
22,118	Gross Rates payable	25,534
(3,128)	Mandatory Reliefs	(3,470)
1,579	Transitional Relief / Surcharge	1,461
(60)	Discretionary Reliefs set against NNDR pool	(66)
10	Write Offs	(26)
(213)	Refund of Overpayments	(63)
<b>20,306</b>	<b>Income Collectable From Ratepayers</b>	<b>23,370</b>
(115)	Cost Of Collection	(115)
(63)	(Increase)/Decrease in Bad Debt Provision	(39)
<b>20,128</b>	<b>Contribution to NNDR Pool</b>	<b>23,216</b>

## 3. PRECEPTS

Details of precepts on the Collection Fund are shown below:

<b>2006/2007 £000</b>		<b>2007/2008 £000</b>
33,472	Hartlepool Borough Council	35,346
4,125	Cleveland Police Authority	4,356
1,466	Cleveland Fire Authority	1,541
<b>39,063</b>		<b>41,243</b>

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

### ***Opinion on the Financial Statements***

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

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

### **Respective Responsibilities of the Chief Financial Officer and Auditors**

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

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

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

I 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. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

I 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. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of Audit Opinion**

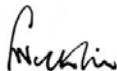
I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates

and judgments made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me 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 my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my 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 Council 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***

#### **Council's Responsibilities**

The Council 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 Council is required to prepare and publish a best value performance plan summarising the Council'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**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention

which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively. I am required by Section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report: certifying that I have done so; stating whether I 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**

I have undertaken my 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, I am satisfied that, in all significant respects, Hartlepool Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March, 2007.

### **Best Value Performance Plan**

I issued my statutory report on the audit of the Council's best value performance plan for the financial year 2006/2007 on 4 December 2006. I did not identify any significant matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

### **Certificate**

I certify that I 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

# ANNUAL GOVERNANCE STATEMENT

## 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 putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

1.4 The Council has a draft code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

## 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems and processes and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The governance framework has been in place at the Council for the year ended 31<sup>st</sup> March, 2008 and up to the date of approval of the Annual Report and Statement of Accounts.

2.3 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 2006/2007 STATEMENT**

- 3.1 Progress has been made over the course of 2007/2008 to address weakness in the system of internal control identified as part of the 2006/2007 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

<b>Issue Raised</b>	<b>Action Undertaken</b>
Disaster Recovery/Business Continuity	<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. <u>Review Programme and set new milestones</u></li></ul>
Partnership Protocols	CMT agree definition of a partnership. Exercise undertaken to identify significant partnerships. Work undertaken to assess governance arrangements in place.
Adoption of a Code of Corporate Governance	Draft Code of Corporate Governance distributed for 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 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 has been 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 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 the Viewpoint panel. Consultation with communities has been strengthened as part of diversity and equalities work. 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 AGS 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 AGS. 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. A new performance management database and risk database system (Covalent) has been procured which will enable clearer links between corporate and service planning objectives, actions, risks and PI measures.
- 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. The Audit Commission rated Hartlepool as "Improving Strongly" in its most recent Direction of Travel Statement.
- 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 IPF Better Governance Forum, 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 August, 2007. 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 Executives). A CMT/Cabinet annual review of the Strategic Risk Register (SRR) was carried out in August, 2007. Following on from previous training given to Cabinet and elected members and to take into account the new members of the Cabinet a training session was completed by GBI on 23<sup>rd</sup> July, 2007 plus three member training sessions completed on 23<sup>rd</sup> July, 2007 and 24<sup>th</sup> July, 2007.
- 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 in June, 2005 and refreshed in line with the new Covalent system requirements in March/April, 2008.
- 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 Portfolio Holder is Hartlepool Borough Council's 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 Annual Government Statement.
- 4.18 A database has been established to hold the departmental 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. A new performance management database and risk database system (Covalent) has been

procured to further strengthen this process. 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. All senior managers have been briefed about business continuity. The initial strategy as set out in 2006 has now been achieved. In the coming year a testing and review programme has been set out.
- 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. 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 Children, Schools and Families, 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 "four star" and "improvingly strongly", 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 responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who

have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and also by comments made by the external auditors 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 AGS. 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.

