

AUDIT COMMITTEE AGENDA



Wednesday, 22 September 2010

at 9.00 am

in Committee Room A, Civic Centre, Hartlepool

MEMBERS: AUDIT COMMITTEE:

Councillors C Akers-Belcher, Hall, Hill, J W Marshall, McKenna, Preece and Turner
(Councillor R Wells as Substitute for Councillor McKenna)

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 25 August 2010
4. **ITEMS FOR DISCUSSION/DECISION**
 - 4.1 Internal Audit Plan 2010/11 Update – *Head of Audit and Governance*
 - 4.2 Approval of 2009/10 Statement of Accounts – *Chief Finance Officer*
 - 4.3 Treasury Management Outturn 2009/10 – *Chief Finance Officer*
5. **ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

25 August 2010

The meeting commenced at 9.00 a.m. in the Civic Centre, Hartlepool

Present:

Councillor Christopher Akers-Belcher (In the Chair)
Councillors Gerard Hall, Cath Hill, Arthur Preece and Mike Turner

In accordance with Council Procedure Rule 4.2 Councillor Ray Wells was also present as substitute for Councillor Chris McKenna.

Officers: Chris Little, Chief Finance Officer
Noel Adamson, Head of Audit and Governance
Jo Wilson, Democratic Services Officer

8. Apologies for Absence

Apologies were submitted by Councillors J W Marshall and Chris McKenna.

9. Declarations of interest by members

None

10 Confirmation of the minutes of the meeting held on 25th June 2010

Confirmed – subject to the following amendment:

That “Ms Harold felt that the Audit Commission would be scaled down considerably but was unable to speculate further” be amended to “Ms Harold commented on potential changes within the Audit Commission as a result of the abolition of the Comprehensive Area Assessment”

Matters Arising

Members referred to the potential demise of the Audit Commission and subsequent need for increased dealings with private sector auditing companies. They urged officers to be cautious in their future dealings with these organisations given their propensity for lavish hospitality at public expense. The Chief Finance Officer indicated that very little detail had as yet been released following the announcement of the abolition of the Audit Commission. Currently the Audit Commission appointed auditors to individual councils, either from their own staff or approved private auditing firms. This might continue unchanged or local authorities might be given

greater powers to invite companies to tender for the work. Members commented that this was a very specialist discipline and even larger local firms would be unlikely to have the knowledge or capacity to undertake such a role. They also queried whether representatives from the Audit Commission would continue to attend Audit Committee meetings for the time being or would other advisors be sought. The Chief Finance Officer informed members that the Audit Commission were carrying on as normal pending further information. The Chair requested that members be briefed when any new information was released. The Chief Finance Officer confirmed that this would be done, either through a convenient meeting of the committee or via documentation sent to members.

11 National Fraud Initiative Update *(Chief Finance Officer)*

Purpose of report

To inform Members of the processes in place and progress made to date regarding the Council's involvement in the National Fraud Initiative.

Issue(s) for consideration by the Committee

The National Fraud Initiative (NFI) is a data matching exercise which has operated since 1996. It compares sets of data to see how far they match and allow potentially fraudulent claims and payments to be identified. Participating bodies then receive a report of matches that they should follow up and investigate where appropriate for possible instances of fraud, over and under payments and other errors. At Hartlepool Borough Council the Head of Audit and Governance is the key contact with the NFI, charged with ensuring that the relevant officers had suitable qualifications and the appropriate access to the NFI website to allow them to follow up investigations. The Data Protection Act 1998 requires individuals to be informed that their data will be processed via a fair processing notice. This information is included on Council Tax Bills and employee payslips with more detailed information available on the Council's website.

The responsibility for investigating data matches falls under Internal Audit, Revenues and Benefit Fraud. In 2006/07 total fraud and error savings of £52,081 were generated. A copy of the Audit Commission's review of the 2006/7 NFI was appended to the report. In 2008/09 savings of £64,443 were made from 50 proven cases. Further supplementary information was tabled for members during the meeting. The Chief Finance Officer expressed concerns that fraud investigation could be seen as an easy area to cut funding and that this could subsequently lead to an increase in fraud due to the removal of any deterrent. This could in turn lead to an increase in Council Tax.

Members referred to large expenditures in this area, commenting that recovering only 20% of the total cost spent was not value for money. The Chief Finance Officer acknowledged this but said this was the system imposed and paid for by the Government. Members highlighted that these were only guidelines however the Chief Finance Officer indicated that if councils made any significant changes from these guidelines the Government

may implement a less flexible systems. Funding could also be removed. Being seen to investigate fraud diligently also had a deterrent effect, the loss of which could have costly repercussions. Members felt that this deterrent would be just as effective if all types of fraud were publically prosecuted rather than just concentrating on the larger amounts. They highlighted the fact that 12 members of staff had aided in just 83 outcomes over the last year, saying this was too low and not value for money. The Chair suggested that this be fed into the budget process for 2011/12. The Chief Finance Officer indicated that an internal review of this area was currently taking place and he also expected the coalition Government to consider this on a national level.

Members queried how easy it was to recover over-paid benefits. The Chief Finance Officer advised that where people were continuing to receive other forms of benefit it was relatively straightforward. However in some cases recovery through other forms of benefit could lead people into hardship. Recovering overpayment from people who had left the benefits system altogether was more problematic. He commented that in many cases benefit fraud was committed accidentally, particularly in relation to the single person discount where a child might turn 18 and their single parent be unaware that this discount had now expired. This in particular had led to a review of this discount being built into the budget strategy many years ago since when instances of this type of fraud had greatly diminished. A member highlighted the potential unfairness of the single person discount but the Chief Finance Officer indicated that Government regulations required everyone to have a single fixed address for council tax purposes.

Decision

That the contents of the report be noted and the comments of members be fed into the budget process for 2011/12.

12 Any other items which the Chair considers are urgent

The Chief Finance Officer advised members that following the Icelandic banking crisis a recommendation had been made that Audit Committee should have greater involvement in treasury management matters. Due to timescales it had not been possible to implement this the previous year however next year it would be considered by the committee prior to consideration by full Council. Training would therefore be required, with all councillors invited to attend. Several potential dates were given with the morning of Friday 8th October being identified as the most suitable.

Decision

That training on Treasury Management take place on the morning of Friday 8th October, to be offered to all elected members.

The meeting concluded at 9:50 am.

CHAIR

AUDIT COMMITTEE

22 September 2010



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2010/11 UPDATE

1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2010/11.

2. BACKGROUND

- 2.1 In order to ensure that the Audit Committee meets its remit, it is important that it is kept up to date with the ongoing progress of the Internal Audit section in completing its plan. Regular updates allow the members of the Committee to form an opinion on the controls in operation within the Council. This in turn allows members of the committee to fully review the Annual Governance Statement, which will be presented to a future meeting of the Committee, and after review, will form part of the statement of accounts of the Council.

3. AUDITS COMPLETED AND IN PROGRESS

- 3.1 **Appendix A** of the report details the pieces of work that have been completed.
- 3.2 As well as completing the afore mentioned audits, Internal Audit staff have been involved with the following working groups:
- Information Governance Group.
 - Procurement Working Group.
 - Performance and Risk Management Group.
- 3.3 The section is in the process of ensuring arrangements are in place to provide the required data matches to the Audit Commission in relation to the National Fraud Initiative (NFI) for 2010/11.
- 3.4 **Appendix B** details the audits that were ongoing at the time of compiling the report.

4 AUDIT PLAN PROGRESS

- 4.1 The work completed and currently ongoing is in line with expectations at this time of year, and audit coverage to date has allowed the Audit Commission to place reliance on the scope and quality of work completed when meeting their requirements under the Audit Code of Practice.

5 RECOMMENDATION

- 5.1 It is recommended that Members note the contents of the report.

Appendix A

Audit	Objectives	Recommendations	Agreed
Barnard Grove Primary	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - As well as identifying individual training needs, Members of the Governing Body (and in particular Finance) should evaluate their strengths in order that the school may utilise these competencies. - The staffing structure of the school should be reviewed periodically with any changes to the structure approved by the Governing Body. - The school improvement plan should be based upon 3 to 4 years instead of annual in order to comply with DoE guidance, which defines a School Development Plan as a high-level strategic planning document covering all the school's activities over a period of three or four years, and is embedded into the schools management and governance processes. - Formal testing of back ups should be undertaken and recorded to provide assurance that IT systems can be restored in event of failure. - Annual checks should be undertaken and recorded to ensure that all software loaded is legal. Alternatively the school should restrict the ability of staff to install their own software. - All governors should be required to be subject to CRB disclosure upon appointment. CRB clearances should be reviewed every three years. - The School profile containing all relevant information about the school should be brought up to date. - The school should consider amending registers for Breakfast Club to show clearly income received and banked. Income passed to the office for banking should be agreed with registers and signed by the two officers involved. Governors should agree charges for the breakfast club on an annual basis. - Risk management should be embedded into the schools processes. This can be achieved by: <ul style="list-style-type: none"> <input type="checkbox"/> Establishing a risk management group should to co-ordinate the school's risk management activities; <input type="checkbox"/> providing appropriate training in risk management to the group; <input type="checkbox"/> Undertaking risk assessments of all school activities to identify, evaluate and treat risks to the achievement of 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

		<p>the schools priorities. The school may utilise the risk management software provided by internal audit in order to carry out annual reviews of the school's risk position and inform the preparation of the school's Statement of Internal Control.</p> <ul style="list-style-type: none"> - The school should have an ICT strategy in place which provides direction in the use of ICT resources in the areas of learning, teaching and administration. - Contract Procedure Rules should be followed when acquiring goods / services in excess of £5000.00. - In order to demonstrate Best Value in the provision of its services the School should identify areas to review the economic, efficient and effective use of resources, document these areas in a best value statement and submit this statement to the LEA on an annual basis. - A review of internet use forms will be undertaken at the follow up review. - Supporting documentation should be made available to the auditor in order to provide assurance that payment towards the scheme is valid and legitimate. - Staff should be issued with copies of the HBC Data Protection Policy to ensure that they are aware of their responsibility to process personal data in accordance with the eight data protection principles. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Special Education Needs Support	<p>Ensure HBC provides a SEN support service in line with the SEN Code of Practice, statutory requirements and best practice guidance, adequate arrangements are in place to ensure that all children with SEN are identified and provided with appropriate support, the support required is adequately documented, monitored and reviewed to ensure that the correct level is provided, partnership arrangements are clearly defined and aimed at meeting the needs of clients. Adequate performance monitoring is in place, resources are used efficiently, economically and effectively.</p>	<ul style="list-style-type: none"> - The Special Education Needs Policy should be reviewed annually and updated if there are any changes in legislation. - Performance Management arrangements are to be examined as part of the follow up audit. - Extra district charges should be verified by another officer prior to invoices being raised and issued. 	<p>Y</p> <p>Y</p> <p>Y</p>
St Aidans Primary	<p>Ensure school financial and governance arrangements are in line with best practice.</p>	<ul style="list-style-type: none"> - A register of business interests (including 'nil' returns) should be maintained for all governors and those staff who can influence purchasing 	<p>Y</p>

		<p>decisions. The register should be updated at least annually.</p> <p>- The Governing Body should undertake a review of the schools control environment and prepare / sign a Statement on Internal Control which reflects the guidance issued by DoE. Any material weakness in the control environment of the school should be reflected in the wording of the SIC.</p> <p>- The Governing Body should adopt the HBC Whistle Blowing Policy and ensure that it is communicated to all staff.</p> <p>- A self evaluation of financial management competencies should be carried out by members of the governing body with a financial role, using DoE competency grids. Such Governors should be given the opportunity to attend financial management training courses, particularly to address any gaps in their competencies and records maintained of any training provided.</p> <p>- The school should carry out a benchmarking exercise for this financial year using the DoE Teachernet benchmarking website to evaluate performance against similar schools. These results should be approved by the Governing Body and action taken to address any areas of concern.</p> <p>- The staffing structure of the school should be reviewed periodically with any changes to the structure approved by the Governing Body.</p> <p>- The school improvement plan should be based upon 3 to 4 years instead of annual in order to comply with DoE guidance.</p> <p>- The School profile published on the direct.gov website should be up to date in order that parents can access all relevant information about the school.</p> <p>- The Governing Body should ratify the LEA's Financial Regulations which should be reviewed on a regular basis (at least two yearly).</p> <p>- The Governing Body should formally adopt a scale of charges which should be reviewed on an annual basis.</p> <p>- All items of equipment costing in excess of £500 or of a portable and attractive nature should be recorded in the inventory record along with all relevant information (i.e. serial numbers etc). A stock check should be</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
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		<p>undertaken on an annual basis. The person undertaking the stock take should be independent of the day to day maintenance of the inventory and should sign and date the inventory.</p> <ul style="list-style-type: none"> - Risk management should be embedded into the schools processes. This can be achieved by: <ul style="list-style-type: none"> □ Establishing a risk management group should to co-ordinate the school's risk management activities; □ providing appropriate training in risk management to the group; □ Undertaking risk assessments of all school activities to identify, evaluate and treat risks to the achievement of the schools priorities. The school may utilise the risk management software provided by internal audit in order to carry out annual reviews of the school's risk position and inform the preparation of the school's Statement of Internal Control. - Records should be maintained by the school of all software loaded onto desktop machines / laptops etc. Regular software audits should be undertaken by the school to ensure that unauthorised software has not been installed on machines and that the number of software licences retained agrees to the software loaded onto machines. - Annual accounts should be presented to the Governing Body. - Documentation relating to recruitment exercises should be retained securely for a period of six months. - School should maintain training records for all staff. - The school should consider registering the private fund with the Charity Commissioner. - Appropriate checks (e.g. references) should be undertaken on all new Governors. CRB clearances should be reviewed every three years. - In order to demonstrate Best Value in the provision of its services the School should identify areas to review the economic, efficient and effective use of resources, document these areas in a best value statement and submit this statement to the LEA on an annual basis. - The school should have an ICT strategy in place which provides direction in the use of ICT resources in the areas of learning, teaching and administration. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
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		<ul style="list-style-type: none"> - The school should develop detailed local procedures for the finance function and ensure that they are approved by the Governing Body. - An internet policy should be made available to parents, and permission sought to enable children to access the internet. - All staff with access to IT systems & confidential Information should complete a data protection form of undertaking. - Appropriate checks (e.g. references) should be undertaken on all staff. CRB clearances should be reviewed every three years. - Back ups should be made and checked to ensure if there was an IT failure then information can be restored. Back ups should be stored in a secure location within the school away from the main computer/server. For Data Protection reasons back ups should not be taken off the premises. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Loans and Investments	<p>Ensure that all legislative and regulatory requirements have been met, all loans are properly authorised, controlled & recorded in line with current Contract & Financial Procedure Rules. Borrowing levels are related to the authority's needs and there is an adequate borrowing policy, all investments are properly authorised, controlled & recorded in line with current Contract & Financial Procedure Rules, the treasury management software is sufficiently secure to prevent unauthorised access, procedures are in place to ensure that all relevant Treasury Management Practices (TMPs) have been incorporated into the organisation's Treasury Management Policy Statement, and all the relevant systems and routines to be used in the treasury management function are laid down in the schedule to the policy statement, key treasury management indicators are correctly calculated and reported on, giving an accurate and informative picture of the treasury management function's performance. Results are benchmarked or compared to similar organisations and/or similar treasury management</p>	<ul style="list-style-type: none"> - Written procedures should be produced to detail the procedure for requesting the opening of a new bank account for the authority. 	<p>Y</p>

	functions, procedures are in place to ensure legislative and regulatory requirements are met regarding reporting and accounting for treasury management in the accounts, appropriate levels of valid fidelity insurance are maintained, all bank accounts are set up following laid down secure procedures.		
Section 17 Payments	Ensure documentation supporting payments was properly authorised and accounted for.	<ul style="list-style-type: none"> - When Section 17 process training is provided at the induction stage, a record is maintained to show the level of training provided and when it was carried out. - Section 17 forms are completed and returned by Social Workers within the 3 day deadline as set out in the payment process. - All Section 17 forms issued are returned fully completed and staff must ensure that all signatures are obtained and dates of receipt included on all forms. 	Y Y Y
Extra Care Village Partnership	Adequate governance arrangements are in place to ensure identified risk is mitigated.	<ul style="list-style-type: none"> - That the Extra Care Housing Strategy is reviewed to ensure that it is still relevant and ties in with other policies and strategies within HBC. - That for future partnerships, arrangements are put in place to develop performance indicators linked to the aims and objectives of the partnership and that these are reported and monitored by the appropriate Partnership Board. - For future partnerships, the partnership should have a communication strategy in place with a range of channels to interact with; internal - partner agencies / representatives / staff / councillors / newsletters / agendas / meetings, external - service users / public / media / business / well publicised meetings held in public - use of local media to promote work of the partnership and invite contributions from the general public / website. - That a code of conduct is developed for all partnership staff and members. - Arrangements should be put in place to review risks on a regular basis throughout the life of the partnership and the results of the reviews should be reported to the Partnership Board. 	Y Y Y Y Y
Landscape Planning and Conservation	Procedures are in place to ensure identified risk is mitigated in achieving the objectives of the section.	<ul style="list-style-type: none"> - It is suggested that either the description used on Integra is standardised or a reference number is generated for each application and this 	Y

		<p>is used in Integra as part of the description. The spreadsheet could be updated with amounts actually paid at the time they are paid to enable better referencing.</p> <ul style="list-style-type: none"> - Consideration be given to reviewing the amount to be charged for raising formal high hedge complaints and ensuring it is regularly reviewed and approved by the most relevant officer/committee. 	Y
CRB	<p>To review the arrangements in place across the Council for setting appropriate policy which requires applicants to be subject to appropriate level of clearance dependent upon the nature of the post; ensuring that such policy is in accordance with legislation and any best practice available; reviewing procedures to ensure compliance with Council Policy. Reviewing the procedures for maintaining up to date registration details, the accurate completion of applications, appropriate checks on identity, the secure handling, processing and storage of disclosures and dealing with returned disclosures in a manner that complies with legislative and regulatory requirements.</p>	<ul style="list-style-type: none"> - HR should scan all documents from disclosures and email them to the Civic Centre. This should be reviewed on a regular basis to ensure that it is cost effective. - Disclosures should be appropriately disposed of after six months in line with CRB guidance. - A formal written policy should be in place and training provided which requires recruiters to seek advice from Human Resources regarding the level of disclosure required for all posts and whether clearance is actually required given the nature of responsibilities. - CRB Holding accounts and invoices should be examined and reconciled regularly. - All counter signatories should be required to sign a statement that they have read and will comply with Appendix 9 of the Recruitment and Selection Policy on the security of disclosure information. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Childrens Fund	<p>To ensure that there are arrangements in place for legislation to be complied with and best practice guidance to be considered in relation to the requirements of the Childrens Fund.</p>	<ul style="list-style-type: none"> - A formal up to date Prevention Strategy should be developed which defines a vision of the service that is consistent with the overarching CYPP 2009-20 and how it intends to achieve both national and local objectives whilst considering the risks associated with a service largely driven by national funding that may not be long-lasting. The Strategy should define the desired outcomes of the service and performance management arrangements. - Outcomes / targets should be established to enable the effective use of resources within the TAPS team to be measured / monitored. - Formal documented procedures should be developed for receiving and responding to referrals. Such procedures should address the quantity and quality of information required by the team, the type of assessment required and the relevant review and authorisation processes 	<p>Y</p> <p>Y</p> <p>Y</p>

		<p>that are required in determining appropriate service provision.</p> <p>- Documented procedures for receiving and responding to FIP referrals should be updated and extended to include sufficient detail. All documentation should be completed fully and dated to enable a trail to be maintained.</p> <p>- A review of IT systems used by Prevention Services should be undertaken to ensure that all information required by the service is accessible and is maintained in an efficient and effective manner. Appropriate training should be provided to enable all appropriate information to be extracted from systems to enable effective monitoring of the service and maximise the effectiveness of decision making.</p> <p>- Quarterly checks undertaken by HBC staff should include reviews of records of enhanced CRB clearances (including 3 yearly renewals) of staff / volunteers and Health and Safety assessments for all activities undertaken during the quarter.</p> <p>- Minimum criteria should be established to maintain the security of passwords for the Careworks system. Such criteria should consider:</p> <ul style="list-style-type: none"> <input type="checkbox"/> password length at a minimum of 8 characters; <input type="checkbox"/> case sensitivity; <input type="checkbox"/> alphanumeric. <p>Passwords changes should be enforced by the system at least monthly.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>N</p>
Supporting People	Provide assurance that risk is being managed at an acceptable level by reviewing the arrangements in place for delivering the Supporting People Programme.	<p>- Formal terms of reference should be developed and agreed to define the purpose, membership and structure of the Steering Group. Such ToR should provide a documented basis for decision making and confirming the scope of the group as well as define when meetings are quorate.</p> <p>- The order of business of meetings should be established to ensure that the Group fulfils its role as Commissioning Body and Partnership Board as defined in the Supporting People Strategy and reflected in new Terms of Reference. Membership should be formally defined and allow for substitutions to enable consistency and ensure members are up to date with SP programme through continuous involvement. Members should be reminded of the importance of attending meetings.</p>	<p>Y</p> <p>Y</p>

		<p>- There should be member involvement in the Supporting people programme, which should include as a minimum reports to Cabinet of outcomes of the Supporting people programme.</p> <p>- An information sharing protocol which provides a framework for sharing information between partner organisations and assist in delivering co-ordinated and seamless services. The protocol should have regard of the Data Protection Act 1998.</p> <p>- Meetings of the Provider reference Group should be undertaken in accordance with defined terms of reference. Members should be reminded of the importance of attending meetings.</p> <p>- A review of service user charges will be undertaken as part of the follow up review.</p> <p>- Annual plans should be developed following reviews of the Supporting People Strategy and approved by the Steering group. Such plans should provide demonstrable evidence of their consistency with Corporate plans and objectives.</p> <p>- Service reviews should be Undertaken in accordance with Service Review Policy (2006). Reports should be reviewed to ensure that they are consistent with supporting documentation obtained during the review process.</p> <p>- That all policies and procedures are reviewed and updated as appropriate and necessary. The Commissioning Body should approve the amended policy documents.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Sustainability	Ensure the Council takes into account sustainability issues when carry out its functions.	<p>- Objectives within the Sustainability Appraisal matrix should be cross referenced to draft plans to provide the evidence needed to support short, medium and long term conclusions.</p> <p>- A review should be undertaken to identify all strategies / plans that are required by statute to be subject to a Sustainability Appraisal are considered or are likely to have a significantly adverse effect. Such a review should incorporate:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Review dates of plans; <input type="checkbox"/> Responsible officers; <input type="checkbox"/> Type of appraisal required i.e. Sustainability / SEA; <p>An action plan should be developed to timetable all necessary reviews and appraisals.</p>	<p>Y</p> <p>Y</p>

Sacred Heart Primary	Heart	Ensure school financial and governance arrangements are in line with best practice.	<p>- The Statement of Internal Control for the financial year ended 31/3/2011 can be prepared following a review of the risk, control environment of the school. The internal audit report can be used as a source of assurance.</p> <p>- Documentation relating to recruitment exercises should be retained securely for a period of six months.</p> <p>- The staffing structure of the school should be reviewed periodically (two yearly) with any changes to the structure approved by the Governing Body.</p> <p>- The Governing Body should ratify the LEA's Financial Regulations which should be reviewed on a regular basis (at least two yearly).</p> <p>- The Governing Body should formally adopt a scale of charges for the Breakfast Club and Munchkins After School Club, with charges reviewed on an annual basis.</p> <p>- The school should request a copy of the bank mandate and retain it in a secure manner. A copy should be provided to internal audit as part of the follow up review.</p> <p>- A stock check should be undertaken on an annual basis. The person undertaking the stock take should be independent of the day to day maintenance of the inventory and should sign and date the inventory.</p> <p>- Risk management should be embedded into the schools processes. This can be achieved by:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Establishing a risk management group should to co-ordinate the school's risk management activities; <input type="checkbox"/> providing appropriate training in risk management to the group; <input type="checkbox"/> Undertaking risk assessments of all school activities to identify, evaluate and treat risks to the achievement of the schools priorities. The school may utilise the risk management software provided by internal audit in order to carry out annual reviews of the school's risk position and inform the preparation of the school's Statement of Internal Control. <p>- Back ups should be stored in a secure location within the school away from the main computer/server. For Data Protection reasons back ups should not be taken off the premises. Formal testing of back ups should be undertaken to ensure that systems / data can be restored in the event of</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
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		<p>failure with records of testing maintained.</p> <p>- Confirmation should be obtained that cheque signatories to the private fund are current employees.</p> <p>- CRB disclosures should be obtained for all Governors. Such clearances should be reviewed every three years.</p>	<p>Y</p> <p>Y</p>
Eldon Grove Primary	Ensure school financial and governance arrangements are in line with best practice.	<p>- The Statement of Internal Control for the financial year ended 31st March 2011 can be prepared using this internal audit report as a source of assurance on the risk / control environment of the school.</p> <p>- The school improvement plan should be based upon 3 to 4 years instead of annual in order to comply with DCSF guidance.</p> <p>- The School profile containing all relevant information about the school should be kept up to date.</p> <p>- A benchmarking exercise should be undertaken with results reported to Governors once the latest CFR data is installed.</p> <p>- Checks should be made to ensure that staff salary details recorded on SIMS are correct and agree with amounts paid with corrections made where necessary.</p> <p>- Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending.</p> <p>- Risk management should be embedded into the schools processes. This can be achieved by:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Establishing a risk management group should to co-ordinate the school's risk management activities; <input type="checkbox"/> providing appropriate training in risk management to the group; <input type="checkbox"/> Undertaking risk assessments of all school activities to identify, evaluate and treat risks to the achievement of the schools priorities. The school may utilise the risk management software provided by internal audit in order to carry out annual reviews of the school's risk position and inform the preparation of the school's Statement of Internal Control. <p>- Outstanding authorisations from parents should be followed up.</p> <p>- Records of back ups should be maintained by the school. Such records should also detail testing of such back ups to provide assurance that systems and data can be restored</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