5.3 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

6. **SIGNIFICANT INTERNAL CONTROL ISSUES**

6.1 The following significant internal control issue has been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Adoption of a Code of Corporate Governance	Full Council to adopt draft code.	2008/2009	P Devlin

6.2 We propose over the coming year to take steps to address the above matter to further enhance our governance arrangements. We are satisfied that this will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

CHIEF EXECUTIVE:

DATE:

MAYOR:

DATE:

# 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 2007 £</b>		<b>Income  £</b>	<b>Expenditure  £</b>	<b>Balance at 31st March 2008 £</b>
5,380	Preston Simpson Scholarship Fund	1,508	2,000	4,888
3,998	Doughty Fund	211	0	4,209
156,711	Education Trust Funds	13,057	5,618	164,150
<b>166,089</b>		<b>14,776</b>	<b>7,618</b>	<b>173,247</b>

At 31<sup>st</sup> March, 2008, the Preston Simpson Scholarship Fund consisted of a cash investment with Hartlepool Borough Council of £4,888 and external investments with a value of £17,277 as at 31<sup>st</sup> December, 2007 (£16,923 as at 31<sup>st</sup> December, 2006).

As at 31<sup>st</sup> March, 2008, the Doughty Fund consisted wholly of a cash balance investment with the Council.

As at 31<sup>st</sup> March, 2008, the Education Trust Fund cash balance of £164,150 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 £89,593 as at 5<sup>th</sup> April, 2008 (£99,395 as at 5<sup>th</sup> April, 2007).

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.

### **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 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 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.

## **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.

### **DEFERRED LIABILITY**

These are liabilities which are by arrangement payable beyond the next year at some point in the future or paid off by annual sum over a period of time e.g. outstanding lease obligations.

### **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 from 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

## **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.

## **RESEARCH AND DEVELOPMENT**

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

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

## **RESIDUAL VALUE**

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

## **RETIREMENT BENEFITS**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

## **SCHEME LIABILITIES**

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

## **SETTLEMENT**

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

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;



- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

## **STOCKS**

Comprises the following categories:

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

## **TOTAL COST**

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

## **UNAPPORTIONABLE CENTRAL OVERHEADS**

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

## **USEFUL LIFE**

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

## **VESTED RIGHTS**

In relation to a defined benefit scheme, these are:

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

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

## **VOLUNTARY REVENUE PROVISION**

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

## FURTHER INFORMATION

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

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## AUDIT COMMITTEE

30 June 2008



**Report of:** Head of Audit and Governance

**Subject:** AUDIT COMMITTEE ANNUAL REVIEW

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the work undertaken by the Audit Committee during the municipal year in order for it to meet the requirements of its role and responsibilities as laid down by Council.

### 2. BACKGROUND

- 2.1 The remit of the Audit Committee as agreed at Council on the 4.11.04 is to:

- Promote the independent internal audit function and raise awareness of internal control, reviewing controls and financial operations and developing an anti-fraud culture.
- Focussing and monitoring the Council's audit resources by reviewing the plans of the external auditor and the internal audit team to ensure that audit work is coordinated.
- Monitoring audit performance by including reporting schedules and action on recommendations.

- 2.2 Audit Committees are seen as vital components in the arrangements Councils have in place to ensure that good governance practices and procedures are embedded within Council wide arrangements. This is reflected in the Use of Resources element of the CPA inspection process that states:

"The Council can demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance; that it provides challenge to the Executive when required and provides for effective leadership on governance, financial reporting and audit issues."