		<p>in the event of failure.</p> <ul style="list-style-type: none"> - The Governing Body should ratify the Lea's Financial Regulations which should be reviewed on a regular basis (at least two yearly). - Breakfast Club income should be banked in a prompt manner. - The school should obtain a report of all pupils in receipt of free school meals in order that the necessary assurance can be obtained. - The Governing Body should evaluate tender / quotation documentation for works in excess of those stated in Contract Procedure Rules. In the event of works where unexpected circumstances lead to expenditure commitments to rise above those limits quoted in Contract Procedure Rules, the Governing Body should consider such circumstances at the earliest opportunity and authorise an exception to Contract Procedure Rules. Such decisions should be taken on a very limited basis only. - The school should develop detailed local procedures for the finance function and ensure that they are approved by the Governing Body. - The Governing Body should adopt the HBC Whistleblowing Policy and ensure that it is communicated to all staff. - The Governing Body should formally adopt a scale of charges which should be reviewed on an annual basis. - Children's Services staff should visit the school as a matter of urgency and process all outstanding weekly import files. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Payroll Data Migration	Data migration processes ensure that all relevant data is transferred completely and accurately from source to target system in a secure manner. Effective testing provides assurance that all relevant data has been transferred from source to target systems. All physical and logical errors are identified and correct. Project costs are effectively monitored and controlled. Effective security controls are in place to maintain the confidentiality, integrity and availability of data and resources held.	<ul style="list-style-type: none"> - An analysis of budgeted v actual project costs should be presented to the project Steering Group throughout the remaining stages of the project. - Project risks should be input onto and monitored via the Corporate Performance and Risk Management System (Covalent). - Analysis of the source / impact of delays in project progress should be undertaken and reported to the Steering Group. Such analysis should include: <ul style="list-style-type: none"> • reasons for delays; • the impact of delays on future milestones, costs and terms and conditions of the contract with North Yorkshire County Council; • measures that can be taken to minimise future delays. 	<p>Y</p> <p>Y</p> <p>Y</p>

		<p>Following consideration, the Steering Group should determine appropriate action required.</p> <ul style="list-style-type: none"> - Formal approval of all future deliverables should be requested as per Contract terms and conditions. Such approvals should be recorded in the Acceptance Log. - A documented test schedule should be in place for all testing undertaken which defines the testing methodology and records: <ul style="list-style-type: none"> • Purpose of test; • Date and time of test; • Who carried out the tests; • Expected results; • Actual results; <p>Signature of person signing off results.</p> <ul style="list-style-type: none"> - A review of access given to the new Resourcelink system will be reviewed as part of the annual payroll audit. 	<p>Y</p> <p>Y</p> <p>Y</p>
ContactPoint	Ensure the process for accreditation involves the introduction of policies and procedures to ensure that all 28 organisational accreditation conditions are achieved over a three year period to coincide with the national reaccreditation process.	<ul style="list-style-type: none"> - Given the uncertainty of the ContactPoint directory at present there is no formal recommendation to put a procedure in place. However, if ContactPoint continues it may be worth considering the involvement of Workforce Services and use of ResourceLink to record information regarding ContactPoint usage. 	Y
West Park Primary	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - The Headteacher is to provide copies of staff meeting minutes to the auditor to review. - The Governing Body should ratify the LEA's Financial Regulations which should be reviewed on a regular basis (at least two yearly). - 1. Two members of staff should be involved in the collection and counting of cash income received. The income record should be signed by the two members of staff to verify that the amount collected agrees to the amount banked. 2. Regular banking of income received should occur. 3. Adequate income records should be maintained for the general fund. - Debts exceeding £20 should be referred to the LEA in order that recovery action can be taken. - The school should check the insurance limit of its safe and ensure that the value of cash & cheques held does not exceed this limit. - Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

		<ul style="list-style-type: none"> - All invoices should be paid within 30 working days of receipt. - Risk Management should be embedded into the school's processes. This can be achieved by: <ul style="list-style-type: none"> □ Establishing a risk management group to co-ordinate the school's risk management activities; □ Providing appropriate training in risk management to the group; □ Undertaking risk assessments of all school activities to identify, evaluate and treat risks to the achievement of the school's priorities. The school may utilise the risk management software provided by internal audit in order to carry out annual reviews of the school's risk position and inform the preparation of the school's Statement of Internal Control. - The school should have an ICT Strategy in place which provides direction in the use of ICT resources in the areas of learning, teaching and administration. - Access to SIMS should be restricted to authorised staff only. The level of access given to such users should be the minimum required for them to perform their duties. - A register of business interests (including 'nil' returns) should be maintained for all governors and those staff who can influence purchasing decisions. The register should be updated at least annually. - All staff with access to IT systems should complete a data protection form of undertaking. - Records should be maintained by the school of all software loaded onto desktop machines/laptops etc. Regular software audits should be undertaken by the school to ensure that unauthorised software has not been installed on machines and that the number of software licenses retained agrees to the software loaded on to machines. - The school review the list of returned policies and follow up parents of children with outstanding policies. - Where the school employs contractors to carry out construction type work, it should ensure that the contractor has a: <ul style="list-style-type: none"> □ Valid CIS certificate; □ £5m Public Liability Insurance. - CRB clearances should be obtained for all new staff with periodic reviews 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
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		<p>undertaken every three years of all posts to obtain up to date CRB clearance.</p> <p>- CRB clearances should be obtained for all governors and periodic reviews should be undertaken to obtain up to date CRB clearances.</p> <p>- All relevant documentation relating to recruitment is retained.</p> <p>- Back ups should be stored in a secure location within the school away from the main computer/server. For Data Protection reasons, back ups should not be taken off the premises. Records of back ups are maintained and detail testing undertaken.</p> <p>- 1. The Governing Body undertakes an evaluation of the school's control environment using the current audit report to inform the current year's SIC.</p> <p>2. The auditor is provided with the relevant meeting minutes to confirm the agreement of Governors to the SIC.</p> <p>- As the annual income of the school's private fund exceeds £5,000, the school should consider registering the fund as a charity with the Charity Commissioner.</p> <p>- Minutes for staff meetings are provided to the auditor at the time of the follow up audit to review.</p> <p>- Children's Services Finance visits the school to resolve budget differences.</p> <p>- The school should enquire with Children's Services why income banked is not being received on SIMS.</p> <p>- As well as identifying individual training needs, members of the Governing Body (and in particular Finance) should evaluate their strengths in order that the school may utilise these competencies.</p> <p>- The salary information within SIMS is amended to reflect current staff salary payments.</p> <p>- Checks should be undertaken to ensure that the salary costs recorded on the Contracts Information on SIMS agree with actual salaries.</p> <p>- The staffing structure of the school should be reviewed periodically with any changes to the structure approved by the Governing Body.</p> <p>- A self evaluation of staff financial management competencies should be carried out by the Headteacher and School Secretary, using DCSF competency grids. Such staff should be given the opportunity to attend</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
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		<p>financial management training courses, particularly to address any gaps in their competencies and records maintained of any training provided.</p> <p>- The School Improvement Plan should include costings where appropriate or give a broad indication of its financial implications.</p>	Y
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Appendix B

Audit	Objectives
Integrated Transport Unit Workshops	Procedures are in place to ensure identified risk is mitigated in achieving the objectives of the workshops.
Ward Jackson Primary	Ensure school financial and governance arrangements are in line with best practice.
Libraries	Procedures are in place to protect assets and data, income collected is securely held and banked promptly, internet security is maintained, no group of users are excluded from or has difficulty using the library, regular stock checks are carried out and a inventory is maintained.
Fraud Awareness	To evaluate the awareness of fraud across the Authority considering the following areas: Newline, Management Matters, Payslips, Article in Hartbeat, Council Tax Leaflet and Trading Standards. Identify any gaps. Complete the 'Managing the Risk of Fraud' checklists covering: Adopting the Right Strategy, Accurately Identifying the Risks, Creating and Maintaining a Strong Structure, Taking Action to Tackle the Problem, Defining Success. Examine Corporate Risk Register re: Risk of Fraud.
Risk Management	Ensure risk management procedures are in line with expected best practice.
Capital Programme	Ensure that there is a strategic approach to allocating capital resources which links to the Authority's overall aims and objectives. Determine and evaluate the methods in place for prioritising schemes/projects. Examine the arrangements in place for obtaining financing for the capital programme to ensure that all agreements entered into are appropriately authorised. Evaluate the processes in place for allocating and monitoring funding made available for specific projects/schemes. Ensure that there are robust processes in place for monitoring spend against the capital programme and reporting on any issues arising.
Capital Accounting	Examine and evaluate the adequacy of controls in place to ensure the accuracy, validity and completeness of the asset register and accounting records.
SIMS School System	There are effective procedures in place for the SIM's system. Children's Services, Accountancy and Schools are all fully aware of their responsibilities surrounding the SIM's System. There are comprehensive arrangements in place for effective budget setting in SIM's & INTEGRA. Effective arrangements in place surrounding import files and coding within SIM's. Regular reconciliations are carried out between SIM's and Integra. Effective arrangements in place for posting of Income. Effective personnel arrangement in place at schools. Effective security arrangements are in place.
Wrap Around Care Provision	Review the arrangements in place within schools for establishing wrap around care provision and ensuring that they operate in a sustainable manner and all appropriate action taken to comply with legislative requirements.
Direct Payments	To ensure all payments made are done so in a controlled way ensuring compliance with good practice and legislation.
Budgetary Control	The roles and responsibilities for key officers and budget holders are clearly defined and those staff have received adequate budget training. Budgets are set in accordance with pre-determined approved policy objectives. The budget setting process is supported by a risk management framework. Documentary evidence supports the make up of the budget. Budgets are prepared promptly in line with the annual budget process and timetable. All relevant records are correctly up dated with the budget set and approved. Working papers adequately support the budget loaded into the ledger. Budgets set are reported annually to the managing body prior to implementation. Budget amendments of a significant nature are reported to and approved by the managing body. Budgets are properly controlled through effective monitoring arrangements in accordance with Financial Procedure Rules. There is an established financial risk management process to determine the level of reserves.

Main Accounting System	Financial management arrangements, accounting standards and policies adopted by HBC meet the requirements of the organisation, comply with legislation and best practice and are adhered to throughout the organisation. The financial accounting system is sufficiently robust and flexible enough to meet the needs of different users (i.e. budget holders, senior managers, those charged with governance), capable of expansion to meet any growth in the organisation or in its financial information requirements. All transactions recorded in feeder systems are completely and accurately transferred to the main accounting system. Accounting balances from the previous financial year are brought forward into the current years accounts correctly. Transactions within the main accounting system are correctly coded and calculated. The output from the main accounting system is correctly presented in the authority's final accounts. The security and integrity of the system is maintained.
Grange Primary	Ensure school financial and governance arrangements are in line with best practice.
Business Transformation Process	Evaluating the effectiveness of the arrangements in place to mitigate risks in the following areas: Strategy/Policy Arrangements, Performance Management, Accounting Arrangements and Communication.
Computer Audit	Ensure adequate controls over the use and security of emails and the internet are in place.
Bailiffs	Bailiff Section have adopted relevant legislation and incorporated it into the internal Bailiff procedures. There are procedures in place to ensure all staff have undertaking Bailiff training. There are effective security arrangements in place for the collection, storage and banking of income.
14 – 19 Education	Ensure adequate arrangements are in place that cover the following areas: <input type="checkbox"/> Governance arrangements; <input type="checkbox"/> Strategic / operational planning; <input type="checkbox"/> Service delivery; <input type="checkbox"/> Legislation; <input type="checkbox"/> Performance management; <input type="checkbox"/> Use of resources.
Employees Register of Interest / Gifts and Hospitalities	All council employees are aware of the need to disclose all pecuniary and other interests, including gifts and hospitality. Ensure that there is an adequate system in place for the disclosure and recording of all declarations of interest. Data is held securely and in line with the authority's policies and the Data Protection Act.
Officers Expenses	Ensure that all expenses claimed are accurate, valid and in line with Council policies.
Social Care Transformation	Review procedures to ensure arrangements are in place that allow the Council to meet its commitments in terms of social care transformation responsibilities.
Foreshore Management	Arrangements for identifying and complying with relevant legislation specific to the service are in place.

AUDIT COMMITTEE

22 September, 2010



Report of: Chief Finance Officer

Subject: APPROVAL OF 2009/2010 STATEMENT OF ACCOUNTS

1. PURPOSE OF REPORT

1.1 The purposes of this report are to: -

- i) present the Audit Commission's Annual Governance Report; and
- ii) enable Members to approve the final 2009/2010 Statement of Accounts.

2. BACKGROUND

2.1 Local Authorities are required to approve a draft Statement of Accounts before 30th June. This Committee approved the draft accounts on 25th June 2010, which meant the Accounts had to be complete by 17th June 2010 to meet publication deadlines. The June 2010 report indicated that closure of the accounts had been particularly challenging this year owing to the implementation of the new staffing structure. These changes meant the Council lost very experienced staff and many tasks were undertaken by different officers for the first time. Arrangements were implemented to manage this position and to limit this risk as far as practical within the resources available.

2.2 In addition, during the first 3 months of the financial year the same staff were also undertaking other activities, including:

- Commencing work on the 2011/12 budget and the strategy for managing reduction in grant funding;
- Establishing budgets for the new departments and ensuring budget holders understood new budgets allocated to them as a result of the restructure;
- Ensuring the savings arising from the Management Structures changes were reflected in departmental budgets and managers understood the revised budget position.

- 2.3 The June report indicated that the draft Statement of Accounts would be subject to review by the Audit Commission. The Audit Committee would then need to approve the final accounts by 30th September, 2010. It had originally been planned to follow the practise adopted in previous years and submit this report on 29th September, 2010. At the request of the Chair this meeting was brought forward to 22nd September, to give the Committee more time to review the final Statement of Accounts. However, this reduced the time for completing the audit by 5 working days which made finalising the audit significantly more challenging.
- 2.4 The June reported reminded Members that as the timescale for completing the audit process by the end of September is tight that if they had any questions on the draft Statement of Accounts they should raise these issues during July and August. This would enable any issues to be addressed before the September meeting of the Audit Committee. For Member's information no issues have been brought to my attention by Members of the Committee.
- 2.5 The June report advised also Members that the Statement of Accounts reflects the provisional 2009/2010 Outturn Strategy approved by Council in February, 2010 and the final 2009/2010 Outturn Strategy approved by Cabinet in May, 2010. This strategy allocated one-off benefits to manage one-off risks.

3. ANNUAL GOVERNANCE REPORT

- 3.1 The principle purpose of the Annual Governance Report are:
- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the Auditor and those charges with governance;
 - to share information to assist both the Auditor and those charged with Governance to fulfil their respective responsibilities; and
 - to highlight opportunities for improvements to the Authority's financial statements/processes.
- 3.2 The Annual Governance report will be circulated separately before your meeting and will be referred to as Appendix A. This document is self explanatory and Members are asked to consider this document before approving the Statement of Accounts. The Auditor will attend your meeting to present this report and to answer any questions from Members. Further comments on the issued identified in the Annual Governance Report are provided in the next section of this report.
- 3.3 The Annual Governance report indicates that there were a higher number of errors in the Accounts than in previous years. This position reflects the staffing changes referred to earlier in the report. This position will need to be managed in future years to avoid this situation arising again. It is worth noting that these errors did not

affect the overall level of the Council's Earmarked Reserves and General Fund Balances, which demonstrates the Council's financial management arrangements are identifying the key financial issues facing the Council. The only exception was the adjustment detailed in 4.1 (ii) below.

4. FINAL 2009/2010 STATEMENT OF ACCOUNTS

4.1 During the audit a number of issues were identified by the Auditor and I have agreed to amend the Accounts to reflect the issues detailed in Appendix 2 of the Annual Governance Report. With the exception of item (ii) detailed below these issues do not impact on the Council's Earmarked Reserves or General Fund Balances.

i) Depreciation of Infrastructure assets - the Balance Sheet values for infrastructure assets have not previously been reduced to reflect depreciation. This position has been amended in the 2009/10 accounts and whilst it significantly reduces the value of assets held on the Balance Sheet there is no impact on the Council's Earmarked Reserves or General Fund Balances;

ii) Change to Building Schools for the Future Reserve - a transfer of £0.387m to this reserve approved within the Outturn Strategy was incorrectly included within temporary short-term loans owing to the overstatement of interest payable. This amount has now been moved into the Building Schools for the Future Reserve. At the time the draft Accounts were prepared this error had not been identified as although the Accounts had been reconciled in total to the Outturn Strategy the detailed work to reconcile this specific reserve had not been completed at the time. This issue was identified and corrected during the Audit.

4.2 The Auditor also identified a number of other proposed changes which I am recommending are not implemented as these issues are not material and therefore do not impact on the position reported in the Accounts, or the level of Earmarked Reserves or General Fund Balances.

4.3 These issues and the reason I am proposing they are not implemented are detailed at Appendix B, which will be circulated with the Annual Governance Report. The details shown in Appendix B have been discussed with the external auditors and they will issue an unqualified opinion on the basis of the information provided in Appendix B and inclusion of these issues in the Letter of Representation. Members need to formally consider these issues and my recommendation that these issues do not need to be amended.

5. RECOMMENDATIONS

5.1 It is recommended that Members: -

- i) Consider the matters raised in the Audit Commission's Annual Governance Report detailed in Appendix A;
- ii) Approve the reasons I have detailed in Appendix B to this document for not amending the Statement of Accounts to reflect the unadjusted misstatements in the accounts;
- iii) Note that the Chairman will sign the Letter of Representation detailed at Appendix 4 of the Annual Governance Report;
- iv) Instruct the Chief Finance Officer to implement the action plan detailed at Appendix 6 of the Annual Governance Report;
- v) Approve the final 2009/10 Statement of Accounts.

STATEMENT OF ACCOUNTS

2009/2010



CHRIS LITTLE
CHIEF FINANCE OFFICER
FINANCE DIVISION

Hartlepool Borough Council

HARTLEPOOL BOROUGH COUNCIL- STATEMENT OF ACCOUNTS 2009 /2010

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EXPLANATORY FOREWORD

1. INTRODUCTION

The Statement of Accounts presents the overall financial position for the year ended 31st March, 2010 and incorporates all the financial statements and disclosure notes required by statute. The foreword provides a guide to the most significant matters reported in the Statement of Accounts and an explanation of the Council's overall financial position.

2. CORE FINANCIAL STATEMENTS

A detailed analysis of the Council's financial position can be found on pages 28 to 81, the Core Financial Statements. A brief explanation of the purpose of each of the statements is given below:-

Income and Expenditure Account

This statement is fundamental to the understanding of the Council's activities. It reports the net cost of the services provided by the Council for the year and shows how that cost has been funded from General Government Grants, redistributed business rates and Council Tax. The income and expenditure account is in three sections:-

- Net Cost of Service

This section summarises the cost incurred by each service, net of specific grants and income from fees and charges. The format of this section is governed by the Best Value Accounting Code of Practice (BVACOP). The purpose of this analysis is to improve comparability and understanding between authorities.

- Net Operating Expenditure

This section includes income and expenditure that relates to the Council as a whole and not to an individual service area. The main items included in this section relate to the Council's borrowings and investments.

- Surplus or Deficit for the year

This section shows the surplus or deficit for the year after deducting income from general government grant, redistributed business rates and Council Tax. The surplus or deficit shown at the end of the Income and Expenditure account is shown in accordance with UK GAAP. This means that the figure includes notional accounting charges, including depreciation and FRS 17 Pension charges.

Statement of Movement on the General Fund Balance

The Council's budget and Council Tax charge are determined by statute and exclude the notional accounting charges included in the Income and Expenditure account. This statement therefore reconciles the UK GAAP compliant Income and Expenditure Account with the statutory budget figures by reversing out the notional charges included in the Income and Expenditure account. This statement finishes with the value of the Council's General Fund Reserves. Note 35 on page 74 provides a detailed summary of how these reserves will be used in future years.

Statement of Total Recognised Gains and Losses

This statement summarises all the gains and losses on headings within the Balance Sheet and shows the total movement in the Authority's net worth for the year. Net worth consists of the Council's cash reserves, which consist of Earmarked Reserves and General Fund Balances and non cash accounting reserves required to be UK GAAP compliant. The former represent resources which are available to spend, the latter do not. The total change in net worth for the year is £103.106m, which consists of an increase in Earmarked Reserves of £4.630m, a decrease in General Fund Balance of £6.714m and a decrease in accounting reserves of £101.022m.

Balance Sheet

This statement shows the value of the Council's assets, liabilities, reserves and balances at 31st March, 2010. Details of changes in key Balance Sheet figures are provided later in this foreword.

Cash Flow Statement

This statement summarises the revenue and capital payments and receipts made by the Council to/from third parties. The cash inflows and outflows are analysed on a subjective basis and excludes internal transfers.

Collection Fund

The Collection Fund is a "ring-fenced" account which means that payments to, or from, the General Fund are not permitted. The Fund includes all transactions relating to the Council Tax, Community Charge and National Non-Domestic Rates. Any balance on the account at 31st March is shared amongst the Council and other major precepting authorities on the basis of Council Tax levels.

3. REVIEW OF 2009/2010 FINANCIAL YEAR

Revenue Spending 2009/2010 – Budget Position

The Council prepares a rolling three year financial strategy. In advance of the start of the financial year 2009/2010 the Council prepared a budget strategy for the three years 2009/2010 to 2011/2012. This period is covered by the Governments' current grant settlement for Councils and also the first year of the next Comprehensive Spending Review in relation to 2011/2012.

The preparation of the 2009/2010 budget was set against the background of a relatively favourable grant settlement but growing uncertainty of a global and national recession. The budget position became increasingly challenging during the budget process as these impacts increasingly emerged in the detailed planning period leading up to the budget setting. This was exacerbated by adverse financial trends in departmental spend indicated by in year monitoring reports – particularly in relation to Looked After Children.

The Council continued to be adversely affected by the "floor-damping" arrangements introduced from 1st April, 2008, which meant that the Council did not receive the full amount of grant the Government assessed was needed. This reduction amounted to £2.8m for 2009/2010 (£3.3m for 2008/2009) and £2.4m for 2010/2011.

In 2009/2010 Councils were for the second year required to achieve annual cashable efficiencies of 3%. For Hartlepool the 3% efficiencies target equates to £2.46m and a range of measures were implemented to achieve this target.

Additional funding was also provided in the Council's budget for a range of above inflation service pressures, which included the following main elements:

- Further resources of £1.1m were provided for Looked After Children – as the Council is caring for an increasing number of vulnerable children;
- Additional resources for Adult Social Services – arising from increased costs of caring for vulnerable adults with mental and physical disabilities and for older people, including people suffering from dementia.

The increase in Government grant and the implementation of 3% efficiencies were not sufficient to cover the additional costs facing the Council. The shortfall in funding was therefore bridged by a 3.9% Council Tax increase and by using £4.63m of reserves to support the budget on a phased basis.

From 1st April, 2008 the Government had implemented an 'Area Based Grant', which replaced 39 specific grants. In many cases these specific grants funded core services, such as Connexions, Supporting People Administration and School Development. Other grants included in the Area Based Grant include funding for activities delivered by partners in the voluntary and community sector. As part of the 2009/2010 budget process a detailed review of this grant stream was undertaken and resources were allocated on the basis of the Council's priorities.

The budget forecasts were rolled forward and indicate that the Council faces a challenging financial position over the next three years particularly as the recession progressed and as the support for the budget from reserves reduces on a planned basis. The Council began the development of a medium term strategy to address these issues through the 'Business Transformation' programme, which aims to achieve gross ongoing efficiencies of £5.9m over the medium term. The first phase of this programme was the completion of a Corporate Management restructuring which achieved an efficiency saving of £2.5m from 1st April, 2010.

Revenue Spending 2009/2010 – Outturn Position

In 2009/2010 the Council's net General Fund budget, which is the amount funded from Government Grant and Council Tax, was £165.827m.

During 2009/2010 the Council's financial management arrangements identified that actual expenditure was anticipated to be less than budgeted. This position was confirmed at the year end as actual expenditure was £2.010m less than budget. The net underspend consisted of two factors. Firstly, an underspend on departmental budget of £0.598m which was the result of higher vacancies arising from the phased introduction of the new management structure, lower expenditure across a range of budget areas and favourable outturns on trading activities. Secondly, there was a net underspend on non-departmental budget of £1.412m, which was mainly the result of lower borrowing costs and higher investment income on the Council's cash balances.

The Council also reviewed its reserves and determined that the £0.5m previously set aside for grant repayment was no longer needed and this amount could be released to fund other budget risks. This amount increased the Council's total financial flexibility to £2.510m.

The Council's financial management arrangements also identified a number of one-off financial risks relating to equal pay/equal value claims, one-off Building Schools for the Future costs, potential income shortfalls and the achievement of salary turnover targets. The Council determined to use the financial flexibility available from the 2009/2010 underspends to establish a 'Strategic Risk Reserve' of £2.510m to partly fund these risks. This reserve will be sufficient to meet the expected cash requirements which become payable in 2010/2011. Further resources will need to be set aside in future years and if there is a funding shortfall this will need to be met from General Fund Balances.

Summary of 2009/2010 Financial Position

Description of Expenditure	Outturn Position		
	2009/10 Approved Budget	2009/10 Actual Expenditure / Income	2009/10 Variance: Adverse/ (Favourable)
	£'000	£'000	£'000
<u>Departmental Expenditure</u>			
Child & Adult Services	55,145	54,805	(340)
Chief Executives Department	4,680	4,650	(30)
Regeneration & Neighbourhood Services	24,170	23,942	(228)
Total Departmental Expenditure	83,995	83,397	(598)
Non Departmental Expenditure	9,435	8,023	(1,412)
Dedicated Schools Grant Related Expenditure	59,700	59,700	0
Area Based Grant	12,697	12,697	0
Total Departmental and Non Departmental Expenditure	165,827	163,817	(2,010)
Release of Supporting People Reserve			(500)
Contribution to Strategic Risk Reserve			2,510
Net Contribution to General Fund Balance			0

The Council's budget was funded from the following sources: -

	£'000	%
<u>Grant Funding</u>		
Dedicated Schools Grant	59,700	36.0%
Share of National Non-Domestic Pool	40,489	24.4%
ABG	12,697	7.7%
Revenue Support Grant	9,345	5.6%
Total Grant Funding	122,231	73.7%
<u>Other Funding</u>		
Council Tax (HBC Charge on Collection Fund)	38,566	23.3%
Use of Reserves	5,030	3.0%
Total Other Funding	43,596	26.3%
Total Funding	165,827	100.0%

Reconciliation of the Statement of Movement on the General Fund Balance (page 29) with the 2009/2010 Financial Position

In accordance with accounting regulations changes in General Fund Balances are shown differently in the statutory accounts and the Council's management accounts. The following table provides a reconciliation of this position.