### 3. AUDIT COMMITTEE ACTIVITY

- 3.1 In order to fulfil the requirement mentioned in paragraph 2.2, the Audit Committee has undertaken the following activities within the municipal year:
- 3.2 *Reviewed the Internal Audit Outcome Report 2006/07* – This provides accountability for internal audit delivery and performance and allowed Members to monitor the application of the delegated authority for ensuring an effective and satisfactory Internal Audit function in accordance with the Accounts and Audit Regulations 2003 as amended 2006 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- 3.3 *Reviewed and approved the 2006/07 Statement on Internal Control* – This allowed members to review the councils approach to meeting the implications of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement; that the Council publish a Statement on Internal Control with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.
- 3.4 *Internal Audit Plan 2007/08 Update* – Four of these reports were reviewed during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed members to review the outcomes of all completed internal audit reports and comment upon any areas of concern.
- 3.5 *Annual Governance Statement Update 07/08* – This updated Members on the proposed process to complete the Annual Governance Statement (AGS) for 2007/08 and the Audit Committees role in its production.
- 3.6 *Review and Approval of Council Accounts* – The Audit Committee reviewed a request from General Purposes Committee that it take over this role and recommended to Constitution Working Group that this change be implemented.
- 3.7 *Reviewed Audit Commission Audit and Inspection Plan* – This allowed the Audit Committee to review the proposed work of the Audit Commission for 2007/08.
- 3.8 *Reviewed Audit Commission Reports - Data Quality and National Fraud Initiative* – This allowed members to review the work of the Audit Commission in the two areas of operation covered.
- 3.9 *Consider the 2008/09 Internal Audit Plan* – This report informed Members of the direction of Internal Audit activity and sought approval

of the annual operational Internal Audit Plan for 2008/09. It also provided accountability for internal audit services allowing Members to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function in accordance with the Accounts and Audit Regulations 2003 as amended 2006 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).

- 3.10 *Reviewed Audit Commission Use of Resources Report* – The committee reviewed the Audit Commission Use of Resources assessment to evaluate how well councils manage and use their financial resources.
- 3.11 The sum total of this information, training, analysis and reviews allows the Audit Committee to fulfil its remit and also satisfies the Councils obligation under Regulation 6 of the Accounts and Audit Regulations 2003 as amended 2006, that the relevant body conduct an annual review of its system of internal audit.

#### **4. RECOMMENDATIONS**

- 4.1 That the work undertaken by the Audit Committee in 2007/08 is reported to and endorsed by the Council.

## **AUDIT COMMITTEE**

**30 June 2008**



**Report of:** Chief Financial Officer

**Subject:** ANNUAL GOVERNANCE STATEMENT  
2007/08

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### **1. PURPOSE OF REPORT**

- 1.1 To inform Members of the implications to the Council of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement; that the Council publish an Annual Governance Statement (AGS) with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.
- 1.2 The report considers the following areas:
- Why the Council needs an AGS,
  - Who is responsible,
  - How the AGS was produced.

### **2. Why**

- 2.1 To clearly demonstrate to stakeholders, that the Council has adequate arrangements in place to ensure that it effectively manages and controls its financial and operational responsibilities in accordance with acknowledged best practice. Paragraphs 2.2 to 2.4 detail positive benefits to the Council of achieving this end.

#### **2.2 Statutory Requirement**

The Accounts and Audit Regulations require that: “the Council ensures that its financial management is adequate and effective and that there is a sound system of internal control which effectively facilitates its functions and which includes arrangements for the management of risk.

The Council shall conduct a review at least once a year of the effectiveness of its internal controls and shall include a statement on internal control with any statement of accounts it is obliged to publish”.

## 2.3 Good Governance

Production and publication of an AGS are the final stages of an ongoing review of internal control and are not activities which can be planned and viewed in isolation. Compilation of an AGS involved the Council in:

- Reviewing the adequacy of its governance arrangements,
- Knowing where it needs to improve those arrangements, and
- Communicating to users and stakeholders how better governance leads to better quality public services.

## 2.4 Comprehensive Performance Assessment

Assurance derived from the monitoring of processes, including risk management, provides evidence, which allows assessors to form conclusions on the efficiency and effectiveness of the Council's operations. The AGS provides assurance that the Council has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for managing risk.

# 3 Who

## 3.1 Corporate Responsibility

The Council's system of internal control must reflect its overall control environment, not just financial, which encompasses its organisational structure. Internal control is a corporate responsibility and the scope of internal control accordingly spans the whole range of the Council's activities and includes controls designed to ensure:

- The Council's policies are put into practice and its values are met,
- Laws and regulations are complied with,
- Required processes are adhered to,
- Financial statements and other information are accurate and reliable,
- Human, financial and other resources are managed efficiently and effectively, and
- High quality services are delivered efficiently and effectively.