	£000
Decrease reported in the Statement of the Movement on the General Fund Balance	6,714
Changes in Reserves included in above figure	
School Reserves	(311)
Earmarked General Fund Balances	(738)
Use of General Fund Reserves to Support budget as per MTFS	(4,630)
Transfer from Unearmarked balances to Business Transformation Reserve	(1,113)
Creation of Reserves to fund one off costs	78
Surplus for Year reported in 2009/10 Financial Position (page 6)	0

Capital Spending 2009/2010 – Outturn Position

The Council benefitted from a one-off capital grant from achieving targets agreed in the Local Public Service Agreement of £0.772m. This amount has been accounted for over two financial years 2008/2009 and 2009/2010. At 31st March, 2010, £0.776m has been earmarked to fund one-off Building Schools for the Future capital costs. This resource supplemented the "Strategic Risk Reserve" detailed in previous paragraphs.

Capital Programme

In 2009/2010 the Council had a total Capital Programme of £25.748m. An analysis of this expenditure is shown below, together with an analysis of how this expenditure was financed.

Expenditure	£'000	%
Other Schemes	10,796	42%
Housing Investment Programme	6,108	24%
School Improvements	4,493	17%
Highway Maintenance & Construction	2,582	10%
New Deal for Communities Partnership	1,008	4%
Civic Centre Refurbishment	761	3%
Total	25,748	100%
Capital Financing:-		
Capital Receipts	(1,801)	7%
Loans	(7,372)	29%
Other	(16,575)	64%
Total	(25,748)	100%

At 31st March, 2010, the Council had capital commitments arising from slippage of programmed capital spending into 2010/2011 of £23.248m. These commitments can be funded from the following resources, which can be repaid to 2010/2011.

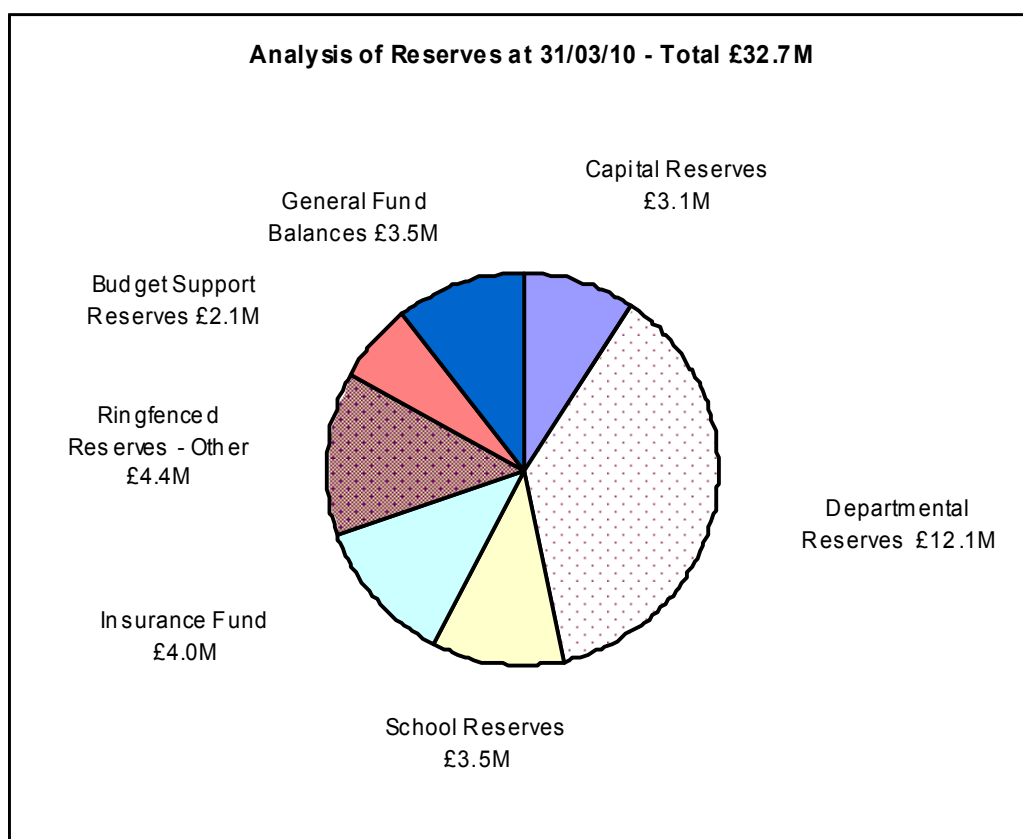
	<u>£'000</u>
Government Grants	13,078
Borrowing	7,687
Capital Funding Reserves	<u>2,483</u>
	23,248

The Council received £1.130m from the sale of assets during 2009/2010.

Changes on the Balance Sheet

The major movements on the Balance Sheet are as follows:

- Fixed Assets, Revaluation Reserve and Capital Adjustment Account – the Council's total fixed assets have decreased by £22.805m which comprises of expenditure on fixed assets of £17.681m, revaluation of existing assets of £12.300m, less depreciation, impairments and disposals of £52.785m
- Debtors – as at 31st March, 2010, are £17.228m (£20.917m at 31st March, 2009). The decrease is mainly owing to an amount owed from the National Non Domestic Business Rates pool of £6.194m in 2008/2009.
- Long Term Investments, plus current investments totalled £38.697m as at 31st March, 2010 (£41.351m at 31st March, 2009). The reduction largely relates to the changes in cash flows and the Authority's continuing strategy of reducing investments by repaying borrowing.
- Temporary short terms loans plus bank overdraft - as at 31st March, 2010, were £18.942m (£30.941m at 31st March, 2009). The decrease is mainly owing to cash flow changes and the Authority's decision not to undertake new borrowing until the financial markets become less volatile.
- Provisions – as at 31st March, 2010, were £3.115m (£3.176m at 31st March, 2009). The decrease reflects the payment of backdated pay under the Council's Single Status Agreement and the settlement of an outstanding legal claim.
- Long Term Borrowing – as at 31st March, 2010, was £46.821m (£46.821m at 31st March, 2009). The stability of long term borrowing reflects the Authority's decision not to undertake new borrowing until the financial markets have stabilised and the outlook for interest rates is more certain.
- Earmarked Reserves and General Fund Balances – as at 31st March, 2010, are £32.712m (£34.796m at 31st March, 2009). In cash terms these figures show that the position on reserves and balances appears to have remained broadly stable. However, this position masks the fundamental changes in the components of these reserves. In particular, the increase in reserves for specific one off commitments in future years, including Building Schools for the Future costs and contributions to the Strategic Risk Reserve. These increases have been funded from one-off benefits which will not be repeated. Looking to the future the Council's reserves and balances will fall significantly as these resources are committed for one-off expenditure commitments and supporting the revenue budgets over the period 2010/2011 to 2011/2012. Details of the movements on reserves and balances are provided on pages 72 to 75. In summary reserves and balances at 31st March, 2010, consist of seven main components:



Departmental Reserves - earmarked for specific purposes/commitments, include the following key reserves:-

- Strategic Change Reserve (£2.8m) and Managed Revenue Underspend Reserve (£1.9m) to cover one-off expenditure in future years;
- Strategic Risk Reserve (£2.3m) to cover risks in relation to Equal Pay/Equal Value;
- Building Schools for the Future, income shortfalls and achievement of turnover targets;
- Tall Ships Reserve (£0.9m) to support the Tall Ships visit in 2010. £0.5m is specifically earmarked as an Income Risk Reserve for this event;
- Building Schools for the Future Reserve (£0.4m) to cover one-off costs of implementing this programme, which are not covered by the Government capital grant;

Budget Support Reserves – this reserve is earmarked to support the revenue budget over the next three years.

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

Capital Reserves – earmarked for capital expenditure commitments rephased to 2010/2011.

General Fund Balances – earmarked for unforeseen commitments. Cabinet will determine a strategy for using these resources during 2010/2011 and then refer these proposals to Council.

Further details of the Authority's earmarked reserves and General Fund Balances are detailed on pages 72 to 75.

Collection Fund

The Collection Fund is a "ring-fenced" Agency account which means that payments to, or from, the General Fund are not permitted. The Fund includes all transactions relating to the Council Tax, Community Charge and National Non-Domestic Rates. Any balance on the account at 31st March is shared amongst the Council and other major precepting authorities on the basis of Council Tax levels. The Council's share of the accumulated deficit as at 31st March, 2010, has been reflected in the Council's 2010/2011 budget.

The Council set a Council Tax for the year of £1,628.14 for Band D properties, excluding parish precepts where these applied. This comprised £1,384.10 for the Council's own services, £182.47 for the Cleveland Police Authority and £61.57 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 28,042 Band D properties. When setting the charge a 1.5% allowance for non-collection was made.

Further details on the income and expenditure of the Fund are shown on pages 79 to 81 and summarised below.

	£000	%
<u>Expenditure</u>		
Cleveland Police Authority Precept	5,040	7%
HBC Precept	38,255	54%
Cleveland Fire Authority Precept	1,701	2%
Payment to NNDR Pool	24,962	36%
Other	481	1%
	70,439	100%
<u>Income</u>		
Council Tax	45,456	64%
NNDR from Rate Payers	25,217	36%
	70,673	100%
Net Deficit/(Surplus) In Year	(234)	

New accounting requirements have been introduced for 2009/2010 in relation to how billing authorities account for Collection Fund year end balances and arrears of Council Tax. Prior to 2009/2010 these amounts were only included in the Statement of Accounts prepared by billing authorities. The new requirements introduce a number of additional complexities for all authorities when preparing the annual Statement of Accounts. This accounting change requires billing authorities to separately identify the share of year-end Collection Fund Balances and Council Tax arrears attributable to precepting authorities i.e. Police and Fire Authorities. This accounting change does not impact on the Authority's underlying financial position as Collection Fund issues are taken into account as part of the statutory budget and Council Tax process.

Accordingly, the Income and Expenditure Account, SMGFB, STRGL and Balance Sheet have all been restated to reflect these new accounting requirements.

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 2009/2010 no new long term borrowing was undertaken as the Council continued to manage investment risk by using surplus cash to temporarily avoid new long term borrowing. This strategy reduced external cash investments during a period of market uncertainty and limited the Council's exposure to the risk of default. The Council had no investments with Icelandic banks as these organisations were not on the Council's approved investments list.

4. PENSIONS

The Council has accounted for retirement benefits according to Financial Reporting Standard (FRS) 17. In the Accounts as at 31st March, 2010, there was a deficit on the Pensions Reserve of £121.612m (£54.703m in 2008/2009) which decreased 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 losses in the pension fund liabilities. Further information is included at Note 4 (Page 38) to the Financial Statements.

The Council is a member of the Teesside Pension Fund and the statutory arrangements for this scheme mean that the FRS 17 deficit does not need to be made good by increased pension's contributions from the Council or employees. A separate Pension Fund valuation is carried out every three years to determine the Council's contribution rate. The last valuation set the employer's contribution rate for the period 2008/2009 to 2010/2011. The latest valuation showed that overall funding level for the Teesside Pension Fund was 98%. This compares very favourably with other Local Government Pension Schemes and enabled the actuary to certify a lower employer contribution for the three years commencing 2008/2009 for most employers within the Fund. For Hartlepool the employers' rate reduced by 2%. This saving was built into the 2009/2010 budget.

Further information is included at Note 4 (Page 38) to the Financial Statements.

5. CHANGES IN COUNCIL RESPONSIBILITIES

There were no significant changes in the Council's statutory responsibilities during 2009/2010. The Government did introduce the Area Based Grant, which replaced 39 specific grant streams. Owing to the late announcement of this change the Council determined to allocate the Area Based Grant on the basis of existing service commitments.

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 13 to 26. 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 2008/2009 have been shown where appropriate.

In line with the 2009 SORP, the Council introduced a new accounting policy for the treatment of Council Tax income. This new accounting policy is explained in detail on page 26.

7. SERVICE PERFORMANCE

The Council underwent its first Organisational Assessment as part of the Government's new Comprehensive Area Assessment process during 2009. This organisational assessment combines information and scores on two issues including looking at how well the organisation is delivering the outcomes and services that are important to local people. It also looks at how well the organisation is working with other partners and how well it is improving. The second issue is a use of resources assessment which looks at how well the organisation is using its resources (such as money, staff, land and buildings) to meet the needs of local people in a way that provides value for money. Hartlepool Borough Council in 2009 scored 3 out of 4 - Performs well.

Other key services are also assessed and full details can be found at the Oneplace website provided by the Audit Commission. During 2009 Ofsted rated services for children and young people as Performing well and the Care Quality Commission rated adult social care as Performing excellently.

Details of the Authority's achievements during 2009/2010 and our longer term ambitions are summarised in the Corporate Plan. A copy of this plan can be obtained from the Council's website, or by contacting Kerry Trenchard, Performance Team, kerry.trenchard@hartlepool.gov.uk, telephone number 01429 284057.

8. COUNCILLORS ALLOWANCES

The Council has complied with the relevant statutory disclosure requirements in relation to these areas. Additionally, the Council has voluntarily determined to exceed these requirements and details of the Councillors Allowances are detailed on pages 94 to 97 of this document

9. 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 2009/2010 financial year the inspection period was 28th July, 2010 to 24th August, 2010.

Chris Little
Chief Finance Officer
Date: 22nd September, 2010

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL

The Statement of Accounts has been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (SORP), unless where stated. The statements comply with the Best Value Accounting Code of Practice.

The Statements reflect the requirements of Financial Reporting Standard (FRS) 18 by adopting the core accounting principals and concepts of:

- Relevance -the financial statements provide information about the Council's performance and position that is useful to the users of the accounts to assess the stewardship of public funds and for making economic decisions.
- Reliability – the financial information faithfully represents the substance of the transactions, the activities underlying them and other events that have taken place are free from deliberate or systematic bias and material error and have been prudently prepared.
- Comparability – the information has been prepared consistently and with adequate disclosures so that it can be compared with prior years and other Local Authorities.
- Understandability – the statements have been prepared to ensure they are as easy to understand as possible.
- Materiality – the statements disclose items of a certain size and nature such that they provide a fair presentation of the financial position and transactions of the Council.
- Accruals – other than the cashflow statement, the financial statements report transactions that have been recorded in the accounting period for which the goods and services were received or supplied rather than in which the cash was received or paid.
- Going Concern - the financial statements have been prepared on the assumption that the Council will continue in operational existence for the foreseeable future.
- Legality – where the accounting principles and specific legislation requirements are in conflict, the financial statements have been prepared to reflect legislative requirements.

2. ACCOUNTING POLICIES & ESTIMATION TECHNIQUES

The accounting policies are the principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements of the Authority. Consistent accounting policies have been applied both within the year and between years. Where accounting policies are changed, this has been disclosed separately.

Where estimating techniques are required to enable the accounting practices adopted to be applied, then the techniques, which have been used, are in the Authority's view, appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and, if practicable, the effect on the results for the current period is separately disclosed.

3. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place and when a right to consideration exists, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Employee's costs are charged to the accounts of the period within which the employees worked which includes 12 monthly payments and 52 weekly payments.
- Supplies and services are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed before which they are carried as Works in Progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Where payments are made or received in advance of a service being provided or received a payment or receipt in advance is recognised as a debtor or creditor in the Balance Sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

4. DEFINITION OF CAPITAL EXPENDITURE

All expenditure on the acquisition, creation or enhancement of tangible fixed assets has been capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to and not merely maintains, the value of an existing asset, is capitalised and classified as a tangible fixed asset, provided that it yields benefits to the Authority and the services it provides are for a period of more than one year.

Capital expenditure is defined as the acquisition, reclamation, enhancement or laying out of land; acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures; and the acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels.

The definition of enhancement is works that are intended to lengthen substantially the useful life of the asset, or increase substantially the market value of the asset, or increase substantially the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of the Council.

Improvement works and structural repairs are capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance is recognised in the revenue account as it is incurred.

Assets acquired on terms meeting the definition of a finance lease are capitalised and included together with a liability to pay future rentals.

Where a fixed asset is acquired for other than a cash consideration or where payment is deferred, the asset has been recognised and included in the Balance Sheet at fair value.

The Authority does not have a de-minimis level for capital expenditure.

5. FIXED ASSETS

A fixed asset is initially measured at its cost. Costs, but only those costs, that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement.

Assets are classified as either operational or non-operational as follows:

- a) Operational assets are assets held or occupied, used or consumed by the Council in the direct delivery of those services for which it has either statutory or discretionary responsibility, or for the service or strategic objectives of the Authority. 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 Assets and Infrastructure Assets which have been included as historic cost.
- b) Non-operational assets are assets held by the Council but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the Authority. They comprise of:
 - Assets held for the primary purpose of investment from which a commercial rental income is obtained;
 - Vacant property or property temporarily occupied for another purpose but awaiting redevelopment or disposal;
 - Land and buildings currently in the course of development but not yet completed and occupied for the proposed service.

Non Operational Assets have been included in the Balance Sheet at the lower of net replacement cost or net realisable value, except for Assets under Construction which are included at historic cost.

Fixed assets are valued on a five-year rolling programme, although material changes to asset values will be adjusted in the interim period as they occur. The current asset values are based upon certificates issued by the Council's Property Management Division. The valuations are prepared in accordance with the Statements and UK Practice Statements contained in the RICS Appraisal and Valuation Standards. The next valuation must be completed as at 1st April, 2013. From 1st April, 2007, increases in asset valuations are credited to the Revaluation Reserve.

The asset valuations have been prepared using the following assumptions:

- a) The Council has good title free from encumbrances.
- b) There are no hazardous substances or latent defects in the properties and there is no contamination present.
- c) The properties have permanent planning permission and any other necessary statutory consent for their current use.
- d) Plant and machinery is included in the valuation of the property, where applicable.

- e) No special circumstances beyond those likely to be considered by a prospective purchaser in the open market have been taken into account.
- f) No allowance has been made for any liability to taxation, which may arise on disposal, nor for costs of acquisition or realisation.

Not all properties were specifically inspected for the purposes of asset valuations. This was neither practicable, nor considered by the Valuer to be necessary, for the purpose of the valuation. However, regular inspections are made by officers of the Property Section of all the Council's property assets.

Where a fixed asset is included in the Balance Sheet at current value, the increase over the previous carrying amount at which that asset was included in the Balance Sheet immediately prior to the latest revaluation is credited to a fixed asset revaluation account, except to the extent that it reverses a revaluation loss on the same asset previously recognised in the Income and Expenditure account, when the revaluation gain is recognised in the Income and Expenditure account.

Where a fixed asset is acquired under a finance lease, at the inception of the lease the amount to be recorded both as an asset and as a liability would be the present value of the minimum lease payments derived by discounting them at the interest rate implicit in the lease.

6. CHARGES TO REVENUE FOR FIXED ASSETS

General Fund service revenue accounts, as defined in CIPFA's Best Value Accounting Code of Practice, central support services and trading activities are charged with the following amounts to record the real cost of holding fixed assets during the period :-

- depreciation attributable to the assets used by the service;
- impairment losses attributable to the clear consumption of economic benefits or in excess of any balances on the revaluation reserve;
- Amortisation of Government Grants Deferred to offset the cost of depreciation;
- Gains resulting from revaluations which reverse a previous revaluation loss on the same asset.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to a least 4% of the underlying amount measured by the adjusted Capital Financing Requirement). Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the Statement of Movement on General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

7. IMPAIRMENTS

The value at which each category of assets is included in the Balance Sheet is reviewed at the end of each reporting period and where there is reason to believe that its value has changed materially in the period, the valuation is adjusted accordingly. Events and changes in circumstances that indicate a reduction in value may have incurred include:

- a significant decline in a fixed asset's market value during the period;
- evidence of obsolescence or physical damage to the fixed asset;

- a significant adverse change in the statutory or other regulatory environment in which the Council operates;
- a commitment by the Council to undertake a significant reorganisation.

Fixed assets, other than non-depreciable land, are reviewed for impairment, at the end of each reporting period when either:

- no depreciation charge is made on the grounds that it would be immaterial (either because of the length of the estimated remaining useful life or because the estimated residual value of the fixed asset is not materially different from the carrying amount of the asset), or
- the estimated remaining useful life of the fixed asset exceeds 50 years.

Where, on revaluation of an asset, there has been a decrease over the previous carrying amount, an impairment loss is recognised. If the loss has been caused by the clear consumption of economic benefits then it will be recognised in the Income and Expenditure Account. If the amount of the decrease in value is not associated with a clear consumption of economic benefit the loss is recognised in the Statement of Total Recognised Gains and Losses (until the asset's carrying amount reaches its depreciated historical cost) and taken to the Revaluation Reserve. A fall in value below the assets depreciated historic cost is recognised in the Income and Expenditure Account. Where an impairment loss occurs on a tangible fixed asset carried at historical cost and is caused by a clear consumption of economic benefit the value of the asset is written down for the impairment and the impairment loss is recognised in the Income and Expenditure Account.

8. DISPOSALS

The gain or loss on the disposal of a tangible fixed asset is the amount by which the disposal proceeds are more or less than the carrying value of the fixed asset. The gain or loss on disposal is recognised in the Income and Expenditure account by debiting cash or debtors with the disposal proceeds and crediting the Income and Expenditure account. The carrying value of the asset is then debited to the Income and Expenditure account and credited to the Capital Adjustment Account on the Balance Sheet.

In order to comply with statute and restrictions on the use of capital receipts; the gain or loss on disposal is reversed out of the General Fund Balance as a reconciling entry in the Statement of Movement on the General Fund Balance. An amount equal to the proceeds of disposal is credited to the Useable Capital Receipts Reserve and the carrying value of the asset is debited to the Capital Adjustment Account. Any balance on the revaluation reserve relating to the fixed asset is also written off to the capital adjustment account on disposal.

The proportion that is required to be paid over to Central Government as a 'housing pooled capital receipt' is charged in the Net Operating Expenditure section of the Income and Expenditure account and the same amount appropriated from Usable Capital Receipts Reserve and credited to the General Fund balance in the Statement of Movement on the General Fund Balance.

Where a fixed asset is disposed of for other than a cash consideration, or payment is deferred, an equivalent asset is recognised and included in the Balance Sheet at its fair value.

9. DEPRECIATION

Depreciation is provided for on all fixed assets with a finite useful life with the exception of land and investment properties, Infrastructure and Community Assets. Depreciation has been charged using the straight line method on the closing balance over the assets estimated useful life.

The useful lives of assets are estimated on a realistic basis and are reviewed regularly and, where necessary, revised. Where the useful life of a fixed asset is revised, the carrying amount of the fixed asset is depreciated over the revised remaining useful life. Depreciation is not charged in the year of acquisition.

Depreciation has been charged on closing balances and calculated as follows:

- Buildings – Toilets 25 years, Garages 30 years and Other Buildings 40 years
- Vehicles, Plant and Equipment 3 to 15 years.

10. INTANGIBLE ASSETS

An intangible item may meet the definition of an asset when access to the future economic benefits that it represents is controlled by the Council, through either custody or legal protection. The Council does not carry out research and development of the type envisaged by SSAP 13 (Accounting for Research and Development) and does not acquire or hold goodwill.

11. 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.

12. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's Council Tax. These items are generally grants and expenditure on property not owned by the Authority and amounts directed under Section 16(2) of Part 1 of the Local Government Act 2003. Such expenditure is charged to the Income and Expenditure Account in accordance with the general provisions of the SORP. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and showing as a reconciling item in the Statement of Movement on the General Fund Balance.

13. 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.

14. STOCKS AND WORK IN PROGRESS

Stocks and Stores are included in the Balance Sheet at the lower of average cost price and net realisable value.

Items with a residual value have been disposed of at maximum benefit to the Council. The Chief Finance Officer is advised of obsolete stock prior to disposal for items in excess of £500 in value. Items having no residual value have been disposed of by being either:-

- Advertised internally
- Donated to charitable organisations
- Scrapped (within legislative parameters)
- Specialist removal

Obsolete or damaged 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.

15. 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

16. RESERVES

Transfers to and from reserves are distinguished from service expenditure. The movements in reserves available to this Council are detailed in a note to the financial statements. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for specific purposes and departmental managed underspends.

Capital reserves are not available for revenue purposes and some of them can only be used for specific statutory purposes. The revaluation reserve and capital adjustment accounts are non-distributable reserves. The usable capital receipts reserve is a reserve established for specific statutory purposes.

The Council also manages component elements of the General Fund Balances.

17. PROVISIONS

Provisions are made for any liabilities of uncertain timing or amount that have been incurred. Provisions are recognised when:

- the Council has a present obligation (legal or constructive) as a result of a past event
- it is probable that a transfer of economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits or other event is regarded as probable if the event is more likely than not to occur. Provisions are charged to the appropriate revenue account; when payments for expenditure are incurred to which the provision relates they are charged direct to the provision. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the events. Provisions are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision is reversed.

Where some or all of the expenditure required to settle a provision, is expected to be reimbursed by another party, the reimbursement is recognised only when it is virtually certain that reimbursement will be received if the obligation is settled. The reimbursement is treated as a separate asset. In the appropriate revenue account the expense relating to a provision is presented net of the amount recognised for a reimbursement.

18. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

The carrying amount of debtors is adjusted for doubtful debts, which are provided for, and known uncollectable debts are written off.

19. GENERAL FUND 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 35 (Page 74) to the Financial Statements.

20. INVESTMENTS

Under Local Government Reorganisation the Council was allocated 2.47% of the shares in Durham Tees Valley Airport Limited and 16.5% of the former County Council's shareholding in SITA Team Valley Limited. In the case of Durham Tees Valley Airport 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.

21. PENSIONS

The Council has adopted FRS 17 Retirement Benefits for the 2009/2010 Accounts, which specifies how Pension costs should be accounted for in the accounts.

The Council participates in two funded pension schemes – the Teacher’s Pension Scheme and the Local Government Pension Scheme (further details are provided in Note 4 to the Notes to Financial Statements on page 38).

The attributable assets to the scheme are measured at their fair value at the Balance Sheet date. Scheme assets include current assets as well as investments. Liabilities such as accrued expenses are deducted. The attributable scheme liabilities are measured on an actuarial basis using the projected unit method. The scheme liabilities comprise:

- i) any benefits promised under the formal terms of the scheme; and
- ii) any constructive obligations for further benefits where a public statement or past practice by the Council has created a valid expectation in the employees that such benefits will be granted.

Details of the methods adopted in the valuation of scheme assets and liabilities are set out in the note to the Accounts.

The surplus/deficit in the scheme is the excess/shortfall of the value of the assets in the scheme over/below the present value of the scheme liabilities. The Council recognises an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme. The Council recognises the liability that reflects its legal or constructive obligation. Details of the methods adopted in calculating the asset or liability recognised are set out in the notes to the Accounts. Any unpaid contributions to the scheme are presented in the Balance Sheet as a creditor due within one year.

The change in the defined benefit asset or liability (other than that arising from contributions to the scheme) is analysed into the following components:

- Periodic costs:

- Current service cost
 - Interest cost
 - Expected return on assets
 - Actuarial gains and losses

- Non-periodic costs:

- Past service costs
 - Gains and losses on settlements and curtailments

The current service cost is included within the Net Cost of Services. The net of the interest cost and the expected return on assets is included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Balance Sheet date are recognised in the Statement of Total Recognised Gains and Losses for the period.

Past service costs are recognised in Net Cost of Services on a straight-line basis over the period in which the increases in benefit vest. To the extent that the benefits vest immediately, the past service cost is recognised immediately.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which the Council becomes demonstrably committed to the transaction and is recognised in Net Cost of Services at that date. Gains arising on a

settlement or curtailment not allowed for the actuarial assumptions are measured at the date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

22. LEASES

Operating and Finance Leases are reported in line with the Code of Practice and SSAP 21. The Authority classifies leases as either "Vehicles, Plant and Equipment," or "Land & Property." Operating Leases are charged to the revenue account on a straight line basis. Rental payments under finance leases are apportioned between the finance charge (interest) and reduction of the outstanding obligation, with the finance charge allocated and charged to revenue over the term of the lease.

23. 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.

24. 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.

25. VALUE ADDED TAX

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

26. EXCEPTIONAL, EXTRAORDINARY ITEMS AND PRIOR PERIOD ADJUSTMENTS

Exceptional items are included in the cost of the service to which they relate or on the face of the income and expenditure account if that degree of prominence is necessary in order to give a fair presentation of the accounts. A description of each exceptional item is given within the notes to the accounts.

Extraordinary items will be disclosed and described on the face of the income and expenditure account after dealing with all items within the ordinary activities of the Authority and will be explained fully in a note to the accounting statements.

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified, and are accounted for accordingly.

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the Statement of Account and notes and adjusting the opening balance of reserves for the cumulative effect. The cumulative effects of the adjustments are noted at the foot of the Statement of Total Recognised Gains and Losses of the current period. The effect of prior period adjustments on the outturn for the preceding period will be disclosed where practicable.

27. POST BALANCE SHEET EVENTS

Where an event after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date has occurred (adjusting event), the amounts recognised in the Statement of Accounts are adjusted. Any disclosures affected by the new information about the adjusting event will be updated in the light of the new information.

Where an event that occurs after the Balance Sheet date is indicative of conditions that arose after the Balance Sheet date (non-adjusting event) the amounts recognised in the Statement of Accounts are not adjusted.

The following will be disclosed for each material category of non-adjusting event after the Balance Sheet date:

- the nature of the event, and
- an estimate of the financial effect, or a statement that such an estimate cannot be made reliably.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue. The date when the Statement of Accounts was authorised for issue and who gave the authorisation is disclosed in the notes to the accounts.

28. CONTINGENT LIABILITIES

Contingent liabilities are not recognised in the accounting statements; they are disclosed by way of notes if there is a possible obligation that may require a payment or a transfer of economics.

29. CONTINGENT ASSETS

Contingent assets are not recognised in the accounting statements; they are disclosed by way of notes if the inflow of a receipt or economic benefit is probable. The disclosures indicate the nature of the contingent asset and an estimate of its financial effect.

30. 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.

For Public Works Loans Board (PWLB) loans, the fair value of each loan has been determined by information supplied by the PWLB. For market loans, the redemption rules of the PWLB have been used to approximate the fair value of loans held. The comparator market rates prevailing have been taken from indicative investment rates at each Balance Sheet date.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new

or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

31. 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.

The fair value of investments has been determined using the PWLB redemption rules as a proxy for determining potential discounts and premiums. The comparator market rates prevailing have been taken from indicative investment rates at each Balance Sheet date.

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).

32. INTEREST

The CIPFA SORP states that interest payable on external borrowings and interest income should be accrued and accounted for in the year to which they relate on a basis that reflects the overall economic effect of the borrowings.

The interest credited to Net Operating Expenditure in the Income and Expenditure Account relates to external interest received.

33. ACQUIRED OPERATIONS

The Council does not have any acquired operations.

34. BUSINESS IMPROVEMENT DISTRICT (BID) SCHEMES

BID projects are projects for the benefit of a particular area that are financed (in whole or in part) by a BID levy paid by the non-domestic ratepayers, or a class of such ratepayers, in the BID area. The Council has one BID scheme where it acts as the Accountable Body. Transactions relating to the BID are included within the Income and Expenditure Account.

35. DISCONTINUED OPERATIONS

The Council does not have any discontinued operations.

36. LONG-TERM CONTRACTS

A long-term contract is 'A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of 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'. Revenue contracts are charged to revenue as payments are made and capital contracts are charged on the basis of the valuation certificate.

37. GROUP ACCOUNTS

The SORP requires an Authority to consider all their interests and to prepare a full set of group accounting statements where they have material interests in subsidiaries, associates and joint ventures. The Council has investigated all potential interests that could qualify for group accounts and has not identified any relationships that require their preparation.

38. LANDFILL ALLOWANCES

Under the Waste and Emissions Trading Act 2003, the Council as a waste disposal authority is issued with landfill allowance permits on an annual basis for the amount of biodegradable waste that it is allowed to be sent to landfill. If the amount of biodegradable waste sent to landfill exceeds the allowance in any one year then additional permits are required to be purchased from other authorities or a cash penalty is paid to the Government for the shortfall. The scheme is known as a 'cap and trade scheme'.

The fair value of allowances held by the Council (whether issued by the Government or purchased from another Authority) is recognised as a current asset within the Balance Sheet. The fair value of allowances issued by the Government is recognised as a Government grant and accounted for in accordance with paragraph 11 (i.e., it is initially recognised as deferred income on the Balance Sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated). The fair value of allowances is taken as the present market value at the Balance Sheet date.

An estimate of expenditure required to settle the obligation to deliver allowances equal to the biodegradable and municipal waste landfill usage to the Government is recognised as a liability (provision) on the Balance Sheet. The value of the provision is measured as the present market value at the Balance Sheet date of the number of allowances required to be delivered to the Government and/or the cash penalty required for any shortfall in allowances.

The value of allowances after the initial recognition is measured at the lower of cost and net realisable value.

39. COUNCIL TAX INCOME & COLLECTION FUND

In previous years the SORP required that the amount of Council Tax income to be included in the Income and Expenditure Account was the amount that under regulation was required to be transferred from the Collection Fund to the General Fund of the billing authority. From the year commencing 1st April, 2009, Council Tax income included in the Income and Expenditure Account for the year is the accrued income. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

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 Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts

I confirm that the accounts set out on pages 3 to 81 were approved by the Audit Committee at the meeting held on 22nd September, 2010.

Councillor C Akers-Belcher
Chair of Audit Committee
Date: 22nd September, 2010

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

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

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

The Chief Finance 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 Finance Officer

In accordance with the requirements of the Accounts and Audit Regulations I certify that the Statement of Accounts on Pages 3 to 81 gives a true and fair view of the financial position of Hartlepool Borough Council at the accounting date and its income and expenditure for the year ended 31st March, 2010.

Chris Little
Chief Finance Officer
Date: 22nd September, 2010

INCOME AND EXPENDITURE ACCOUNT

Restated 2008/2009 Net Expenditure £000		2009/2010 Gross Expenditure £000	2009/2010 Gross Income £000	2009/2010 Net Expenditure £000	NOTE
1,942	Central Services to the Public	17,122	14,919	2,203	
194	Court Services	191	0	191	
36,362	Cultural, Environmental, Regulatory and Planning Services	44,495	12,057	32,438	
36,234	Children's & Education Services	125,098	91,004	34,094	
5,825	Highways and Transport Services	41,978	4,398	37,580	
126	Housing Services	46,055	44,375	1,680	
29,024	Adult Social Care	41,731	11,958	29,773	
4,687	Corporate and Democratic Core	4,302	46	4,256	
2,084	Non-distributed Costs	3,316	2	3,314	
116,478	Net Cost of Services	324,288	178,759	145,529	
17	(Gain) or Loss on disposal of fixed assets			(323)	
95	Local Precepts & Levies			112	
3	Contribution to Housing Capital Receipts Pool			6	
2,727	Interest Payable and Similar Charges			2,116	
(3,920)	Interest and Investment Income			(2,076)	
254	Pensions interest cost and expected return on pensions assets			4,413	
(87)	Income from sale of former Council Houses			(22)	4
115,567	Net Operating Expenditure			149,754	
(36,836)	Council Tax Income			(38,766)	
(19,985)	Central Government Grants			(21,683)	
(42,112)	Non-domestic rates redistribution			(40,489)	1
16,634	Net (Surplus) / Deficit for the Year			48,816	

The 2008/2009 comparative figure for Council Tax Income has been restated in accordance with the 2009/2010 SORP which requires Council Tax Income to be reported on an accrued basis. This represents a material change in Accounting Policy as described in the Accounting Policies, page 26.

Included in the Highways and Transport Services line is £28.1m of cumulative depreciation chargeable on infrastructure assets.

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.

Restated 2008/2009 £000		2009/2010 £000
16,634	Deficit/(Surplus) for the year on the Income and Expenditure Account	48,816
(16,049)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(42,102)
585	(Increase)/Decrease in General Fund Balance for the Year	6,714
(17,269)	General Fund Balance brought forward	(16,684)
(16,684)	General Fund Balance carried forward	(9,970)
3,854	Amount of General Fund Balance held by Schools under local management schemes	3,543
12,830	Amount of General Fund Balance generally available for new expenditure*	6,427
16,684		9,970

* 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 35, page 74.

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.

Restated 2008/2009 £000		2009/2010 £000	NOTE
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year		
(19,435)	Depreciation and impairment of fixed assets	(48,593)	
1,689	Government Grants Deferred amortisation	2,745	
(619)	Revenue Expenditure Funded from Capital under Statute	(1,571)	
3	Net gain/(loss) on sale of fixed assets	329	
(12,444)	Net charges made for retirement benefits in accordance with FRS17	(14,504)	4
1	Retained Share of Housing Receipts	2	
323	Difference between Council Tax income included in the Income and Expenditure Account and amounts taken to the General Fund in accordance with regulation	201	
(30,482)		(61,391)	
	Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the movement on the General Fund Balance for the year		
2,997	Minimum revenue provision for capital financing	3,608	
8	Capital expenditure charged in-year to the General Fund Balance	0	
(3)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(6)	
9,655	Employer's contributions payable to the Teeside Pension Fund and retirement benefits payable direct to pensioners	10,733	4
12,657		14,335	
	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		
577	Voluntary revenue provision for capital financing	324	
0	Transfer to/(from) Equal Pay Back Pay Account	0	21
1,199	Net transfer to/(from) earmarked reserves	4,630	34
1,776		4,954	
(16,049)	Net additional amount required to be credited to the General Fund Balance for the year	(42,102)	

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

Restated 2008/2009 £000		2009/ 2010 £000	NOTE
16,634	Deficit/(Surplus) for the year on the Income and Expenditure Account	48,816	
(11,837)	Revaluations & Restatements of Fixed Assets	(8,946)	30
(4,052)	Actuarial (Gain) / Loss in Pension Fund	63,144	4
2,337	Restatement of Pension Liability in relation to FRS17	0	
25	Available for Sale Financial Instruments Reserve	92	
3,107	Movement in Net Worth in Year	103,106	

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.

The 2008/2009 comparatives have been restated to exclude Collection Fund Balances which the Council held as part of its Agency arrangement with precepting authorities. This follows the change in Accounting Policy as detailed in Accounting Policies, page 26.

BALANCE SHEET

Restated 31st March 2009 £000		31st March 2010 £000	31st March 2010 £000	NOTE
	FIXED ASSETS			
113	Council Dwellings	111		
184,284	Other Land and Buildings	184,537		
6,511	Vehicles, Plant and Equipment	7,525		
17,226	Community Assets	17,200		
88,655	Infrastructure Assets	62,136		
	Non-operational Assets -			
13,489	Investment Properties	13,532		
6,896	Assets Under Construction	5,359		
5,875	Assets Held For Disposal	9,844		
323,049			300,244	15
	OTHER LONG TERM ASSETS			
10,696	Investments	604		
26	Long Term Debtors :	18		16
312	Mortgages and Housing Advances	226		16
	Other		848	
11,034				
334,083	TOTAL LONG TERM ASSETS		301,092	
	CURRENT ASSETS			
656	Stocks and Works in Progress	756		
20,917	Debtors	17,228		17
30,655	Investments	38,093		
0	Landfill Allowances Trading Scheme	79		18
112	Imprests & Cash in Hand	111		
52,340			56,267	
	CURRENT LIABILITIES			
28,745	Temporary Short Term Loans	12,639		
21,617	Creditors and other balances	27,380		19
5,770	Capital Grants and Contributions Unapplied	11,934		33
2,196	Bank Overdraft	6,303		20
58,328			58,256	
328,095	TOTAL ASSETS LESS CURRENT LIABILITIES		299,103	
	LONG TERM LIABILITIES			
3,176	Provisions	3,115		21
46,821	Long Term Borrowing	46,821		
20	Deferred Capital Receipts	12		26
32,506	Government Grants Deferred Account	39,842		27
792	Deferred Liabilities	730		
54,703	Liability Related to Defined Benefit Pension Scheme	121,612		4
138,018			212,132	
190,077	TOTAL ASSETS LESS LIABILITIES		86,971	
23,539	Revaluation Reserve	31,765		30
184,405	Capital Adjustment Account	142,600		31
1,533	Usable Capital Receipts Reserve	891		32
696	Available-for-sale Financial Instruments Reserve	604		
(375)	Equal Pay Back Pay Account	(375)		21
186	Collection Fund Adjustment Account	386		
(54,703)	Pensions Reserve	(121,612)		4
18,112	Earmarked Reserves	22,742		34
16,684	General Fund Balances	9,970		35
190,077	NET WORTH		86,971	

The 2008/2009 comparatives have been restated to exclude Collection Fund Balances which the Council held as part of its Agency arrangement with precepting authorities. This follows the change in Accounting Policy as detailed in Accounting Policies, page 26.

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.

2008/ 2009 Restated £000		2009/2010 £000	2009/2010 £000
(16,546)	NET REVENUE ACTIVITIES CASH FLOW		(7,797)
	<u>Returns on investment and servicing of finance</u>		
	Cash Outflows		
(2,996)	Interest Paid	(2,357)	
(11)	Interest Element of Finance Lease Rental Repayments	(8)	
	Cash Inflows		
4,004	Interest Received	2,662	297
	<u>Capital Activities</u>		
	Cash Outflows		
(15,926)	Purchase of Fixed Assets	(17,091)	
(1,975)	Purchase of long-term investments	0	
	Cash Inflows		
1,585	Sale of Fixed Assets	1,164	
144	Capital Grants Received	23,575	
16,117	Other Capital Cash Receipts	92	7,740
(15,604)	NET CASH INFLOW / (OUTFLOW) BEFORE FINANCING		240
	<u>Management of Liquid Resources</u>		
13,432	Net (Increase)/Decrease in Short Term Deposits	1,976	
(5,802)	Net (Increase)/Decrease in Other Liquid Resources	9,897	11,873
	<u>Financing</u>		
	Cash Outflows		
(101,700)	Repayments of amounts borrowed	(82,205)	
(54)	Capital Element of Finance Lease Rental Repayments	(57)	
	Cash Inflows		
6,940	New Loans Raised	0	
102,900	New Short-Term Loans	66,041	(16,221)
112	INCREASE / (DECREASE) IN CASH		(4,108)

The deficit for 2008/2009 has been restated in accordance with the restatement in the Income and Expenditure Account relating to changes in the 2009/2010 SORP. The associated adjustments for items on an accrual basis in Note A have not been restated as comparative figures for 2007/2008 are not available and an adjustment has been made in 'Other non cash items.'

In accordance with a change in accounting policy Revenue Expenditure Funded from Capital Under Statute is no longer identified as a separate line on Note A to the Cash Flow Statement and is now included in the Net Cash Flow from Revenue Activities. The figures for 2008/2009 have been restated to reflect this.

NOTE A – RECONCILIATION OF SURPLUS TO NET CASH FLOW

2008/ 2009 Restated £000		2009/2010 £000	2009/2010 £000
(16,634)	SURPLUS/(DEFICIT) FOR THE YEAR		(48,816)
	NON CASH TRANSACTIONS		
18,405	Depreciation & Government Grants Deferred Amortisation	48,592	
(1,078)	Deferred Charges	(1,784)	
446	Revaluations	0	
15	LATS impairment	0	
(3,240)	Contribution to Provisions	(61)	
(8,655)	Other non cash items	(7,657)	
2,789	Additional Pension Costs calculated in accordance with FRS 17	3,771	
8,682			42,861
	ITEMS CLASSIFIED ELSEWHERE		
17	(Profit)/Loss on Sale of Fixed Assets	(323)	
2,716	Interest Payable	2,502	
(3,920)	Interest Receivable	(2,076)	
11	Finance Leases	8	
(1,176)			111
	ADJUSTMENT FOR ITEMS ON ACCRUALS BASIS		
(7,464)	(Increase)/Reduction in Debtors	(5,647)	
(214)	Increase/(Reduction) in Creditors	3,794	
260	(Increase)/Reduction in Other Net Current Assets	(100)	
(7,418)			(1,953)
(16,546)	NET CASH FLOW FROM REVENUE ACTIVITIES		(7,797)

NOTE B - ANALYSIS OF NET DEBT

	Cash and Bank Overdraft	Short term deposits	Short term investments	Amounts Relating to Major Preceptors & NDR £000	Total £000	Loans due within one year £000	Loans due after more than one year £000	Deferred Liabilities £000	Net Debt £000
Balance at 1 April 2009	(2,084)	54	30,600	(8,643)	19,927	(28,745)	(46,821)	(792)	(56,431)
Receipt/payment of interest accrued at last Balance Sheet date	0	0	(1,099)	0	(1,099)	434	0	0	(665)
Cashflow/changes in year	(4,108)	2,224	(4,200)	9,897	3,813	16,159	0	62	20,034
Other Non Cash changes	0		10,514	0	10,514	(487)	0	0	10,027
Balance at 31 March 2010.	(6,192)	2,278	35,815	1,254	33,155	(12,639)	(46,821)	(730)	(27,035)

Opening balance for amounts relating to major preceptors includes an adjusting figure in line with the note made on page 32.

NOTE C - ANALYSIS OF CHANGES IN CASH AND LIQUID RESOURCES DURING THE YEAR

Restated 2008/2009 £000		Change in Year £000	2009/2010 £000
30,601	Short Term Investments	5,214	35,815
54	Short Term Deposits	2,224	2,278
(8,643)	Amounts Relating to Council Tax and NNDR	9,897	1,254
112	Cash	(1)	111
(2,196)	Bank Overdraft	(4,107)	(6,303)
19,928	Total	13,227	33,155

NOTE D - RECONCILIATION OF CHANGES IN CASH TO MOVEMENT IN NET DEBT

Restated 2008/2009 £000		2009/2010 £000	2009/2010 £000
112	INCREASE/(DECREASE) IN CASH IN YEAR		(4,108)
(5,630)	Cash Inflow/(Outflow) from Management of Liquid Resources and Investments	11,873	11,873
	Cash Inflows		
(1,184)	Receipt of interest accrued at Last Balance Sheet Date	(1,099)	
(109,840)	New Loans Raised	(66,040)	
(111,024)			(67,139)
	Cash Outflows		
101,700	Loans Repaid	82,200	
713	Payment of Interest Accrued at Last Balance Sheet Date	434	
(619)	Deferred Liabilities	62	82,696
101,794			23,322
(14,748)	Change in Net Debt Resulting from Cash Flows		
	OTHER NON-CASH CHANGES		
1,099	Interest Accrued at Year End on Short Term Investments	513	
(433)	Interest accrued at Year End on Loans and Finance Leases	(487)	
(10,000)	Transfer (to)/from Long Term Investments	10,000	
(8,643)	Other Non Cash transactions	(3,952)	
(17,977)			6,074
(23,706)	NET DEBT BROUGHT FORWARD		(56,431)
(56,431)	NET DEBT CARRIED FORWARD		(27,035)

NOTE E - ANALYSIS OF GOVERNMENT GRANTS & OTHER CAPITAL CONTRIBUTIONS

2008/2009		2009/2010	2009/2010
£'000		£'000	£'000
	REVENUE		
(10,606)	Area Based Grant	(12,270)	
(7,534)	DCLG	(5,068)	
(16,881)	DCSF	(16,310)	
(44,717)	DWP Grant for Housing and Council Tax Benefit	(54,332)	
(148)	DWP other	(1,868)	
(58,525)	Dedicated Schools Grant	(59,700)	
(2,086)	NDC	(1,026)	
(42,112)	NNDR Pool	(40,489)	
(5,862)	Revenue Support Grant	(9,345)	
(2,466)	Other	(3,449)	
(190,937)			(203,857)
	CAPITAL		
(246)	ERDF	(48)	
	SRB		
(3,529)	DCSF	(9,625)	
(1,626)	DOH	(1,663)	
(2,074)	Other	(1,482)	
(33)	Culture, Media and Sport	0	
(4,996)	Community & Local Government	(6,646)	
(5)	Tees Valley Partnership	(383)	
(225)	Heritage Lottery Fund	0	
(481)	DEFRA	(160)	
(1,435)	NDC	(1,067)	
(46)	Learning & Skills Council	0	
(1,421)	Home and Communities Agency	(2,501)	
(16,117)			(23,575)
(207,054)			(227,432)

NOTES TO THE FINANCIAL STATEMENTS

1. CENTRAL GOVERNMENT GRANTS

Central Government Grants comprise of the following:

2008/09 £000		2009/10 £000
5,862	- Revenue Support Grant	9,345
2,904	- LABGI	42
613	- LPSA	0
10,606	- Area Based Grant	12,296
19,985		21,683

2. 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 2009/2010 was £0.391m (2008/2009 - £0.421m).

The Council also hold various Land & Property operating lease agreements. The revenue charge for these operating leases in 2009/2010 was £0.208m (2008/2009 - £0.256m).

The payments which the Council is committed to make in the forthcoming year are as follows:

	Vehicles, Plant & Equipment £000	Land & Property £000
Leases Expiring in 2010/2011	63	41
Leases Expiring between 2011/2012 and 2014/2015	481	83
Leases Expiring after 31st March 2015	0	100
	544	224

The Council is the lessor in relation to various Land & Property operating lease agreements. The aggregate rental income due in 2009/2010 was £0.228m (2008/2009 - £0.180m). The total value of these assets was £2.523m (2008/2009 - £2.506m) with depreciation of £0.011m for the year (2008/2009 - £0.054m).

The Council has a finance lease for two refuse vehicles. The finance charge for the period was £0.065m consisting of £0.057m principal and £0.008m interest. The total amount outstanding on this lease as at 31st March, 2010, was £0.062m (£0.119m in 2008/2009) which is repayable in 2010/2011. The depreciation charge for 2009/2010 is £0.028m, which brings the total of depreciation charged to date to £0.249m.

3. 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: -

2008/2009 £000		2009/2010 £000
125	Direct Employee costs	126
255	Advertising - Staff Vacancies	290
544	Advertising - Other including statutory notices	772
14	Hartbeat Newspaper	7
938	TOTAL	1,195

4. 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 Council participates in two pension schemes, meaning that the Council 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, administered by the Department for Children, Schools and Families, provides teachers with defined benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members pensionable salaries.

The Council's contribution to the Teacher's Pension Scheme in 2009/2010 amounted to £4.415m (£4.303m in 2008/2009) which represented 14.1% of pensionable pay (14.1% in 2008/2009). £0.020m was paid as added year's contributions (nothing was paid in 2008/2009).

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 Council 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 Council 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 in 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.

2008/2009 £000		2009/2010 £000
	<u>Income and Expenditure Account</u>	
	Net Cost of Services	
(10,775)	Current service cost	(7,435)
(1,035)	Past service cost	0
(380)	Settlements and Curtailments	(2,656)
	Net Operating Expenditure	
(15,723)	Interest cost	(17,032)
15,469	Expected return on assets in the scheme	12,619
(12,444)	Net Charge to the Income & Expenditure Account	(14,504)
	<u>Statement of Movement in the General Fund Balance</u>	
12,444	Reversal of net charges made for retirement benefits in accordance with FRS17	14,504
(9,655)	Actual amount charged against the General Fund Balance for pensions in the year - employers' contributions payable to scheme	(10,733)
2,789	Transfer from Pensions Reserve	3,771

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £63.144m (£4.052m actuarial gain in 2008/2009) were included in the Statement of Total Recognised Gains and Losses.