## 3.2 Contributors to the AGS

- Cabinet
- Portfolio Holders
- Audit Committee
- CMT
- Corporate Risk Management Group
- CFO
- Monitoring Officer
- External Auditors and other Review Bodies

- Internal Audit and
- Management.

#### **4 How**

- 4.1 Having established a system of internal control, it is then necessary to consider which of these controls are key in mitigating against significant risk. By obtaining assurance on the effective operation of these key controls the Council is able to conclude on the effectiveness of the systems and identify where improvement is needed.

The review of internal control and AGS assurance gathering included:

- Establishing obligations and objectives,
- Identifying principal risks,
- Identifying and evaluating key controls to manage risks,
- Obtaining assurances on the effectiveness of controls,
- Evaluating assurances,
- Action planning to correct issues and continuously improve.

- 4.2 In practice the Council already had most of the necessary internal controls in place, what was required was to incorporate them into a framework for producing an AGS that met the requirements of the Regulations. In order to do this the Council has:

- Identified roles and responsibilities,
- Provided training,
- Gone through a process of establishing objectives, identifying risks and recording controls,
- Gathered and retained evidence for inspection,
- Drafted the AGS.

#### **5. Recommendations**

That Members review and approve the attached 2007/08 Annual Governance Statement.



## **HARTLEPOOL BOROUGH COUNCIL** **ANNUAL GOVERNANCE STATEMENT**

### **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 putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.4 The Council has a draft code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

### **2 The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process

designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at the Council for the year ended 31 March 2008 and up to the date of approval of the annual report and statement of accounts.

- 2.3 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 2006/07 Statement**

- 3.1 Progress has been made over the course of 2007/08 to address weakness in the system of internal control identified as part of the 2006/07 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	<ul style="list-style-type: none"> <li>- Review Building Risk plan and finalise for distribution. Completed</li> <li>People Risk pro-forma to be considered.</li> <li>- Review People Risk plan and finalise for distribution. Completed</li> <li>Suppliers Risk pro-forma to be considered.</li> <li>- Review Suppliers Risk Plan and finalise for distribution. Completed</li> <li>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>
Partnership Protocols	CMT agree definition of a partnership. Exercise undertaken to identify significant partnerships. Work undertaken to assess governance arrangements in place.
Adoption of a Code of Corporate Governance	Draft Code of Corporate Governance distributed for 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 23/03/06) 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 has been 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 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 the Viewpoint panel. Consultation with communities has been strengthened as part of diversity and equalities work. 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 AGS 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 AGS. 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. A new performance management database and risk database system (Covalent) has been procured which will enable clearer links between corporate and service planning objectives, actions, risks and PI measures.
- 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. The Audit Commission rated Hartlepool as “Improving Strongly” in its most recent Direction of Travel Statement.
- 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 IPF Better Governance Forum, 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 August 2007. 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 07 and incorporated within service plan (Chief Execs). A CMT/Cabinet annual review of the Strategic Risk Register (SRR) was carried out in August 07. Following on from previous training given to cabinet and elected members and to take into account the new members of the cabinet a training session was completed by GBI on 23/07/07 plus 3 member training sessions completed on 23/07/07 and 24/07/07.
- 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 in June 2005 and refreshed in line with the new Covalent system requirements in March/April 2008.

- 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 Portfolio Holder is Hartlepool Borough Council's 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 AGS.
- 4.18 A database has been established to hold the departmental 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. A new performance management database and risk database system (Covalent) has been procured to further strengthen this process. 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 6 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. All senior managers have been briefed about business continuity. The initial strategy as set out in 2006 has now been achieved. In the coming year a testing and review programme has been set out.
- 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. 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 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 "four star" and "improvingly strongly", 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 responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors 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 AGS. 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 "four star" category.

5.3 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.



## 6 Significant Internal Control Issues

6.1 The following significant internal control issue has been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Adoption of a Code of Corporate Governance	Full Council to adopt draft code.	2008/09	P Devlin

6.2 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:**

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Mayor & Chief Executive on behalf of Hartlepool Borough Council.