ASSETS AND LIABILITIES IN RELATION TO RETIREMENT BENEFITS

Reconciliation of present value of scheme liabilities: -

2008/2009 £000	Funded Liabilities	2009/2010 £000
(287,471)	1 April	(254,994)
(10,775)	Current Service Cost	(7,435)
(15,723)	Interest Cost	(17,032)
57,119	Actuarial Gains / (Losses)	(127,290)
(380)	Settlements & Curtailments	(2,656)
6,424	Benefits Paid	11,634
(1,035)	Past Service Costs	0
	Contributions from Scheme	
(3,433)	Participants	(3,520)
280	Unfunded Pension Payments	909
(254,994)	31 March	(400,384)

Reconciliation of fair value of the scheme assets: -

2008/2009 £000		2009/2010 £000
233,843	1 April	200,291
15,469	Expected Rate of Return	12,619
(53,067)	Actuarial Gains / (Losses)	64,152
(2,338)	Restatement of opening balance	0
9,655	Employer Contributions	10,733
	Contributions from Scheme	
3,433	Participants	3,520
(6,704)	Benefits Paid including Unfunded Benefits	(12,543)
200,291	31 March	278,772

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £76.8m (2008/2009: - (£37.6m)).

SCHEME HISTORY

Net Pension Assets as at	31st March 2010 £000	31st March 2009 £000	31st March 2008 £000	31st March 2007 £000	31st March 2006 £000
Present Value of Liabilities (A)	400,384	254,994	287,471	290,935	280,145
Scheme Assets (B)	278,772	200,291	233,843	223,288	203,724
Surplus / (Deficit) in Scheme (B)-(A)	(121,612)	(54,703)	(53,628)	(67,647)	(76,421)
Experience Adjustments on Scheme Assets	64,152	(53,067)	(12,144)	860	36,493
Experience Adjustments on Scheme Liabilities	3,983	0	(11,539)	0	0

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £121.612m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in an overall balance of £119.285m.

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.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March, 2011, is £9.549m

BASIS FOR ESTIMATING ASSETS AND LIABILITIES

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Council's liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Council being based on the latest full valuation of the scheme at 31st March, 2007.

The principal assumptions used by the actuary have been: -

2008/2009	Assumptions	2009/2010
	Long-Term Expected Rate of Return on Assets in the Scheme:-	
6.8%	Equities	7.3%
4.0%	Gilts	4.5%
6.5%	Bonds	5.5%
6.4%	Property	5.5%
3.0%	Cash	3.0%
	<u>Mortality Assumptions:-</u>	
	Longevity at 65 for current pensioners:	
19.51	- Male	19.51
22.55	- Female	22.55
	Longevity at 65 for future pensioners:	
20.41	- Male	20.41
23.43	- Female	23.43
	<u>Financial Assumptions:-</u>	
3.0%	Rate of Inflation	3.9%
4.5%	Rate of Salary Increase	5.4%
3.0%	Rate of Pension Increase	3.9%
6.7%	Rate for Discounting	5.5%
50%	Take-up of option to convert annual pension into retrimment lump sum	50%

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

31st March 2009 %	Assets as at	31st March 2010 %
72.1	Equities	83.0
11.2	Gilts	7.0
1.5	Other Bonds	1.0
5.2	Property	4.0
10.0	Cash	5.0
100.0	Total	100.0

HISTORY OF EXPERIENCE GAINS AND LOSSES

The actuarial gains identified as movements on the Pension Reserve in 2009/2010 can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31st March, 2010: -

	2009/2010 %	2008/2009 %	2007/2008 %	2006/2007 %	2005/2006 %
Differences between expected and actual return on assets	23.01	(26.49)	(5.25)	0.39	17.91
Experience Gains & Losses on Liabilities	(0.99)	0.00	4.01	0.00	0.00

5. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

The net cost of revenue expenditure funded from capital under statute is charged to the Income and Expenditure Account. An amount of £8.067m (£8.597m in 2008/2009) 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 £0.528m (£0.587m in 2008/2009), or in the case of capital grants £6.496m (£7.978m in 2008/2009) and capital receipts £1.043m (£0.032m in 2008/2009), credited directly to the relevant activity within Net Cost of Services.

6. SENIOR OFFICER REMUNERATION

In accordance with the requirements of the Accounts and Audit Regulations 2009 the Council is required to disclose details of remuneration for Senior Employees and those earning more than £50,000. Senior Employees are defined as the Chief Executive and the senior managers reporting directly to the Chief Executive. Details of the remuneration for these officers are provided below.

Senior Officers with a salary of £150,000 or more per year.

The Council had one senior officer with a salary of £150,000 or more per year and that is the Chief Executive – Paul Walker.

The Chief Executive is the senior officer who leads and takes responsibility for the work of the 4,500 paid staff of the Council and runs the Local Authority on a day to day basis. The role of Chief Executive is a full time appointment.

Post holders are selected on merit, against objective criteria, following public advertisement. They are appointed by the whole Council.

As head of the paid service, the Chief Executive works closely with elected Councillors to deliver the following:

Leadership: working with elected Councillors to ensure strong and visible leadership and direction, encouraging and enabling managers to motivate and inspire their teams.

Strategic Direction: ensuring all staff understand and adhere to the strategic aims of the organisation and follow the direction set by the elected Councillors.

Policy Advice: acting as the principal policy adviser to the elected Councillors of the Council to lead the development of workable strategies which will deliver the political objectives set by the Councillors.

Partnerships: leading and developing strong partnerships across the local community to achieve improved outcomes and better public services for local people.

Operational Management: overseeing financial and performance management, risk management, people management and change management within the Council.

Details of the Chief Executive's Remuneration are shown in the following tables:-

2009/2010 - TABLE A

Total Remuneration including Pension Contributions 2008/09	PostHolder Information	Salary	Expense Allowances	Car Allowance	Total Remuneration excluding Pension Contributions 2009/10	Pension Contributions (Note 9)	Total Remuneration including Pension Contributions 2009/10
£		£	£	£	£	£	£
183,595	Chief Executive - P Walker (Note 1)	157,205	144	906	158,255	25,310	183,565
183,595		157,205	144	906	158,255	25,310	183,565

2008/2009 - TABLE B

PostHolder Information	Salary	Expense Allowances	Car Allowance	Total Remuneration excluding Pension Contributions 2008/09	Pension Contributions (Note 9)	Total Remuneration including Pension Contributions 2008/09
	£	£	£	£	£	£
Chief Executive - P Walker (Note 1)	157,205	339	741	158,285	25,310	183,565
	157,205	339	741	158,285	25,310	183,565

Note 1 - For 2009/2010 the Chief Executive was paid on a scale that starts at £142,914 and ends at £157,205 (£142,914 to £157,205 for 2008/2009).

Senior Officers reporting directly to the Chief Executive

At the start of the 2009/2010 financial year there were eight officers, including four departmental Directors, reporting directly to the Chief Executive and remuneration details for these posts are shown below.

During 2009/2010 the Council undertook a corporate restructure and reduced the number of departments from five to three. This resulted in the number of director posts reducing from four to two which will reduce ongoing costs by £0.220m per year from 1st April, 2010. The new Directors posts are:

Director of Child and Adult - responsible for an annual revenue budget of £48m and managing 1,160 employees who provide a diverse range of services, including looking after children at risk, children's fostering services, caring for older people, caring for people with mental health problems, libraries and leisure services.

Director of Regeneration and Neighbourhoods - responsible for an annual revenue budget of £21m and managing 1,480 employees who provide a diverse range of services, including

planning and building control, economic development and regeneration, community safety, refuse collection, street cleansing, highways maintenance and car parks.

2009/2010 - TABLE C

Total Remuneration including Pension Contributions 2008/09 £	Post Holder Information	Notes	Salary £	Expense Allowances £	Car Allowance £	Compensation for Loss of Office £	Total Remuneration excluding Pension Contributions 2009/10 £	Pension Contributions (Note 9) £	Total Remuneration including Pension Contributions 2009/10 £
0	Director of Child & Adult Services	1	70,000	0	378	0	70,378	11,270	81,648
128,963	Director of Adult & Community Services		47,965	0	528	0	48,493	7,722	56,215
128,963			117,965	0	906	0	118,871	18,992	137,863
0	Director of Regeneration & Neighbourhoods	2	70,000	0	378	0	70,378	11,270	81,648
114,454	Director of Neighbourhood Services		41,528	0	528	0	42,056	6,686	48,742
114,454			111,528	0	906	0	112,434	17,956	130,390
131,113	Director of Children's Services	3	46,051	0	378	42,442	88,871	7,414	96,285
119,098	Director of Regeneration & Planning	4	79,684	0	680	58,075	138,439	12,829	151,268
95,731	Chief Financial Officer	5	83,813	0	899	40,513	125,225	13,494	138,719
0	Chief Finance Officer	5	533	0	0	0	533	86	619
91,061	Chief Solicitor	6	84,514	0	906	0	85,420	12,367	97,787
92,566	Assistant Chief Executive	7	81,062	0	906	0	81,968	13,051	95,019
88,688	Chief Personnel Officer	8	44,134	0	529	0	44,663	7,106	51,769
0	Chief Customer & Workforce Services Officer	8	32,650	0	377	0	33,027	5,256	38,283
861,674			681,934	0	6,487	141,030	829,451	108,551	938,002

2008/2009 - TABLE D

Post Holder Information	Notes	Salary £	Expense Allowances £	Car Allowance £	Compensation for Loss of Office £	Total Remuneration excluding Pension Contributions 2008/09 £	Pension Contributions (Note 9) £	Total Remuneration including Pension Contributions 2008/09 £
Director of Child & Adult Services	1	0	0	0	0	0	0	0
Director of Adult & Community Services		110,358	38	799	0	111,195	17,768	128,963
		110,358	38	799	0	111,195	17,768	128,963
Director of Regeneration & Neighbourhoods	2	0	0	0	0	0	0	0
Director of Neighbourhood Services		97,796	131	783	0	98,710	15,745	114,455
		97,796	131	783	0	98,710	15,745	114,455
Director of Children's Services	3	112,133	108	819	0	113,060	18,053	131,113
Director of Regeneration & Planning	4	101,851	0	849	0	102,700	16,398	119,098
Chief Financial Officer	5	81,792	0	770	0	82,562	13,169	95,731
Chief Finance Officer	5	0	0	0	0	0	0	0
Chief Solicitor	6	78,375	8	820	0	79,203	11,858	91,061
Assistant Chief Executive	7	79,035	0	805	0	79,840	12,725	92,565
Chief Personnel Officer	8	75,658	0	849	0	76,507	12,181	88,688
Chief Customer & Workforce Services Officer	8	0	0	0	0	0	0	0
		736,998	285	6,494	0	743,777	117,897	861,674

Notes

- (1) The Director of Adult and Community Services post was deleted from 31st August, 2009 and the former Director was appointed to the Director of Child and Adult Services post from 1st September, 2009. The annualised salary for the Director of Adult and Community Services post for 2009/2010 was £113,487 (£110,358 for 2008/2009). The salary scale for this post for 2009/2010 was £102,678 to £113,487 (£102,678 to £113,487 in 2008/2009). The annualised salary for the Director of Child and Adult Services for 2009/2010 was £120,000 (post did not exist in 2008/2009). The salary scale for this post is £120,000 to £130,000.
- (2) The Director of Neighbourhood Services post was deleted from 31st August, 2009 and the former Director was appointed to the Director of Regeneration and Neighbourhoods post from 1st September, 2009. The annualised salary for the Director of Neighbourhood Services post for 2009/2010 was £102,322 (£97,796 for 2008/2009). The salary scale for this post for 2009/2010 was £91,870 to £102,678 (£91,870 to £102,678 in 2008/2009). The annualised salary for the Director of Regeneration and Neighbourhoods for 2009/2010 was £120,000 (post did not exist in 2008/2009). The salary scale for this post is £120,000 to £130,000.
- (3) The Director of Children's Services post was deleted from 31st August, 2009 and the former Director retired on this day. The annualised salary for this post for 2009/2010 was £113,487 (£112,133 for 2008/2009). The salary scale for this post for 2009/2010 was £102,678 to £113,487 (£102,678 to £113,487 in 2008/2009).
- (4) The Director of Regeneration and Planning post was deleted from 31st December, 2009 and the former Director retired on this day. The annualised salary for this post for 2009/2010 was £106,246 (£101,851 for 2008/2009). The salary scale for this post for 2009/2010 was £102,678 to £113,487 (£91,870 to £102,678 in 2008/2009).
- (5) The Chief Financial Officer's salary includes a payment of £3,404 (£3,370 for 2008/2009) in respect of this post holder also acting as Deputy Treasurer to Cleveland Fire Authority. This cost is paid for by the Fire Authority. The Chief Financial Officer post was deleted from 28th March, 2010 and the former CFO retired on this day. The annualised salary for this post, excluding payments paid by the Fire Authority, for 2009/2010 was £81,062 (£78,360 for 2008/2009). The salary scale for this post for 2009/2010 was £70,254 to £81,062 (£70,254 to £81,062 in 2008/2009). A new post of Chief Finance Officer was created on 29th March, 2010 and the annualised salary for this post in 2009/2010, excluding payments paid by the Fire Authority, was £64,850 (post did not exist in 2008/2009). The 2009/2010 salary scale for this post was £64,850 to £75,658.
- (6) The Chief Solicitor's salary includes a payment of £3,856 (£4,280 for 2008/2009) in respect of this post holder also acting as Legal Officer to Cleveland Fire Authority. This cost is paid for by the Fire Authority. The salary also includes payment of £7,702 (£4,720 in 2008/2009) representing payment as the Council's Returning Officer. The annualised salary for this post, excluding payments paid by the Fire Authority and in respect of the Returning Officer, for 2009/2010 was £72,956 (£70,254 for 2008/2009). The salary scale for this post for 2009/2010 was £70,254 to £81,062 (£70,254 to £81,062 in 2008/2009).
- (7) The salary scale for the Assistant Chief Executive for 2009/2010 was £70,254 to £81,062 (£70,254 to £81,062 in 2008/2009). The annualised salary for this post for 2009/2010 was £81,062 (£81,062 for 2008/2009).

- (8) The Chief Personnel Officer post was deleted from 31st October, 2009 and the post holder was appointed to the new post of Chief Customer Services and Workforce Officer. The new post incorporated additional responsibilities, including the transfer of an additional 135 posts which were previously the responsibility of the Chief Financial Officer. The annualised salary for this new post for 2009/2010 was £78,360. The salary scale was £70,254 to £81,062. The annualised salary for the Chief Personnel Officer post in 2009/2010 was £75,658 (£75,658 in 2008/2009). The salary scale for this post was £64,850 to £75,658 (£64,850 to £75,658 for 2008/2009).
- (9) The pension contributions included in the Remuneration Disclosure Tables above only relate to the Council's contribution to the pension scheme. In addition, the employee contributes 7.5% of their salary to the scheme.

Employees with a salary of £50,000 or more

In accordance with the Accounts and Audit Regulations 2009, the number of employees including school employees employed by the Council whose remuneration was £50,000 or greater is detailed in the table below in bands of £5,000. This table excludes details of senior officers set out in the tables above. The bandings have been used since 2002/2003 and are not indexed and therefore do not make any adjustment for inflationary increases each year. If the starting banding had been indexed for cost of living increases for local authority employees then it would be £60,000.

'Remuneration' is measured as gross pay (before deduction of employees' pension contributions), plus compensation for loss of office and any other payments receivable on the termination of employment in line with SORP guidance.

The Council's corporate restructure referred to earlier also reduced the number of posts with a salary above £60,000 by 6 posts, which is nearly a 25% reduction. From 1st April, 2010 this will reduce ongoing costs by £0.533m per year. The reduction has been achieved by undertaking a fundamental review of the responsibilities of all posts to reflect efficiencies arising from reducing the number of departments and changing the roles and responsibilities of the new posts.

2008/ 2009 (Restated)					Remuneration Band (£)	2009/2010				
School Employees	School Employees - Left in Year	Non School Employees	Non-School Employees Left in Year	Total		School Employees	School Employees - Left in Year	Non School Employees	Non-School Employees Left in Year	Total
9	0	12	1	22	50,000 to 54,999	9	3	12	6	30
3	0	6	2	11	55,000 to 59,999	3	0	7	3	13
6	0	5	0	11	60,000 to 64,999	5	0	2	7	14
1	0	3	0	4	65,000 to 69,999	2	0	3	4	9
1	0	6	0	7	70,000 to 74,999	0	0	6	1	7
0	0	2	0	2	75,000 to 79,999	0	1	5	1	7
0	0	1	0	1	80,000 to 84,999	0	0	1	0	1
1	0	0	0	1	85,000 to 89,999	1	0	0	1	2
0	0	0	1	1	90,000 to 94,999	1	0	0	0	1
0	0	0	0	0	95,000 to 99,999	0	0	0	2	2
0	0	0	0	0	100,000 to 104,999	0	0	0	0	0
0	0	0	0	0	105,000 to 109,999	0	0	0	0	0
0	0	0	0	0	110,000 to 114,999	0	0	0	1	1
0	0	0	0	0	115,000 to 120,000	0	0	0	0	0
0	0	0	0	0	120,000 to 124,999	0	1	0	0	1

The remuneration for school employees is determined by each individual Governing Body in accordance with national pay guidelines and, as per the guidance, Foundation and Voluntary Aided school employees are excluded from the Table as the Governing Body and not the Council are the employer.

The increase in the number of employees receiving more than £50,000 remuneration is the result of the number of employees leaving the authority and receiving termination payments arising from the Business Transformation process.

7. COUNCILLOR'S ALLOWANCES

In 2009/2010 the Council's 48 Councillors were paid a total of £0.422m (2008/2009 – £0.419m) in respect of Basic Allowances and Special Responsibility Allowances. A detailed breakdown of Councillor's allowances can be found on page 96 which in addition to the aforementioned allowances also identifies allowances paid to the Chair and Vice-Chair and reimbursement of specific expenses. No Attendance Allowances were paid in 2009/2010 or 2008/2009.

8. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of government grants paid to the Council are covered by other statements and notes within the accounts.

In accordance with the Local Authorities (Councillors' Interests) Regulations 1992, the Council is required to maintain a register of Councillors' personal interests. This register is available for public inspection. On the basis of this register there were no Councillors' pecuniary interests that require disclosure as related party transactions, in 2009/2010.

Following a survey of the Corporate Management Group, any declarations have been reviewed and none contain relationships that are deemed to be material to warrant detailed disclosure. The Council provides various support services, predominately in relation to financial and legal services to Cleveland Fire Authority, see Note 10 (Page 50). In particular, the Council's Chief Solicitor held the position of Legal Advisor and the Chief Financial Officer held the position of Deputy Treasurer.

The Council provides a property support service to Housing Hartlepool which is detailed in Note 10 (Page 50).

Middlesbrough Council is the administering Authority for the non-teaching staff pensions (Note 4, page 38).

The Council holds shares in Durham Tees Valley Airport Ltd and SITA Tees Valley Ltd. (Note 22, page 60).

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

- CADCAM Applications Training and Support Company Ltd., as a Joint Venture company.

For 2009/2010 the Council has not produced Group Accounts because CADCAM has 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 31st March, 2010, shows that the company made a loss of £400 and that the company has a negative net worth of £0.147m. A copy of the company accounts is available from the Director of Finance, Middlesbrough Borough Council, Town Hall, Middlesbrough, TS12 2QQ

9. TRADING ACCOUNTS

9.1 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.

2008/2009		2009/2010		
Total Building Control £000		Chargeable £000	Non Chargeable £000	Total Building Control £000
479	Expenditure	195	263	458
(225)	Income	(181)	0	(181)
254	(Surplus)/Deficit for the year	14	263	277

9.2 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:

2008/2009 (Surplus)/ Deficit £000	Former DSO Operations	2009/2010		
		Income £000	Expenditure £000	Operating (Surplus)/ Deficit £000
153	Building Maintenance	3,957	3,846	(111)
(254)	Highway Works	3,632	3,391	(241)
3	Grounds Maintenance	3,083	2,824	(259)
103	Vehicle Maintenance	4,287	4,130	(157)
171	Building Cleaning	2,397	2,500	103
138	School Catering	3,750	3,993	243
314	TOTAL	21,106	20,684	(422)

0	DSO reserve at beginning of year		0
314	(Surplus)/Deficit for the year		(422)
(314)	Contribution (from)/ to General Fund		422
0	DSO Reserve at the year end		0

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

2009/2010 was a transitional year with changes to employee costs following Job Evaluation being absorbed by the trading accounts rather than passed on to service departments by increased charges as will be the case in 2010/2011 and future years.

9.3 Other Trading Operations

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

2008/2009 (Surplus)/Deficit £000		2009/2010		
		Income £000	Expenditure £000	(Surplus)/Deficit £000
(1)	Catering	197	190	(7)
975	Leisure Management	412	1,408	996

The surplus/(deficit) of each trading account is included within the relevant service expenditure lines of the Income and Expenditure Account on page 28.

10. 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 £0.166m (£0.171m in 2008/2009), which represents the cost of the services provided.

Following the transfer of housing stock on 29th March 2004, the Council continued to provide a wide range of support services to Housing Hartlepool in 2009/2010, including Fleet Maintenance, Building Maintenance, Grounds Maintenance and Building Cleaning. The income from these services amounted to £0.609m (£0.758m in 2008/2009), which represented the cost of the services provided.

The Council also provided the following services at cost:

- Legionella risk assessments to Middlesbrough Borough Council - £0.059m (£0.045m in 2008/2009);
- Legionella risk assessments to schools outside of Hartlepool - £0.023m (£0.002m in 2008/2009);
- Legionella risk assessments to Hartlepool Primary Care Trust - £0.007m;
- Professional and technical support services to Regional Control Centre - £0.013m (£0.014m in 2008/2009);
- Council Tax Bill Production and Bailiff Services to Darlington Borough Council - £0.025m (£0.033m in 2008/2009);
- Building Cleaning Services to Hartlepool Sixth Form College - £0.051m (£0.045m in 2008/2009).

11. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is primarily 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, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school.

Details of the deployment of DSG receivable for 2009/2010 are as follows: -

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2009/10	5,810	53,890	59,700
Brought Forward from 2008/09	761	29	790
Carry forward to 2010/11 agreed in advance	0	0	0
Agreed Budgeted Distribution in 2009/10	6,571	53,919	60,490
Actual Central Expenditure	(7,013)	0	(7,013)
Actual ISB deployed to Schools	0	(53,968)	(53,968)
Local Authority Contribution for 2009/10	632	0	632
Carried forward to 2010/11	190	(49)	141

The Local Authority contribution consists of funding from Area Based Grants and a mainstreamed 'Children's Services' grant.

12. 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 35 to the Financial Statements (page 74).

13. SECTION 137 EXPENDITURE

The Local Government Act 2003, Section 137, as amended, enables a local authority to make contributions to Charities and "not for profit" bodies not specifically authorised by other legal powers, which in its opinion are in the interest of their area or its inhabitants. The expenditure incurred, and included in the various services, is summarised below:

2008/2009 £	SECTION 137 EXPENDITURE	2009/2010 £
0	Advance	10,792
23,750	Belle Vue Sports Association	0
7,000	Churches	5,940
0	Elwick Parish Council	220
9,075	Epilepsy Outlook	8,385
21,213	Harbour	18,371
15,597	Hart Gables	12,852
200	Hart Parish Council	459
28,749	Hartlepool Access Group	23,252
8,322	Hartlepool Catholic Boys Boxing Club	5,850
80,538	Hartlepool Citizen's Advice Bureau	80,035
37,222	Hartlepool Credit Union Forum	36,947
16,499	Hartlepool & District Hospice	0
32,333	Hartlepool Community Studio	30,664
0	Hartlepool Families First	32,836
26,025	Hartlepool Peoples Centre	26,025
560	Hartlepool Swimming Club	560
30,450	Hartlepool Voluntary Development Agency	29,899
8,574	Hartlepool Voluntary Wheels	6,212
300	Hartlepool Youth Choir	336
9,729	Headland Development Company	8,449
14,000	Headland Future Ltd	12,978
12,272	Making the Difference	7,613
8,797	Manor Residents Association	5,684
26,012	Owton Fens Community Association	22,422
6,128	Owton Manor N'hood Watch & Res.Assoc.	4,085
6,151	Relate North East	0
22,742	RESPECT	0
17,967	Salaam Resource Centre	14,800
1,991	Scouts, Guides and Brownies	1,879
30,528	West View Advice & Resource Centre	29,443
25,591	West View Project	22,646
11,057	Wharton Trust	18,492
5,000	Wynyard Café.com	4,467
544,372	TOTAL EXPENDITURE	482,593

14. EXTERNAL AUDIT FEES

In 2009/2010 the Council incurred the following fees in relation to external audit and inspection.

2008/09 £000		2009/10 £000
254	Fees Payable for the audit services carried out by the appointed auditor	262
22	Fees in respect of statutory inspection	17
27	Fees for the certification of grant claims	30
303		309

15. MOVEMENT OF FIXED ASSETS

Cost or Valuation	Operational Assets						Non-operational Assets				2009/10 Total	2008/09 Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Total Operational Assets	Investment Properties	Assets Under Construction	Assets Held for Disposal	Total Non Operational Assets	& Non Operational Assets	& Non Operational Assets
	£ 000	£000	£0 00	£ 000	£ 000	£0 00	£ 000	£ 000	£00 0	£ 000	£00 0	£ 000
At 31.03.09	116	191,943	11,004	88,655	17,226	308,944	13,489	6,896	5,895	26,280	335,224	320,303
Revaluations	0	11,906	0	0	0	11,906	264	0	130	394	12,300	14,272
Reclassifications	0	7,389	147	3	(102)	7,437	489	(7,926)	0	(7,437)	0	0
Additions	0	2,168	2,807	1,670	199	6,838	0	6,389	4,454	10,843	17,681	17,009
Impairments	0	(16,722)	0	(3)	(117)	(16,842)	(693)	0	(114)	(807)	(17,649)	(14,775)
Disposals	0	(430)	0	0	0	(430)	(17)	0	(390)	(407)	(837)	(1,585)
Gross Book Value as at 31.3.10 (A)	116	196,254	13,958	90,325	17,200	317,853	13,532	5,359	9,975	28,866	346,719	335,224

Depreciation and Impairments	Operational Assets						Non-operational Assets				2009/10 Total	2008/09 Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Total Operational Assets	Investment Properties	Assets Under Construction	Assets Held for Disposal	Total Non Operational Assets	& Non Operational Assets	& Non Operational Assets
	£ 000	£000	£0 00	£ 000	£ 000	£0 00	£ 000	£ 000	£00 0	£ 000	£00 0	£ 000
At 31.03.09	(3)	(7,659)	(4,493)	0	0	(12,155)	0	0	(20)	(20)	(12,175)	(5,086)
Depreciation For Year	(2)	(3,412)	(1,940)	(28,189)	0	(33,543)	0	0	(111)	(111)	(33,654)	(6,571)
Revaluations	0	(645)	0	0	0	(645)	0	0	0	0	(645)	(518)
Reclassifications	0	0	0	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0	0	0	0	0
Net Depreciation as at 31.3.10 (B)	(5)	(11,716)	(6,433)	(28,189)	0	(46,343)	0	0	(131)	(131)	(46,474)	(12,175)
Net Book Value at 31.3.09	113	184,284	6,511	88,655	17,226	296,789	13,489	6,896	5,875	26,260	323,049	315,217
Net Book Value as at 31.3.10 (C = A - B)	111	184,538	7,525	62,136	17,200	271,510	13,532	5,359	9,844	28,735	300,245	323,049

Nature of Asset Holding												
Owned	111	183,071	7,412	62,136	17,200	269,930	13,532	5,359	9,844	28,735	298,665	322,908
Finance Lease	0	0	113	0	0	113	0	0	0	0	113	141
Total	111	183,071	7,525	62,136	17,200	270,043	13,532	5,359	9,844	28,735	298,778	323,049

15.1 Capital Expenditure and Financing

Financing			Expenditure		
2008/2009 £000		2009/2010 £000	2008/2009 £000		2009/2010 £000
493	Capital Receipts	1,801	17,008	Capital Expenditure Increasing Asset Values Fixed Assets	17,681
9,873	Loans	7,372			
15,239	Grants	16,575		Capital Expenditure Not Increasing Asset Values Revenue Expenditure Funded from Capital under Statute	8,067
25,605		25,748	25,605		25,748

Expenditure on fixed assets includes £4.9m in respect of Assets under Construction 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.

Revenue expenditure funded from capital under statute forms part of the deficit on the Income & Expenditure Account. However, this is reversed out through the Statement of the Movement on the General Fund Balances to avoid impact on Council Tax.

15.2 Major Disposals of Assets

2008/2009			2009/2010	
Open Market Value Existing Use £000	Sale Proceeds £000		Open Market Value Existing Use £000	Sale Proceeds £000
859	791	Disposals - Land	445	632
720	720	Disposals - Buildings	390	498
1,579	1,511		835	1,130

15.3 Main Items of Capital Expenditure in Year

The table below shows the main items of capital expenditure excluding those assets categorised as Assets under Construction.

	£000
North Central Hartlepool Housing Regeneration	5,471
DSO Vehicle Purchase	1,202
Disabled Facilities Grant	646
Mill House Changing Village	573
NDC Home Improvement Project	554
	8,446

15.4 Significant Capital Expenditure Commitments at 31st March, 2010

At 31st March, 2010, the Council's total approved Capital Expenditure Commitments amounted to £23.248m, of which £20.765m 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 contracts in progress at the 31st March, 2010, are as follows:

Scheme	Total Budget £	Spend to Date £	Commitment £
Jesmond Road School - PCP - New Build	3,600	403	3,197
Rossmere School - PCP - New Build	1,400	33	1,367

15.5 Assets Held

Fixed assets owned by the Council include the following:

	Number of Assets	
	31st March 2009	31st March 2010
Council Dwellings	2	2
Operational Buildings		
Administrative Buildings	26	26
Car Parks	28	27
Cemetery Lodges	1	1
Commercial Property - Offices	1	1
Community Centres	7	6
Crematorium	1	1
Depots	2	2
Garages	2	3
Leisure Centres / Sports Halls	5	4
Libraries	6	7
Misc Operational Land & Buildings	30	34
Museums	4	4
Nurseries	1	1
Nursery Schools	1	1
Primary Schools	20	20
Public Halls	2	2
Secondary Schools	4	4
Social Service Establishments	10	9
Special Schools	2	2
Youth Centres	5	6
Non-Operational Land and Buildings		
Investment Property	103	106
Surplus Assets held for Disposal	82	165
Operational Equipment		
Vehicles	136	143
Community Assets		
Allotments	15	15
Cemeteries	3	3
Other Areas of Open Space	97	98
Parks & Open Spaces	680	682
Recreation Areas & Parks	21	20

A review of the presentation of some assets on the Council's Fixed Asset Register has led to a change in the number of assets held. Some assets have been disaggregated to provide additional detail, and others have been amalgamated where appropriate. This should be considered when making comparisons to the 2008/2009 year end position.

15.6 Custodian Authority Assets

The Balance Sheet excludes assets held by the Council in its capacity as Custodian Authority. These assets were valued at £0.015m as at 31st March, 2010. The interest on these assets were passed to the Council following the abolition of Cleveland County Council on 1st April, 1996. 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.

15.7 Fixed Asset Valuation

The current asset valuations in the accounts are based upon certificates issued by the Council's Estates Manager, Mr D Clarke, a member of the Royal Institute of Chartered Surveyors. The valuations are prepared in accordance with the Statements and UK Practice Statements contained in the RICS Appraisal and Valuation Standards. The next 5 year revaluation needs to be completed by 1st April, 2013.

In accordance with the requirement of the SORP the Authority's Community Assets include Artefacts & Artwork for which the historic cost is unknown. These items are currently insured for £8.28m. The Authority has a Museum & Art Gallery Collections and Disposals Policy as required by the Museums, Libraries and Archives accreditation standards. Hartlepool museums are an accredited museum service.

The Council owns an historical boat called the Wingfield Castle, moored behind the Hartlepool Maritime Experience. The ship has been valued by LGSA Marine International Marine Surveyors and Consultants in March, 2009.

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets, excluding Community Assets (£17.200m), Infrastructure Assets (£62.136m) and Assets under Construction (£5.359m). The basis for valuation is set out in the statement of accounting policies.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Investment Properties	Total
	£000	£000	£000	£000	£000
Valued at Historical Cost	0	1,685	7,525	211	9,421
<u>Valued at Current Value in:-</u>					
2009/2010	34	105,930	0	2,081	108,045
2008/2009	77	78,023	0	11,204	89,304
2007/2008	0	6,169	0	36	6,205
2006/2007	0	0	0	0	0
2005/2006	0	1,108	0	0	1,108
	111	192,915	7,525	13,532	214,083

16. LONG TERM DEBTORS

Balance at 1st April 2009 £000		New Advances £000	Repayments Net of Transfer to Short Term Debtors £000	Balance at 31st March 2010 £000
	Housing Advances :-			
20	Council House Sales	0	8	12
6	Other	0	0	6
26		0	8	18
143	Car Loan Advances	173	167	149
169	Trincomalee Loan and Advances	0	92	77
312		173	259	226
338	Total Long Term Debtors	173	267	244

17. CURRENT DEBTORS

Restated 2008/2009		2009/2010		
Net Debtor £000		Gross Debtor £000	Provision for Bad Debts £000	Net Debtor £000
1,343	Council Tax Payers	2,700	1,141	1,559
2,094	General and Other Debtors	5,498	1,133	4,365
1,420	HM Revenue and Customs	1,419	0	1419
12,655	Government Departments	3,695	0	3695
449	Other Local Authorities	660	0	660
925	Payments in Advance	2,997	0	2997
2,031	Trade Debtors	3,136	603	2,533
20,917		20,105	2,877	17,228

The 2008/2009 NNDR, Other Local Authorities, Government Departments and Council Tax Payers debtors have been restated following the change in accounting policy relating to the Collection Fund as detailed in Accounting Policies, page 26.

18. LANDFILL ALLOWANCES TRADING SCHEME (LATS)

The Waste and Emissions and Trading Act 2003, provides a legal framework for the Landfill Allowance Trading Scheme (LATS). 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. For the year 2009/2010 the Council received a LATS allocation of 19,514 units. These were valued at £16.57 per unit as per the national average value for the year, giving an initial recognition value of £0.323m. The Council has an agreement with Merseyside Waste Authority to sell its surplus LATS and received £0.200m during the year which was transferred to the Strategic Risk Reserve. The cost of the LATS used was £0.079m based on a usage of 4,780 units. These are held on the Balance Sheet until surrender to DEFRA in September, 2010. The resulting surplus of 4,734 units was written off as this was a year when surplus LATS could not be banked.

19. CREDITORS AND OTHER BALANCES

Restated 2008/2009 £000		2009/2010 £000
87	HM Customs and Excise	0
1,320	Government Departments	2,635
476	Other Local Authorities	508
4,810	Income In Advance	5,762
11,527	General and Other Creditors	14,458
3,397	Trade Creditors	4,017
21,617	Total	27,380

The 2008/2009 'Other Local Authorities' creditor has been restated following the change in the accounting policy relating to the Collection Fund as detailed in Accounting Policies, page 26.

20. BANK BALANCE

The overdraft of £6.303m (£2.196m in 2008/2009) includes unrepresented cheques and uncleared BACS transactions.

21. PROVISIONS

Total provisions at 31st March, 2010, were £3.115m (£3.176m in 2008/2009), as detailed below.

2008/2009 £000		Transfers In £000	Transfers Out £000	2009/2010 £000	Notes
278	Equal Pay	0	105	173	a
97	Custodian Authority Property Charges	0	0	97	b
471	Litigation	728	471	728	c
375	Equal Pay Back Pay	0	0	375	d
1898	Job Evaluation/Single Status	395	585	1,708	e
57	Schools Job Evaluation	15	38	34	f
3,176		1,138	1,199	3,115	

- 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) The litigation provision has been created to cover planning appeals and other potential legal cost liabilities.
- d) 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.
- e) This provision has been created to fund the potential of backdated successful appeals and protection costs of the implementation of Single Status.
- f) 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 debt and the amount is deducted from the value of current debtors at 31st March, 2010, (see Note 17, Page 58).

22. 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	
	2008/2009 £000	2009/2010 £000	2008/2009 £000	2009/2010 £000
Financial Liabilities - Principal amount	46,884	46,821	28,368	12,224
Accrued Interest - all shown in 'current' liabilities	0	0	433	478
Financial Liabilities at Amortised Cost	46,884	46,821	28,801	12,702
Loans and Receivables - Principal Amount	10,000	0	29,556	37,580
Accrued Interest	0	0	1,099	513
Loans and Receivables at Amortised Cost	10,000	0	30,655	38,093
Available-for-Sale	696	604	0	0

The financial liabilities included above are compared with their fair value in Note 24 Fair Value of Liabilities and Assets at Amortised Cost, page 62. This comparison uses the carrying values of financial liabilities determined by including accrued interest with the originating financial instrument, rather than treating all accrued interest as a current liability as required by the SORP for the production of the Balance Sheet. The reconciliation of the above values to the individual carrying values of financial liabilities is shown in the table below.

	Long Term		Current	
	2008/2009 £000	2009/2010 £000	2008/2009 £000	2009/2010 £000
Financial Liabilities - Principal amount	46,884	46,821	28,368	12,224
Accrued Interest by Financial Instrument	0	392	0	86
Carrying Value of Financial Liabilities	46,884	47,213	28,368	12,310

Financial Liabilities at Amortised Costs includes borrowings and deferred liabilities in relation to finance leasing.

During the year the Council did not enter into any new long term borrowing and repaid £2.500m of previously included in current liabilities PWLB Loans.

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

- Durham Tees Valley Airport Ltd - £0.407m
- SITA Tees Valley Ltd - £0.197m

The value of shares held by the Council in Durham Tees Valley Airport Limited (formerly Teesside International Airport) is £0.407m 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 31st March, 2010. The reduction in value of £0.092m 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 £2.653m (previous year loss of £1.418m) and a net asset position of £16.476m (previous year £20.200m). 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 £0.197m, equating to 16.5% of a £1.194m preference shareholding in the company. SITA Tees Valley Limited have produced accounts for the financial year to 31st December, 2008, that includes a profit on the Profit and Loss Account of £3.696m (previous year profit of £3.232m) and a net asset position of £36.725m (previous year £33.029m). 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.

23. 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:

	2008/2009 £000	2009/2010 £000
Interest payable and similar charges	2,723	2,108
Interest and Investment Income	(3,856)	(1,888)
Losses on revaluation	25	92
Net (gain)/ loss for the year	(1,108)	312

24. 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.
- 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 counter-party, 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:

	2008/2009		2009/2010	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB Debt	4,324	5,306	1,785	2,605
Market Loans	45,044	44,118	45,428	43,183
Temporary loans	26,198	26,198	12,310	12,310
Trade Creditors	3,397	3,397	4,017	4,017
Total Debt	78,963	79,019	63,540	62,115

The total fair values of PWLB debt and market loans are greater than those of their carrying values as a result of the interest rate payable on loans being higher than the rates available for similar loans in the market at the balance sheet date.

The fair values for temporary borrowing and trade creditors are assumed to be those of the carrying values. 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:

	2008 / 2009		2009 / 2010	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Money Market Loans maturing within 1 Year	29,556	29,556	37,580	37,580
Money Market Loans maturing after 1 Year	10,000	10,144	0	0
Trade Debtors	2,031	2,031	3,136	3,136
	41,587	41,731	40,716	40,716

The fair values of trade debtors and market loans maturing within one year are equal to those of their carrying value.

25. 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.

The annual Treasury Management strategy which incorporates the prudential indicators was approved by Council on 12th February, 2009 and is available on the Council website. The key indicators within the strategy were:

- the Authorised Limit for the 2009/2010 was set at £125m. This is the maximum limit of external borrowings or other long term liabilities;
- the Operational Boundary was expected to be £87m. This is the expected level of debt and other long term liabilities during the year. This was later revised to £92.800m following Council's approval of additional borrowing. The operational limit is closely aligned to the Capital Financing Requirement which was £86.280m and later revised to £87.180m;
- the maximum amounts of fixed and variable interest rate exposure were set at £91m and £60m respectively.

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 Councillors. The Council has now extended to the role of the Audit Committee to include the scrutiny of treasury activities.

The Council actual borrowings are less than the Capital Finance Requirement (CFR) which was £86.035m as at 31st March, 2009. This has been achieved by internalising the Council's borrowings and temporarily using reserves to avoid external borrowing. This has mitigated some of the counterparty risk that has been endemic in the financial markets in the first half year.

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.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The Council now operates a very restricted counterparty list and only deals with UK banks with at least a AA credit rating and the largest Building Society (which has a AA credit rating), the Debt Management Office and other Local Authorities.

The following analysis summarises the Authority's maximum exposure to credit risk. The table (from Fitch) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2007 on investments out to 5 years. The balances shown relate to principal amounts only and therefore do not include accrued interest.

	Amount at 31st March 2010 £000	Historical Experience of Default Year 1 %	Adjustment for Market Conditions at 31st March 2010 %	Estimated Maximum Exposure to Default at 31st March 2010 £000	Estimated Maximum Exposure at 31st March 2009 £000
Deposits with Banks and Financial Institutions					
AA Rated Counterparties	37,531	0.03%	0.03%	11	18
A Rated Counterparties	1,800	0.08%	0.08%	1	59
Unrated Building Societies	0	0.08%	0.08%	0	7
Trade Debtors (excl Bad Debt Provision)	3,137	0.57%	0.57%	18	26

The Council sets criteria to limit exposure to individual counterparties. The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

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:

2008/2009 £000s		2009/2010 £000
28,195	Less than 1 year	12,704
65	Between 1 and 2 years	3
76	Between 2 and 5 years	73
150	Between 5 and 10 years	146
46,594	More than 15 years	46,597
75,080		59,523

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

2008/2009 £000		2009/2010 £000
29,556	Less than 1 year	38,093
10,000	Between 1 and 2 years	0
0	Between 2 and 3 years	0
0	More than 3 years	0
39,556		38,093

All trade and other payables are due to be paid in less than one year and trade debtors of £3.136m are not shown in the table above. The Council does not generally allow credit for its trade debtors, such that £2.103m of the £3.136m balance is past its due date for payment. The past due amount can be analysed by age as follows:

2008/2009 £000		2009/2010 £000
491	Less than 3 months	1,332
52	3 to 6 months	190
111	6 months to a year	48
520	More than a year	533
1,174		2,103

The 2009/2010 figure only includes debts exceeding the invoice date by 14 days. The 2008/09 figure only includes debts over a month old.

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 affect 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 the 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 Council monitors 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	601
Increase in interest receivable	(376)
Net Impact on Income and Expenditure Account	225
Decrease in fair value of fixed rate investment assets	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on I+E Account or STRGL)	9,957
	10,182

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 Note 24 – Fair value of Assets and Liabilities carried at Amortised Cost (page 62).

Price Risk - The Council does not invest in equity shares but does have shareholdings in Durham Tees Valley Airport Limited (£0.407m) and SITA Tees Valley Limited (£0.197m). 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 £0.030m gain or loss being recognised in the STRGL for 2009/2010.

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.

26. 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 2009 £000		Repayments £000	Balance at 31st March 2010 £000
20	Housing Advances - Council House Sales	8	12
20		8	12

27. 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 Union and other bodies.

2008/2009 £000		2009/2010 £000
26,929	Opening Balance	32,506
7,265	Capital Grants received in year	10,080
(610)	Capital Grants to Revenue	(960)
(1,078)	Amortisation of Capital Grants	(1,784)
32,506		39,842

28. SECTION 106 AGREEMENTS

Included within Deferred Liabilities are finance leases of £0.062m (Note 2, Page 37) and amounts held in relation to Section 106 Agreements. The latter are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities provided as a result of that permission. The sums are restricted to being spent only in accordance with the agreement. The major balances of Section 106 receipts held by the Council during the year were as follows:

	Balance at 1st April 2009 £000	Income £000	Expenditure £000	Balance at 31st March 2010 £000
Tesco new slip road	242	0	0	242
Housing	194	71	5	260
Other Play areas	0	20	0	20
Tesco Toucan Crossing	92	0	75	17
Housing Hartlepool Play areas	100	14	0	114
Public Transport	25	0	25	0
Public Art	10	0	0	10
Bus Stop/Shelter & Traffic Signs	10	1	10	1
Bus Stop Improvements	0	4	0	4
	673	110	115	668

29. RESERVES

The Council retains a number of Reserves included within the Balance Sheet. Some are required to be held for statutory reasons, some are required to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans.

Balance at 1st April 2009 £000		Movements in Year £000	Balance at 31st March 2010 £000	Notes
23,539	Revaluation Reserve	8,226	31,765	30
184,405	Capital Adjustment Account	(41,805)	142,600	31
1,533	Usable Capital Receipts Reserve	(642)	891	32
696	Available for Sale Financial Instruments Reserve	(92)	604	
(375)	Equal Pay Back Pay Account	0	(375)	21
186	Collection Fund Adjustment Account	200	386	
(54,703)	Pensions Reserve	(66,909)	(121,612)	4
18,112	Earmarked Reserves	4,630	22,742	34
16,684	General Fund Balances	(6,714)	9,970	35
190,077	Total Movements on Reserves	(103,106)	86,971	

30. REVALUATION RESERVE

The Revaluation Reserve contains revaluation gains recognised since 1st April, 2007.

2008/2009 £000		2009/2010 £000
12,195	Opening Balance	23,539
14,272	Revaluations	12,300
(522)	Revaluation gain on disposed assets	(75)
(442)	Revaluation Depreciation	(645)
(1,964)	Impairment on Fixed Assets	(3,354)
23,539		31,765

31. 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 overleaf.

2008/2009 £000		2009/2010 £000
199,796	Opening Balance	184,405
(1,719)	Carrying Amount of Asset Disposal	(837)
(7,090)	Depreciation	(34,299)
(12,810)	Impairments	(14,295)
(619)	Write Down of Deferred Charges	(1,571)
480	Capital Financing - Capital Receipts	1,801
0	Capital Financing - Revenue	0
618	Capital Financing - Grants	959
1,078	Transferred from Government Grants Deferred	1,785
3,574	Minimum Revenue Provision	3,932
442	Difference between HC Dep'n and CV Dep'n	645
67	Revaluation gain on disposed assets	75
588	Impairment Revaluation	0
184,405		142,600

32. USEABLE CAPITAL RECEIPTS RESERVE

The Useable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years.

2008/2009 £000		2009/2010 £000
431	Opening Balance	1,533
1,585	Capital Receipts received in year from sale of assets: Recognised in Income and Expenditure Account	1,164
(3)	Less: Payments to Government Pool	(6)
(480)	Less : Capital Receipts Used to Finance Capital Expenditure	(1,800)
1,533		891

33. CAPITAL GRANTS AND CONTRIBUTIONS UNAPPLIED

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

2008/2009 £000		2009/2010 £000
4,300	Opening balance	5,770
17,423	Grants due in year	22,740
(430)	Transferred to deferred liabilities	0
(280)	LPSA converted to Revenue	0
(15,243)	Grants applied during the year	(16,576)
5,770		11,934

The main Capital Grants and contributions unapplied at the end of the year relates to Primary Capital programme.

34. EARMARKED RESERVES

Restated 31st March 2009 £000		Transfers in £000	Transfers Out £000	Balance at 31st March 2010 £000	Notes
	Capital Reserves				
1,102	Capital Funding	2,476	(545)	3,033	1
81	Maritime Av Remedial	3	(47)	37	2
1,183	Total Capital Reserves	2,479	(592)	3,070	
	Specific Revenue Reserves				
2,114	Managed Revenue Underspend	835	(1,024)	1,925	3
413	Lotteries Reserve	17	(17)	413	4
65	Museums Acquisition	3	(5)	63	5
5,112	Insurance Fund	1,859	(2,938)	4,033	6
138	School Rates	6	(78)	66	7
3,017	Strategic Change Reserves	3,087	(2,829)	3,275	8
177	Emergency Planning	33	(45)	165	9
24	Broadband Implementation	0	(24)	0	10
95	Swimming Pool Maintenance	0	(75)	20	11
1,004	Tall Ships Reserve	0	(83)	921	12
155	Remedial Repairs	313	(155)	313	13
16	Cashfinder savings	0	0	16	14
114	Other Fund School Balances	26	(41)	99	15
400	Interest Equalisation	0	0	400	16
1,149	Building Schools for the Future	587	(975)	761	17
474	Business Transformation	0	(130)	344	18
729	NDC Fund	0	(74)	655	19
114	Bank Income Reserve	0	0	114	20
1,619	Ring Fenced Grants	2,768	(1,456)	2,931	21
0	Budget Consultation	60	0	60	22
0	Jobs & Economy	400	0	400	23
0	Early Capital Equalisation	33	0	33	24
0	Core Strategy Inquiry	55	0	55	25
0	Strategic Risk	2,510	(200)	2,310	26
0	Brierton/Dyke House BSF Cost	300	0	300	27
0	Business Transformation One Off Costs	1,863	(1,863)	0	28
16,929	Total Revenue Reserves	14,755	(12,012)	19,672	
18,112	Total Earmarked Reserves	17,234	(12,604)	22,742	

As a result of the adoption of new accounting arrangements for Council Tax as per the 2009 SORP as detailed in Accounting Policies, page 26, the Collection Fund Reserve no longer exists. The 2008/2009 comparative figures have been restated to reflect this change.

- 1) The Capital Funding Reserve is earmarked to partly finance specific expenditure rephased to 2010/2011.
- 2) 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.

- 3) These are reserves used to carry forward departmental underspends for specific spending plans in future years.
- 4) The Lotteries Reserve, which consists of the proceeds of the Civic Lottery and donations received, is used for grants and donations to local organisations.
- 5) The Museums Acquisition Reserve was set up to put monies aside for the acquisition of items for the Museum.
- 6) 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 £1m. The net amount shown consists of the Insurance Fund Balances less amounts advanced to departments to fund one-off Business Transformation costs. These amounts will be repaid over a number of years to ensure resources are available to meet insurance claims that will become payable.
- 7) The Schools Rates Adjustment arises from reductions in school rates payable following the reassessment of rateable values.
- 8) 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.
- 9) 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.
- 10) This reserve was used by the Children's Services Department to support ICT/ Broadband activities in Schools.
- 11) This reserve is earmarked for the general upkeep of Swimming Pools within the town
- 12) This reserve has been set aside to support the Tall Ships visit in 2010. £0.5m is specifically earmarked as an Income Risk Reserve for this event.
- 13) This includes amounts set aside by Neighbourhood Services Internal Works to fund remedial repairs to works already undertaken.
- 14) Relates to savings generated by the "Cashfinder Exercise".
- 15) School balances generated from other funding.
- 16) Amounts set aside to protect the Council from higher interest rates in the event of existing LOBO (Lenders Option Buyers Option) loans being called by the lenders.
- 17) An amount set aside for the implementation of Buildings Schools for the Future.
- 18) An amount set aside to fund the Business Transformation Programme.

- 19) An amount set aside to fund future expenditure on New Deal for Communities (NDC) projects.
- 20) Relates to banked income not yet allocated to a debtor or service budget.
- 21) Relates to unspent grant committed to fund expenditure in the next financial year.
- 22) A reserve set aside to enable the Authority to actively consult with the public prior to setting the 2011/2012 budget.
- 23) A reserve set aside to help promote local businesses through the recession.
- 24) This reserve is to fund the year one repayment costs of using Prudential Borrowing to capitalise revenue expenditure.
- 25) This reserve is set aside to fund the one-off costs of the Core Strategy Review in 2011/2012.
- 26) This risk reserve is set aside to manage one-off risks in relation to Equal Pay/Equal Value claims, Building Schools for the Future one-off costs, the achievement of turnover targets and income shortfall risks
- 27) An amount set aside to fund the cost of Dyke House School's temporary move to the Brierton site as part of the Building Schools for the Future programme of works.
- 28) This reserve was set up for one-off termination costs arising from the implementation of the new management structures as part of the Business Transformation Programme.

35. GENERAL FUND BALANCES

Balance at 31st March 2009 £000		Transfers in £000	Transfers Out £000	Balance at 31st March 2010 £000	Notes
3,854	Schools Balances	3,572	(3,883)	3,543	1
4,575	Unearmarked General Fund Balance	0	(1,113)	3,462	2
	Earmarked General Fund Balances				
984	Strategic Change Reserves	0	(203)	781	3
6,653	Budget Support Fund	63	(4,630)	2,086	4
14	Energy Saving Fund (climate Change Levy)	15	0	29	5
50	Strategic Procurement Review	0	0	50	6
524	Termination Costs	0	(524)	0	7
26	LPSA Reward	0	(11)	15	8
4	Cabinet Projects	0	0	4	9
8,255		78	(5,368)	2,965	
16,684	Total General Fund Balances	3,650	(10,364)	9,970	

- 1) Reserves have arisen from the local management of schools. Further details are available from the Child & Adult Services Department. The net balance of £3.543m consists of individual school balances of £3.559m less loans to schools of £0.016m.
- 2) This is the General Fund Balance.
- 3) 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.
- 4) This reserve has been established to support future year's budgets and will be fully used by 2012/2013.
- 5) This reserve was set up using savings from the climate change levy introduced by the Government in 2001 to finance advances to departments for energy saving measures.
- 6) 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.
- 7) This reserve was used to fund the severance costs associated with implementing the Council's Medium Term Financial Strategy.
- 8) This reserve has been created using monies received from the Government following the Council's successful achievement of LPSA Targets.
- 9) This reserve has been created to set aside funding for future projects determined by the Cabinet.

36. 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.

37. CONTINGENT LIABILITIES

These refer to either 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; 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.

In 2009/2010 the contingent liabilities are 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) A guarantee given to South Tyneside Borough Council, as administrators of the Tyne and Wear Pension Fund, against this authority's share of potential liabilities of £0.056m under the admission agreement for employees of the North East Assembly.

- iii) A guarantee given to the Middlesbrough Pension Scheme for the staff transferred to Hartlepool Housing in 2004.
- iv) The cost of a number of Equal Pay Tribunals that may potentially arise following the settlement of Equal Pay claims.

38. AUTHORISATION OF ACCOUNTS FOR ISSUE

The 2009/2010 Statement of Accounts were authorised for issue by the Chief Finance Officer on 22nd September, 2010. All events after the Balance Sheet date until this date have been considered for disclosure as a Post Balance Sheet Event.

39. POST BALANCE SHEET EVENTS

Since the 31st March, 2010, a number of Equal Pay Cases have been received by the Council. In order to recognise this potential liability an additional contingent liability has been disclosed.

On the 10th June the Government published details of the £1.166bn Local Government contribution to the £6.2bn cross government savings in 2010/2011. This announcement advised local authorities that the Government had looked carefully at the Local Area Agreement and Local Public Service Agreement reward grants and have determined to reduce the grants paid to individual councils by 50%. For Hartlepool Council the reduction is £0.961m. The Council had earmarked these resources to meet one-off commitments and the loss of this funding reduces the Council's financial flexibility to manage these risks. In the short-term it is anticipated that the reduced cash reserves are sufficient to meet expenditure commitments arising in 2010/2011. In the medium term the reduction in this grant increases the risk that these costs will need to be funded from General Fund Balances. This position will be reviewed as part of the Council's overall financial strategy for managing reductions in Government funding. In accordance with current accounting requirements this amount had already been accrued in the Council's accounts and the loss of this funding means the following balances are overstated. The detailed accounting entries to reflect these changes have been included in the final Statement of Accounts.

	Value included in accounts £000	Reduction to reflect revised Government reward grant allocation £000	Restated value £000
Brierton/Dyke House BSF Reserve (Note 34 page 72)	514	214	300
Capital Grants Unapplied (Note 33 page 71)	12,547	613	11,934

In its budget on 22nd June 2010 the government announced that annual public sector pension increases would be based on the Consumer Price Index (CPI) rather than the Retail Price index (RPI) with effect from 1st April 2011.

CPI is generally lower than RPI therefore future pension increases should be lower than previously expected. The Council's actuary has provided revised figures to show how this would impact on the Net Pension Liability. This shows that the Net Pension Liability would change from £121.612m to £103.859m, a reduction of £17.753m.

This change represents a 'non-adjusting post balance sheet event' and is reported accordingly. ie. the financial statements have not been adjusted for this change.

On 5th July 2010 the Government confirmed changes to the national Building Schools for the Future (BSF) funding allocations. The Council had provisionally been expecting to receive grant funding of £95m for building replacement/refurbishment for 5 secondary/special schools and £8.8m for new ICT infrastructure for 6 secondary/special schools. The Government has now determined that the Council will only receive £12.4m which will be used to refurbish Dyke House school and no further BSF funding for building replacement/ refurbishment will be received. The Government have also confirmed the ICT investment of £8.8m will proceed as planned.

The Council has incurred costs of £2.9m to 31.03.10 developing its proposed BSF programme. These costs have been fully funded by the Council.

The reduction in the scale of funding for school replacement/ refurbishment has implications for the ICT investment and the Council is currently developing a strategy to manage this issue and any resulting additional costs.

40. BUSINESS IMPROVEMENT DISTRICT (BID)

The Council is the Accountable Body for the Longhill & Sandgate BID. This was set up from 1st April, 2008, to fund the monitoring, maintenance and updating of the Longhill & Sandgate Industrial Estate CCTV system. The BID is managed by a partnership consisting of the Council, L&S Business Association, Hartlepool New Deal for Communities and Cleveland Police. The Council has the role of collecting the BID levy from businesses, holding the money collected, arranging payments of invoices on expenditure as approved in accordance with the overall BID purpose and agreement. The BID Revenue account is shown overleaf.

2008/2009 £000		2009/2010 £000
(20)	BID Levy Income	(43)
4	BID Expenditure	11
(16)	Surplus for the year	(32)
0	Surplus brought forward	(16)
(16)	Surplus carried forward	(48)

41. PRIOR-PERIOD ADJUSTMENTS

Restatements to 2008/09 Information	Original 2008/ 2009 £000	Restated 2008/ 2009 £000	Change £000
<u>Income and Expenditure Account</u>			
Demand on the Collection Fund	(36,736)	(36,836)	(100)
Transfers to/(from) the Collection Fund in respect of Surpluses/Deficits	223	0	(223)
<u>Statement of Movement on General Fund Balance</u>			
Deficit/(Surplus) for the year on the Income and Expenditure Account	16,855	16,634	(221)
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year	(16,372)	(16,049)	323
<u>Reconciling Items for the Statement of Movement on General Fund Balance</u>			
Difference between Council Tax income included in the Income and Expenditure Account and amounts taken to the General Fund in accordance with regulation	0	323	323
<u>Statement of Total Recognised Gains & Losses</u>			
Deficit/(Surplus) for the year on the Income and Expenditure Account	16,855	16,634	(221)
Collection Fund Deficit Decrease / (Increase)	(346)	0	346
<u>Balance Sheet</u>			
Debtors	21,126	20,917	(209)
Creditors and other balances	21,724	21,617	(107)
Collection Fund Adjustment Account	0	186	186
Earmarked Reserves	18,298	18,112	(186)
<u>Collection Fund</u>			
3. Precepts & Demands			
Hartlepool Borough Council	36,736	36,821	85
Cleveland Police Authority	4,792	4,816	24
Cleveland Fire Authority	1,618	1,626	8

Notes

a) These result from the new accounting requirements for Council Tax and NNDR as per the 2009 SORP

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.

2008/2009 £000		2009/2010 £000	Notes
	INCOME		
	Council Tax :		
32,408	Billed to tax payers	33,266	
10,918	Council Tax Benefits transferred from General Fund	12,190	
43,326		45,456	1
0	Reduced Provision for Non-Payment of Council Tax	141	
19,118	Income Collectable from Business Ratepayers	24,898	2
0	Reduced Provision for Non-Payment of NNDR	178	
19,118		25,217	
62,444	TOTAL INCOME	70,673	
	EXPENDITURE		
43,146	Precepts	44,996	3
62	Increased Provision for Non-Payment of Council Tax	0	
127	Increased Provision for Non-Payment of NNDR	0	
		0	
	Non Domestic Rates :		
18,876	Payment to National Pool	24,962	2
115	Cost of Collection Allowance	115	
	Contributions for previous years estimated		
	Collection Fund Surplus/(Deficit) :		
(223)	Hartlepool Borough Council	310	
(27)	Cleveland Police Authority	40	
(10)	Cleveland Fire Authority	14	
(260)		364	
62,066	TOTAL EXPENDITURE	70,437	
(378)	(Surplus)/Deficit for the year	(236)	
160	(Surplus)/Deficit brought forward	(218)	
(218)	(Surplus)/Carried forward	(454)	

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 28. 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 32,244 Band D equivalents in 2009/2010 (31,926 for 2008/2009) and the basic amount of Council Tax for a Band D property was £1,628.14 (£1,564.71 in 2008/2009).

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	24,395	16,263	922.74	121.65	41.05	1,085.44	26,479
B	7/9	6,208	4,842	1,076.53	141.92	47.89	1,266.34	7,861
C	8/9	5,595	4,980	1,230.31	162.20	54.73	1,447.24	8,097
D	9/9	2,870	2,870	1,384.10	182.47	61.57	1,628.14	4,673
E	11/9	1,402	1,714	1,691.68	223.02	75.25	1,989.95	2,790
F	13/9	564	812	1,999.26	263.57	88.93	2,351.76	1,326
G	15/9	402	671	2,306.84	304.12	102.62	2,713.58	1,091
H	18/9	46	92	2,768.21	364.95	123.14	3,256.30	150
TOTALS		41,482	32,244					52,467

The income of £45.456m for 2009/2010 (£43.326m in 2008/2009) is determined from the following sources: -

2008/2009 £000		2009/2010 £000
49,925	Opening Liability	52,467
398	Net increase/(decrease) in liability	364
(78)	Disabled Relief	(86)
(5,095)	Discounts	(5,444)
(1,719)	Exemptions	(1,726)
(105)	Write Offs	(119)
43,326		45,456

2. NON DOMESTIC RATES

National Non Domestic Rates (NNDR) is organised on a national basis. The Government specifies an amount, termed the Uniform Business Rate which was 48.5p in 2009/2010 (46.2p in 2008/2009) 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 £24.962m (£18.876m in 2008/2009).

The total non-domestic rateable value at the year-end was £60,313,656.

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

2008/2009 £000		2009/2010 £000
22,343	Gross Rates payable	28,691
(802)	Mandatory Reliefs	(3,320)
(1,894)	Transitional Relief / Surcharge	57
(68)	Discretionary Reliefs set against NNDR pool	(70)
(327)	Write Offs	(432)
(134)	Interest on Refunds of Overpayments	(30)
19,118	Income Collectable From Ratepayers	24,898
(115)	Cost of Collection	(115)
(127)	(Increase)/Decrease in Bad Debt Provision	178
0	Other	2
18,876	Contribution to NNDR Pool	24,962

3. PRECEPTS & DEMANDS

Details of precepts on the Collection Fund are shown below:

2008/2009 £000		2009/2010		
		Precept/Demand £000	Share of Surplus in Year £000	Total £000
36,736	Hartlepool Borough Council	38,255	201	38,456
4,792	Cleveland Police Authority	5,040	26	5,066
1,618	Cleveland Fire Authority	1,701	9	1,710
43,145		44,996	236	45,232

The 2009/2010 SORP requires each authority to account for its demand on the Collection Fund on an accruals basis and therefore include its share of the surplus/deficit in the year it arises.

The amount included within the Council's Income and Expenditure amount also includes the £0.310m for its estimated share of the surplus for 2008/2009.

MEMORANDUM NOTES

1. TRUST FUNDS

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

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

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

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

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

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

Balance at 1st April 2009 £		Income £	Expenditure £	Balance at 31st March 2010 £
4,016	Preston Simpson Scholarship Fund	1,751	1,650	4,117
4,575	Doughty Fund	123	241	4,457
167,274	Education Trust Funds	9,936	3,211	173,999
175,865		11,810	5,102	182,573

The Preston Simpson Scholarship Fund consisted of a cash investment of £4,177 with Hartlepool Borough Council as at 31st March, 2010. The Trust also held external investments totalling £13,968 as valued at 31st December, 2009 (£12,835 as at 31st December, 2008).

As at 31st March, 2010, the Doughty Fund consisted wholly of a cash balance investment with the Council.

As at 31st March, 2010, the Education Trust Fund cash balance of £173,999 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 £80,266 as at 5th April, 2010, (£63,065 as at 5th April, 2009).

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

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 approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at www.Hartlepool.gov.uk or can be obtained from the Council's Contact Centre. 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 31st March, 2010 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 Finance 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 Executive's Management Team and Corporate Management Team Support Group (CMTSG).

3. SIGNIFICANT GOVERNANCE ISSUES UPDATE FROM 2008/2009 STATEMENT

- 3.1 Progress has been made over the course of 2009/2010 to address weakness in the system of governance identified as part of the 2008/2009 process. The table below identifies actions that have been taken to mitigate the areas of concern raised.

Issue Raised	Action Undertaken
Weakness identified in the Council's approach to Data Quality.	Data Quality Policy updated and agreed by Portfolio holder and Audit Committee and ratified by Council. Data Quality training provided for staff and systems strengthened with progress reported to Corporate Management Team.
Awaiting definitive guidance on the Employees Code of Conduct.	Awaiting national guidance.

4. THE GOVERNANCE FRAMEWORK

- 4.1 The key elements of the Council's Governance Framework 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 constitution is available to all employees on the intranet and to the public on the Internet. A register of gifts and hospitality is maintained for Members and Officers. The Authority has a Treasury Management Strategy that was approved by Council on the 29th January, 2010, as part of the budget setting process. The approved Treasury Management Strategy includes the Investment and Borrowing strategies in compliance with revised CIPFA Prudential Code, CIPFA Treasury Management Code of Practice and draft DCLG guidance. The Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies before making any necessary recommendations to Council. The Chief Finance Officer reports to the Audit Committee how

the Authorities financial arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

- 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 and the Hartlepool Partnership have adopted a new Community Strategy (2008). 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 2008-2011 Local Area Agreement (LAA) further develops these arrangements and is the action plan for achieving the Community Strategy aims. Hartlepool's LAA was agreed by the Hartlepool Partnership at its meeting on 9th May, 2008 and subsequently signed-off by Government in June, 2008. The LAA was reviewed in 2008/2009 and the refreshed LAA was agreed by the Partnership at its meeting on 20th March, 2009 and then signed off by the Secretary of State. The 2010 refresh was agreed by the Partnership on 29th January, 2010 and by Council on 25th February, 2010 and signed off by the Secretary of State on 1st April, 2010.

The Authority has adopted the LAA outcomes as its own corporate objectives. LAA outcomes relating to the Council have been integrated into the council's corporate plan, department plans and performance management arrangements to enhance management and political accountability.

- 4.9 CMT has defined what it considers to be its significant 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 Code of Corporate Governance and the Governments 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 Council's Performance Management system (Covalent) includes information relating to departmental and officer responsibility for the collation of data, target setting and addressing performance issues. The Council's Performance and Risk Management system includes plans, risks and performance indicators enabling 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 overall as "Performs Well" in its most recent Organisational Assessment.
- 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 and the North East Fraud Forum.
- 4.14 The Council agreed a Risk Management Strategy in December, 2004 and this has been improved on an annual basis. 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 A revised Risk Management Strategy was considered and approved by Cabinet on 22nd February, 2010 and a risk briefing was considered as part of the meeting agenda. This review takes account of the changes to management structures implemented as part of the Business Transformation Programme and ensures the maintenance of appropriate control arrangements.
- 4.16 There is corporate support at senior management level for development of Risk Management with risk assessment procedures published and training given to officers. Following on from previous training given to officers a series of sessions in March/April 2008 briefed officers on using the Council's Performance and Risk Management system. Regular risk introduction/refresher sessions are offered as part of the Council's Learning Management and Development Programme.
- 4.17 The Finance and Performance Portfolio Holder is Hartlepool Borough Council's risk 'champion'. 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 The Council's Performance and Risk Management system (Covalent) holds the departmental and strategic risk registers. Risk registers are also maintained for significant projects, such as

Business Transformation and Tall Ships. Officers that manage risks are notified risks need to be reviewed and progress is monitored on a quarterly basis by the CRMG, who then report to CMT and Cabinet. Departments may use a central funding pot for risk management to assist in the financing of risk mitigation.

- 4.19 The Council has long-standing, nationally and regionally recognised emergency planning arrangements through the Cleveland Emergency Planning Unit (EPU). The Council's Emergency Management Response Team (EMRT) meets monthly and exercises at least every six months.
- 4.20 Departmental business continuity plans have been developed and specific property and flu pandemic plans are in place. ICT resilience is assisted through remote access to Email and calendars and UPS system. Arrangements were further strengthened in autumn 2009 when a Disaster Recovery Solution was implemented with Northgate and Housing Hartlepool to facilitate the speedy recovery of key systems in particular those relating to adult and children's care such as Carefirst and ICS.
- 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. Considerable work was undertaken in preparing for potential flu pandemic and this work was prioritised in 2009. CMT approved the Influenza Pandemic Plan.
- 4.22 The Business Continuity Group meets on a quarterly basis. A revised strategy was reported to CMT on the 23rd October, 2006 and has been updated in March, 2010. Each department has a lead officer responsible for business continuity. All senior managers have been briefed about business continuity. Following completion and circulation of the Business Continuity Plan in May, 2008 a series of table top testing exercises were carried out with each department between July, 2008 and January, 2009. Arrangements have continued to develop. These have included a self assessment exercise to provide a gap analysis between the Council's Plan and BS 25999 and a gap analysis on the Cabinet Office Expectations paper which both cover Business Continuity and may be incorporated as a required standard into future legislation. CMT were kept informed of progress on this and other BCP work.
- 4.23 The Council has undergone external assessment and has been accredited with the Equality Mark certificate for the successful validation of the Level 3 of the Equality Standard for Local Government. The Council is now working towards the Excellence stage of the new Equality Framework for Local Government developed by I&DeA. Action plans to reflect this are being developed and incorporated into the Council's service planning process. All departments completed an annual review of Equality Impact Assessments and ensure that adverse impacts are addressed and further steps to improve accessibility to services incorporated in their plans.

All departmental diversity groups report to the Corporate Diversity Steering Group (DSG) which in turn reports to Corporate Management Team on a regular basis. New arrangements have been put in place for 2009/2010 to take account of the management restructure. The Council's progress on diversity is reported half yearly and annually to the Finance and Performance Portfolio Holder and the Corporate Equality and Diversity Scheme (2008-11) has Cabinet approval.

- 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 Audit's 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. Ofsted has rated the Council's children's services as performing well. Most childcare and schools are rated good or outstanding and none are inadequate. The Care Quality Commission has rated the Council's adult social care as excellent. The Audit Commission rated the Authority as Performing Well for Managing Performance and Use of Resources. A Core Case Inspection of youth offending work in Hartlepool took place as part of the Inspection of Youth Offending programme by HMI Probation. An improvement plan has been put in place. The Audit Commission, with other inspectorates, also undertook a Comprehensive Area Assessment. These Area assessments look at how well local public services (Council, Police, PCT and others) are delivering better results for people in the area. The Area Assessment identified tackling the harm caused by alcohol as an issue where further work was required by the Hartlepool Partnership and partners to support improvement. The results of these reviews are reflected in the Council's own development and improvement plans. The Council achieved full corporate Investors in People status in August 2008 and Hartlepool Connect has achieved the Customer Service Excellence standard.

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 Audit and Governance'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.
 - Chief Finance Officer – The CFO carries out a review of the effectiveness of the system of internal audit and reports the findings to the Audit Committee. The CFO reports to the Audit Committee how the Authority's financial arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
 - 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 Children, Families and Schools, Care Quality Commission, Ofsted, Audit Commission, HMI Probation, Investors in People and Service Excellence.
- 5.3 In the Comprehensive Area Assessment the Audit Commission, rated Hartlepool overall as "Performs Well" in its most recent Organisational Assessment.
- 5.4 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 GOVERNANCE ISSUES

6.1 The following significant governance issues have been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Scheme Of Delegation needs to be updated to reflect new structure and working arrangements.	Update in line with new structures.	2010/2011	Peter Devlin
2	Risks involved in the ongoing Business Transformation Process, as the Council reviews its service delivery arrangements.	Continuation of ongoing governance arrangements e.g. Management Board overview, reporting to Cabinet. Continuing communications e.g. internet, newsletter, briefing with members, TUs and managers. Project planning and review e.g. initial review or mobilisation phase. Funding to support programme e.g. staffing and backfilling arrangements and invest to save from reserves. Monitoring of Benefit Realisation Plan. Continue vacancy management.	2010/2013	Chief Executive
3	Awaiting definitive guidance on the Employees Code of Conduct.	Awaiting formal legislation upon the Code, following on from consultation exercise undertaken.	2010/2011	Peter Devlin/ Joanne Machers
4	Issues arising from the Youth Offending Service Core Case Inspection.	Implement review of Departmental location of service within the authority as agreed by Cabinet. Implement improvement plan as agreed by Cabinet.	2010/2011	Sally Robinson

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.

Chief Executive:

Date: 22 September 2010

Mayor:

Date: 22 September 2010

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

OPINION ON THE FINANCIAL STATEMENTS

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Hartlepool Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hartlepool Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword only. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority'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 accounting statements and related notes 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 accounting statements and related notes.

Opinion

In my opinion the Authority's accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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 May 2008 and updated in October 2009, and the supporting guidance, 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 ended 31 March 2010.

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.

Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead
Tyne & Wear
NE11 9NH

Lynne Snowball, District Auditor, signed the Independent auditor's report on 22nd September, 2010 and this document is held by the Council. The District Auditor's signature has not been reproduced in this electronic document in line with Audit Commission guidance restricting the electronic reproduction of Auditor's signatures.

COUNCILLORS' ALLOWANCES & EXPENSES – ADDITIONAL DISCLOSURE

Note 7 on page 48 of the Core Financial Statements details the total value of Basic Allowances and Special Responsibility Allowances paid in 2009/2010 and the comparative figure for 2008/2009. The Council has decided to provide this additional note to provide a detailed breakdown of the Basic Allowance and Special Responsibility Allowances (SRA's) paid to individual Councillors for 2009/2010, together with other expenses and costs allocated to individual Councillors.

This detailed disclosure exceeds the minimum legal requirements specified by the Government in "Statutory Instrument 2003 Number 1021 – The Local Authorities (Councillors Allowances) (England) Regulations 2003" which requires local authorities to publish details of the amounts paid to individual Councillors for each financial year for the following categories:

- Basic Allowance and Special Responsibility Allowances;
- Dependent Carers Allowance;
- Travelling and Subsistence Allowance; and
- Co-optees Allowances

The Council paid no Dependent Carers Allowances or Co-optees Allowances in 2009/2010 or 2008/2009.

The detailed arrangements for paying the Basic allowance, SRA's and other expenses are defined by specific rules in the Council's constitution. The key components of these rules are described below:

Basic and Special Responsibility Allowances

The value of the Basic and Special Responsibility Allowances (SRA's) paid by the Council are based on recommendations made by the Independent Remuneration Panel.

General and General Subsistence

This covers expenses claimed by Councillors for travel and subsistence with a 35 mile radius of Hartlepool in respect of approved duties as a Councillor.

Conference Travel and Conference Fees

The Council has an approved list of conferences which specific Councillors are authorised to attend. The conferences and travel arrangements are booked by officers of the Council on behalf of the Councillor(s) attending the conference. The costs of the conference fee and travel arrangements are then recorded against the individual Councillor who attended the event.

Conference Subsistence

This covers the cost of overnight hotel accommodation and expenses claimed by Councillors for 'out of pocket expenses' whilst staying away from Hartlepool where meals are not provided for in the overall conference fees. The allowances claimable are based on approved national subsistence rates.

Telephone Expenses

Councillors can be reimbursed for the cost of line and telephone rental. Councillors are also eligible to claim for installing a telephone line if a line is not already connected. Councillors cannot claim for the cost of telephone calls.

Chair/Vice Chair of Council Allowance

These specific allowances are paid to the Chair and Vice Chair of the Council to recognise the general costs associated with these positions from representing the Council in a public capacity within the town and region.

Taxation, National Insurance and Pensionable Status of Allowances

Individual Councillors pay income tax and national insurance on all allowances payable to them. These allowances are not pensionable. When a Councillor loses office all allowances stop with immediate effect and no payments are made for the loss of office.

2009/2010 Register of Members' Allowances and Expenses

Councillor	Basic Allowances	Special Responsibility Allowances	General Travel	General Subsistence	Conference Travel	Conference Fees	Conference Subsistence	Telephone Expenses	Chair/ Vice of Chair of Council Allowance	Total
	£	£	£	£	£	£	£	£	£	£
Aiken M	5,766.91	0.00	319.2							5,798.83
Akers-Belcher C	5,131.33	0.00								5,131.33
Akers-Belcher S J	5,766.91	3,461.09				1,400.00	520.00			11,148.00
Allison S	5,766.91	0.00								5,766.91
Atkinson R	5,766.91	771.73	156.19					99.00		6,793.83
Barker C	5,766.91	0.00	293.6					33.00		5,829.27
Brash J	5,766.91	5,767.00								11,533.91
Cook R W	5,766.91	4,614.01								10,380.92
Cook S	5,766.91	817.19								6,584.10
Coward W J	5,766.91	0.00	141.74					99.00		6,007.65
Cranney K H	5,766.91	2,645.87								8,412.78
Drummond S	5,766.91	58,135.05			779.37					64,681.33
Fenwick S	5,766.91	0.00								5,766.91
Fleet M	5,766.91	3,461.09								9,228.00
Fleming T	5,766.91	0.00								5,766.91
Flintoff R	5,766.91	115.03						121.00	342.79	6,345.73
Gibbon S	5,766.91	0.00								5,766.91
Griffin S	5,766.91	0.00								5,766.91
Hall G G	5,766.91	5,767.00			102.78					11,636.69
Hargreaves P	5,766.91	5,767.00						169.62		11,703.53
Hill C F	5,766.91	5,767.00			281.06					11,814.97
Jackson P	5,766.91	5,767.00								11,533.91
James M A	5,766.91	5,767.00			86.06	205.00	92.00			11,916.97
Kaiser S	1,423.98	0.00								1,423.98
Laffey P	5,766.91	272.04							1,931.41	7,970.36
Lauderdale J	5,766.91	0.00								5,766.91
Lilley A E	5,766.91	3,461.09								9,228.00
Lilley G	5,766.91	0.00								5,766.91
London F	5,766.91	0.00								5,766.91
Marshall A	5,766.91	2,645.87								8,412.78
Marshall J	5,766.91	0.00						121.00		5,887.91
McKenna C	5,766.91	0.00	369.0					33.75		5,837.56
Morris G	5,766.91	2,306.66								8,073.57
Payne R W	5,766.91	5,767.00								11,533.91
Plant M	5,766.91	0.00	130.86					121.00		6,018.77
Preece A	5,766.91	3,461.09	346.59					149.13		9,723.72
Richardson C	5,766.91	4,614.01							10,614.92	20,995.84
Rogan T	5,766.91	2,642.56								8,409.47
Shaw J E	5,766.91	3,461.09	145.30		73.58	780.00	277.00	55.00		10,558.88
Simmons C	5,766.91	3,473.64								9,240.55
Sutherland L M	5,766.91	817.19	81.82					76.86		6,742.78
Thompson H	2,995.42	0.00	200.13					85.68		3,281.23
Tumilty V	5,766.91	5,767.00						88.00		11,621.91
Turner M W	5,766.91	0.00	41.78					102.12		5,910.81
Wallace S D	5,766.91	0.00								5,766.91
Wistow G	5,766.91	0.00								5,766.91
Worthy G	5,766.91	0.00	355.50					121.00		6,243.41
Wright E	5,766.91	0.00	179.43					132.00		6,078.34
Young D R	5,766.91	0.00			126.78					5,893.69
Total 2009/2010	274,828.59	147,312.30	1,877.52	0.00	1,449.63	2,385.00	889.00	1,607.16	12,889.12	443,238.32
Total 2008/2009	273,384.11	145,963.47	2,677.11	0.00	1,542.20	2,737.45	931.87	2,270.84	12,695.69	442,202.74

The following Councillors were the Council's appointed representatives on Cleveland Fire Authority or Cleveland Police Authority and received a separate allowance for this additional responsibility which was funded from the Fire or Police Authorities budgets, as detailed below. Unless indicated, these appointments were for the period 1st April, 2009 to 31st March, 2010. Further details of these allowances can be obtained from the Fire or Police Authorities.

Councillor	Cleveland Fire Authority				Cleveland Police Authority				
	Basic and Special Responsibility Allowances	Travel Allowances	Subsistence	Total	Basic and Special Responsibility Allowances	Travel Allowances	Subsistence	Total	
	£	£	£	£	£	£	£	£	
R Payne	2,182.26	0.00	0.00	2,182.26	0.00	0.00	0.00	0.00	01.04.09 to 31.03.10
SCook	536.79	0.00	0.00	536.79	0.00	0.00	0.00	0.00	01.04.09 to 30.06.09
EWright	536.79	0.00	0.00	536.79	0.00	0.00	0.00	0.00	01.04.09 to 30.06.09
TFleming	536.79	0.00	0.00	536.79	0.00	0.00	0.00	0.00	01.04.09 to 30.06.09
JBrash	1,645.47	0.00	0.00	1,645.47	0.00	0.00	0.00	0.00	01.07.09 to 31.03.10
R Flintoff	1,645.47	0.00	0.00	1,645.47	0.00	0.00	0.00	0.00	01.07.09 to 31.03.10
ALilley	1,645.47	0.00	0.00	1,645.47	0.00	0.00	0.00	0.00	01.07.09 to 31.03.10
CBarker	0.00	0.00	0.00	0.00	9,612.18	766.27	571.07	10,949.52	
VTumilty	0.00	0.00	0.00	0.00	9,992.43	1,629.91	69.69	11,692.03	
SWallace	0.00	0.00	0.00	0.00	9,705.22	213.36	0.00	9,918.58	

GLOSSARY OF TERMS

ACCOUNTING POLICIES

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

- Recognising;
- selecting measurement bases for; and
- presenting

assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

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

ACQUIRED OPERATIONS

Operations comprise services and divisions of service as defined in BVACOP. Acquired operations are those operations of the local authority that are acquired in the period.

ACTUARIAL GAINS AND LOSSES

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

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

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.

CLASS OF TANGIBLE FIXED ASSETS

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

Operational assets

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

Non-operational assets

- Investment properties
- Assets under construction
- Surplus assets, held for disposal

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

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 historical buildings.

CONSISTENCY

The principle 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.

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:

- a) termination of employee's services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business; and
- b) termination of, or a 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.

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 cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

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:

- a) 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.
- b) The activities related to the operation have ceased permanently.

- c) 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 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.
- d) 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.

ESTIMATION TECHNIQUES

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

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

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

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

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 finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all (normally 90% or more) of the fair value of the leased asset. The present value should be calculated by using the interest rate implicit on the lease. However, where the present value of the minimum lease payments does not amount to 90% or more of the fair value of the leased asset, it should not be automatically assumed that the lease is not a finance lease. FRS 5 requires that the substance of the transaction be reflected and therefore the lease may still need to be classified as a finance lease.

Notwithstanding the fact that the lease meets the definition above, the presumption that an asset should be classified as a finance lease may in exceptional circumstances be rebutted if it can be clearly demonstrated that the lease in question does not transfer substantially all the risks and rewards of ownership (other than legal title) to the lessee.

FINANCIAL INSTRUMENT

A legally enforceable agreement between two or more parties, expressing a contractual right or a right to the payment of money. Typical examples include investments, loans, trade creditors and trade debtors.

GOING CONCERN

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

GOVERNMENT GRANTS

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

IMPAIRMENT

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

INFRASTRUCTURE ASSETS

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

INTEREST COST (PENSIONS)

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.

INVESTMENT PROPERTIES

Interest in land and/or buildings:

- a) in respect of which construction work and development have been completed; and
- b) which is held for its investment potential, any rental income being negotiated at arm's length.

INVESTMENTS (PENSIONS FUND)

The investments of the Pensions 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.

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.

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.

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 used or consumed in the delivery of services or for the service or strategic objectives of the Authority. Examples of non-operational assets include investment properties and assets that are surplus to requirements, pending their sale. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held solely for investment purposes and does not support the service or strategic objectives of the Authority and the rental income is negotiated at arm's length.

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 or for the service or strategic objectives of the Authority.

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.

PRIOR PERIOD 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.

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:

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

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

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 Councillors;
- 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:

- Councillors 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 Councillors 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.

REMUNERATION

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 the employer are excluded.

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 Councillors 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

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or onsumption when it arises.

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; and
- finished goods.

TANGIBLE FIXED ASSETS

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

USEFUL LIFE

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

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.

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

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Annual Governance Report

Hartlepool Borough Council

Audit 2009/10

September 2010

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Status of our reports

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

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

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Finance Officer on 15 September 2010.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Lynne Snowball
District Auditor

22 September 2010

Key messages

This report summarises the findings from my 2009/10 audit, which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	No	7
Adequate internal control environment	Yes	9
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	11

Audit opinion

- 1 My audit is substantially complete. I expect to issue an unqualified opinion on the financial statements by the 30 September 2010, subject to satisfactory clearance of residual issues.

Financial statements

- 2 The Council prepared the financial statements in time for the statutory deadline of 30 June while undergoing a significant internal restructure of the central and departmental Finance teams.
- 3 I identified a significant number of errors in my audit of the financial statements, including one material error where infrastructure assets had not been depreciated. I also identified errors in other tangible fixed assets, financial instrument disclosure notes and the cash flow statement, and a number of minor errors and inconsistencies in the statements. The Council has amended the accounts for these errors and post balance sheet events. The net impact on General Fund balances and Earmarked Reserves is an increase of £153,000.
- 4 I also identified some errors which officers have decided not to amend the accounts for including:
 - an imbalance of £3.952 million within the cash flow statement; and
 - the omission of a narrative disclosure of cumulative actuarial gains and losses recognised in the Statement of Recognised Gains and Losses as the Actuary had not provided the Council with these figures.

Key messages

Value for money

- 5 I plan to issue an unqualified conclusion stating the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Independence

- 6 I can confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements that are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 8 My audit of the Council's financial statements is largely complete. The table below summarises the outstanding areas of work. I will update the Audit Committee at its meeting with the progress made in each area.

Table 1 Audit work outstanding at 13 September 2010

Area of work	Comments
Direct confirmations for investments	I am awaiting one direct confirmation for the Council's investments.
Debtors testing	I am completing my debtors work, following-up responses I have now received from the Council.
Review of the final version of the Council's financial statements	I will undertake a final review, once I have received revised financial statements that incorporate agreed amendments.
Review of post balance sheet events	I will undertake the final part of my review immediately before giving the opinion.

-
- 9 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 10 My audit identified errors and uncertainties in the financial statements presented for audit. Appendix 2 contains a list of all adjusted errors and table 2 summarises the significant errors.
- 11 The net impact on General Fund balances and Earmarked Reserves is an increase of £153,000.

Table 2 **Errors identified**

Error	Finding
Infrastructure assets not depreciated	Infrastructure assets, held at historic cost on the balance sheet, have not been depreciated over a number of years. The Council has estimated the net value was overstated by £28.179 million, with depreciation now charged for 2009/10 of £2.401 million.
Other fixed asset errors	There were a number of errors in fixed assets including: <ul style="list-style-type: none"> assets of £5.6 million misclassified as assets under construction instead of operational assets; and misclassification of £688,000 as Infrastructure instead of Assets Under Construction.
Financial Instrument disclosure notes 22-25	Errors in financial instrument disclosures including: <ul style="list-style-type: none"> narrative which did not match the actual movement in financial instruments; and incorrect use of brackets, showing positive or negative movements, resulting in the table on Note 22 Gains and Losses being incorrect.
Cash flow statement	A number of errors in the cash flow statement including: <ul style="list-style-type: none"> figures which did not agree to the main financial statements; incorrect application of the cash flow toolkit used to prepare the statement, which was completed as if the Council was a precepting rather than a billing authority; and an imbalance of £3.952 million within the cash flow statement.

12 There were a number of issues arising following production of the draft financial statements. The following post balance sheet events have been accounted for in the financial statements.

- The Treasury announced that from April 2011 increases in pensions will be linked to the Consumer Prices Index (CPI) instead of the Retail Price Index (RPI). Historically the CPI has been lower than the RPI and there may be a reduction in pension liabilities as a result. The Council has reported this in as a non-adjusting post balance sheet event, quantifying an estimated reduction in the pensions liability of £17.753 million.
- Fifty per cent reduction in LPSA grant already included in the financial statements, with a resulting reduction of £613,000 to revenue and also £613,000 to capital funds.
- Abolition of the Building Schools for the Future Programme as a 'non-adjusting' event, with no impact on the financial position reported in the accounts.

Unadjusted errors in the accounts

- 13** I identified a number of errors as detailed in Appendix 3 which officers do not propose to adjust. I will update the Audit Committee of the final impact of adjustments following satisfactory resolution of outstanding queries. The key items are:
- an imbalance of £3.925 million within the cash flow statement; and
 - the omission of a narrative disclosure of cumulative actuarial gains and losses recognised in the Statement of Recognised Gains and Losses as the Actuary had not provided the Council with this figure.
- 14** I ask you to consider these errors and uncertainties, and where you do not agree to adjust the errors I have identified in the financial statements, I ask you to set out the reasons for not doing so in the management letter of representation.

Important weaknesses in internal control

- 15** My audit work has not identified any significant weaknesses in internal control.

Key areas of judgement and audit risk

- 16** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 3 Key areas of judgement and audit risk

Risk area	Finding
Changes to staffing levels in the accountancy section may impact on the preparation and quality of the accounts and working papers.	<p>My team maintained a regular dialogue with the Head of Finance during the closedown process.</p> <p>An updated quality assurance process was put in place, but the level of errors and inconsistencies indicate this needs to be improved.</p> <p>Looking forward, the Council should ensure there is sufficient capacity to produce the financial statements under International Financial Reporting Standards, which will require additional time.</p> <p>In addition, capital accounting capacity should be developed through training, to ensure the level of errors in fixed assets is not repeated</p>
Pension fund information used is based upon estimates. There is a risk that the financial statements will need to be amended to reflect actual year-end figures.	<p>I reviewed the impact of year-end actual figures against estimates used as part of our specific testing of pension fund information. There were no issues arising.</p>

Risk area	Finding
The Statement of Recommended Practice (SORP) for 2009/10 includes the requirement for local authorities to adopt a new accounting standard (IFRIC 12).	I reviewed the Council's arrangements for identifying and accounting for any relevant arrangements across the Council's activities. There have been no contractual arrangements that have been brought onto the balance sheet as a result.
The Local Government SORP for 2009/10 requires authorities to change the way council tax and NNDR debtors and creditors are accounted for in the billing authority's statements.	I identified some errors in applying these changes: <ul style="list-style-type: none"> • NNDR debtors and creditors changes had been omitted; and • a disclosure note had to be added to quantify the impact of this change in accounting policy.

Recommendations

- R1** The Council should ensure there is sufficient capacity and a detailed project plan to produce the financial statements under International Financial Reporting Standards, which will require additional time.
- R2** Capital accounting capacity should be developed to enable the Head of Finance to take a greater role in reviewing capital accounting, as well as increasing knowledge within the team.
- R3** Further develop the Quality Assurance process of the unaudited and final revised financial statements to identify errors and inconsistencies ahead of the audit.

Accounting practice and financial reporting

- 17** I consider the non-numeric content of your financial reporting.
- 18** The financial statements contained material and minor errors this year and areas where disclosures and notes needed to be revised or developed. Good internal quality assurance before approval of the financial statements can identify and address such errors. This will be important going forward with the transition to International Financial Reporting Standards in 2010/11. I have made recommendations in earlier paragraphs in this area.
- 19** I also recommended the Council clarify the nature of significant governance issues shown in the Annual Governance Statement.

Letter of representation

- 20** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 21** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 22** I intend to issue an unqualified conclusion stating the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Key messages from our work

- 23** The Council has continued to develop and improve its arrangements to respond to the changing nature and role of local government. The Council has a good track record of managing organisational change successfully. It has streamlined its organisational structure, improving its focus and delivering savings. The Council is rationalising and managing its estate to meet future requirements with sales of surplus property providing opportunities for ongoing savings. The Council still needs to develop asset management benchmarking and performance indicators to support improved management and value for money.
- 24** The Council's workforce is productive and skilled and clear about its responsibilities for improving the way it delivers services to the community. The Council works well with partners to ensure there is a shared focus on local priorities through, for example, joint workforce planning, which helps to avoid duplication. These all contribute to improving value for money.
- 25** The Council has well focused plans to make significant savings and improve value for money and it is on track to achieve these plans. The Council has an ambitious but realistic improvement programme, the Business Transformation Programme. This programme is fundamentally reviewing all council services, how they are provided and the resources needed to deliver them. The Council has made good progress with this programme, which is largely on track with planned full year savings of £2.5 million in 2010/11.
- 26** The Council has a good understanding of its costs and is improving this as it progresses through the Transformation Programme. It already has a good understanding of how to invest to maximise savings and benefits to users. This has enabled them to improve services and deliver high quality services in a challenging context. It is now helping it to decide how to deliver cost-effective services in future.

- 27** Financial management in the Council has improved. The Council is clearly linking priorities to service and financial planning and delivering efficiencies. Forecasting has improved and the Council has a good track record of delivering within budget.
- 28** The Council has increased its corporate capacity to deliver improvements through procurement, which will support the Council in its reviews of service delivery options as part of the Transformation Programme. Effective procurement is a key factor that will determine the savings it can achieve and the impact of any changes on services and the local community. The Council delivered £0.3 million of savings through procurement in 2009/10 and has made procurement more open and transparent. Good examples of improvements and savings through effective procurement exist, but there is more work to be done to ensure that progress is made across all of the Council.
- 29** Reporting and monitoring arrangements have improved although there have been a significant number of errors in the financial statements this year. The Council now reports financial and performance information together, and more quickly than previously. High-spending and high-risk areas of work in particular are closely monitored and managed. Information is presented to users in a more useful format. There remains scope to develop reports, linking finance and performance more closely to aid decision-makers. The Council produces objective and balanced summary reports for the public and makes them easily accessible.
- 30** Governance arrangements are sound. Members receive comprehensive training and development to enable them to undertake their roles effectively. Any complaints are fully investigated. Partnership arrangements are also well governed.

Recommendations

- R4** The Council should ensure that its procurement practices in all service areas have greater impact on the local economy and community by not only delivering significant savings but also seeking to maximise the benefits by taking a broad based approach to achieving VFM.
- R5** The Council should more clearly link financial and performance reports to aid decision-makers.
- R6** The Council should ensure that asset management plans are implemented in a timely manner in order to ensure the intended benefits can be realised in a challenging economic environment.
- R7** The Council needs to develop asset management benchmarking and performance indicators to support improved management and value for money in its use of assets.

Glossary

Annual governance statement

- 31** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 32** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 33** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

- 34** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

- 35** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
 - whether they have been prepared properly, following the relevant accounting rules.

Unqualified / qualified

- 36** The auditor does not have any reservations. If qualified, the auditor has some reservations or concerns.

Value for money conclusion

- 37** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Hartlepool Borough Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Hartlepool Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hartlepool Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

Appendix 1 – Independent auditor’s report to Members of Hartlepool Borough Council

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the Councillors' Allowances and Expenses additional disclosures only. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’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 accounting statements and related notes 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 accounting statements and related notes.

Opinion

In my opinion the Authority’s accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

Authority’s responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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 May 2008 and updated in October 2009, and the supporting guidance, 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 ended 31 March 2010.

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.

Lynne Snowball
Officer of the Audit Commission

Audit Commission
Lion Court
Hanzard Drive
Wynyard
TS22 5FD

September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and officers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

This table only includes the most significant items. I have provided the Chief Finance Officer with a full list of amendments.

Table 4 Adjusted errors

		Income and Expenditure Account		Balance sheet	
Adjusted misstatement	Nature of misstatement	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Fixed assets - Infrastructure	Infrastructure assets have not been depreciated for a number of years. Increase in depreciation of £2.401 million for 2009/10. Cumulative reduction in net book value for previous years of £28.189 million with a corresponding accounting estimate of depreciation impacting upon the Income and Expenditure Account.	28189			28189
Fixed assets – Assets Under Construction	Overstatement of Assets Under Construction which included assets which are already operational. Impairment impact upon the Income and Expenditure Account.	3597			5630
Fixed assets - Infrastructure	Misclassification of Infrastructure assets within Assets Under Construction			688	688

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Adjusted misstatement	Nature of misstatement	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Short-term borrowing: interest payable	Overstatement of interest payable: reduces interest payable in the Income and Expenditure Account. Officers have transferred this increase in balances to the Building Schools for the Future Reserve (part of Earmarked Reserves)		387	387	
Government Grants – LPSA	Fifty per cent reduction in LPSA grant already included in the financial statements. This has impacted upon the General Fund balance.	613			613
Debtors and creditors	Adjustment for NNDR (part of the change in treatment of Council Tax and NNDR this year)			1379	1379

Table 5 Adjusted disclosure errors

Item of account	Description
Cash flow statement	There have been a number of amendments to the cash flow statement and its supporting disclosure note to correct errors and ensure consistency between the disclosure notes.
Note 22 - 25 Financial Instrument disclosures	<p>A number of amendments including:</p> <ul style="list-style-type: none"> • Note 22 amendments for consistency between disclosures; • Note 23 amendments for consistency in use of brackets, between positive and negative movements resulting in a change to the totals disclosed in the table; and • Note 24 amendments to the narrative to clarify presentation and calculation of carrying and fair values disclosed.

Appendix 2 – Amendments to the draft accounts

Item of account	Description
Note 37 Contingent Liabilities	<p>A new contingent liability was included in the unaudited financial statements for future risks faced by the Council: "this potential liability has been identified as part of risks faced by the Council and part of the new Strategic Risk Reserve which was created as part of the 2009/2010 Outturn Strategy".</p> <p>This did not meet the definition of a contingent liability therefore has now been removed from the revised financial statements.</p>
Note 39 Post Balance Sheet Events	<p>The following post balance sheet events have been accounted for in the financial statements.</p> <ul style="list-style-type: none"> • Change in rate of pensions from the RPI to the CPI; no numerical impact, this is disclosed as a 'non-adjusting' event, with the estimated reduction in the pensions liability of £17.753 million. • Fifty per cent reduction in LPSA grant already included in the accounts, with a resulting amendment of £613,000. • Abolition of the Building Schools for the Future Programme which is disclosed as a 'non-adjusting' event.
Note 41 Prior Period Adjustments	<p>A new disclosure note has been included in the revised financial statements as required, quantifying the impact of the change in accounting policy in relation to Council Tax and NNDR.</p>
Other errors	<p>A number of minor errors and expansion of disclosure notes including:</p> <ul style="list-style-type: none"> • Note 6 Senior Officers' Remuneration; • Note 9.2 Trading Operations (Vehicle Maintenance); • Note 15 Fixed asset disclosure notes; • Note 29 Reserves; and • Note 34 Earmarked Reserves.

Appendix 3 – Unadjusted errors in the accounts

I identified the following errors during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter.

There were also a number of unadjusted minor errors. I have provided management with a full schedule of these.

Please attach a schedule of the uncorrected errors to the representation letter.

Table 6 **Unadjusted errors**

Description of error	Accounts affected	Value of error £000
Incorrect depreciation of land which is non-depreciable.	Tangible Fixed Assets - Land & Building overstated.	£106
Duplicate accrual of capital expenditure.	Tangible Fixed Assets - Assets Under Construction overstated.	Estimated £69
Two assets sold during 2009/10 were not transferred from operational assets to 'surplus assets held for disposal' as required.	Tangible Fixed Assets - Surplus Assets held for disposal understated.	£430
Infrastructure errors identified from testing of 'additions' (misclassification and wrongly capitalised as per SORP guidance).	Tangible Fixed Assets - Infrastructure overstated.	Estimated impact of less than £400.
There was an imbalance on the cash flow statement	Cash flow statement	£3952
Narrative disclosure of cumulative actuarial gains and losses omitted as the Actuary had not provided the Council with these figures.	Statement of Recognised Gains and Losses	Not known

Appendix 3 – Unadjusted errors in the accounts

Description of error	Accounts affected	Value of error £000
Collection Fund is overstated compared to the NNDR return submitted to government which is subject to audit. This arose due to late clarification of guidance for the NNDR3 return. There is no net impact upon the reported surplus per the Collection Fund.	Collection Fund – Contribution to the NNDR pool	£240
Estimated understatement of pensions benefits payable in 2008/09; the Actuary had previously excluded former Cleveland County Council employees from his calculations. Correctly shown in 2009/10.	Pensions benefits payable	£400

Appendix 4 – Draft letter of representation

To:

Lynne Snowball
District Auditor
Audit Commission

Nickalls House
Metrocentre
Gateshead
Tyne & Wear
NE11 9NH

Hartlepool Borough Council - Audit for the year ended 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Hartlepool Borough Council, the following representations given to you in connection with your audit of Council's financial statements for the year ended 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are attached at Appendix 1 (see Council report).

Supporting records

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

Appendix 4 – Draft letter of representation

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

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

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For depreciation, accruals, provisions, contingent liabilities and FRS17 entries and financial instruments, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

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

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

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

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

Post balance sheet events

Since the date of approval of the financial statements by the Audit Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Appendix 4 – Draft letter of representation

Specific representations

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provisions other than those which have been properly recorded and disclosed in the financial statements.
Infrastructure assets have been correctly valued and shown in the financial statements.

Signed on behalf of Hartlepool Borough Council

Chief Finance Officer

Date:

I confirm that this letter has been discussed and agreed by the Audit Committee on 22nd September 2010

Signed

Chair of the Audit Committee

Date:

Appendix 5 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources (assessed on a cyclical basis)	
Natural resources	n/a
Strategic asset management	Yes
Workforce	Yes

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Council comments	Date
Annual Governance Report 2009/10 – Recommendations						
10	The Council should ensure that there is sufficient capacity and a detailed project plan in order to produce the financial statements under International Financial Reporting Standards which will require additional time.	3	Chief Finance Officer	Yes	Planning to bring in temporary external support to complete detailed one-off technical tasks owing to internal capacity constraints and fixed timescale for implementing this change.	June 2011
10	Capital accounting capacity should be developed to enable the Head of Finance to take a greater role in reviewing capital accounting, as well as increasing knowledge within the team.	2	Chief Finance Officer	Yes	Action previously taken to train another member of staff who subsequently left the Council. It was not possible to increase capacity this year owing to staffing changes and constraints. Aim to address for 2010/11 Statement of Accounts.	June 2011
10	Further develop the Quality Assurance process of the unaudited and final revised financial statements to identify errors and inconsistencies ahead of the audit.	2	Chief Finance Officer	Yes	Existing arrangements will be reviewed for 2010/11 Statement of Accounts.	June 2011

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Council comments	Date
12	The Council should ensure that its procurement practices in all service areas have greater impact on the local economy and community by not only delivering significant savings but also seeking to maximise the benefits by taking a broad based approach to achieving VFM.	2	Assistant Director (Support Services) Regeneration and Neighbourhoods	Yes	The Council is reviewing its contract procedure rules to raise the threshold under which quotations can be sought rather than the often complex tender arrangements that local suppliers find difficult. Use of local companies and the third sector where appropriate, on quotation lists will be part of the process driven by a Council wide electronic quotation system. A neighbouring authority which has implemented such a system has seen the number of local suppliers winning business rise from 20 per cent to 50 per cent. In addition we have built into our BSF programme the need to stimulate the local economy and this has resulted in the successful bidder Balfour Beatty committing to a target of 65 per cent of suppliers work being allocated to companies within the Hartlepool area.	March 2011
12	The Council should more clearly link financial and performance reports to aid decision-makers.	2	Chief Finance Officer/Assistant Chief Executive	Yes	Officers already monitor both financial and non-financial information in key budget areas (e.g. number of children in care) although this is not currently included in financial and performance reports. We will look to include these in future reports.	March 2011

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Council comments	Date
12	The Council should ensure that asset management plans are implemented in a timely manner in order to ensure the intended benefits can be realised in a challenging economic environment.	2	Assistant Director (Support Services) Regeneration and Neighbourhoods	Yes	In addition to the overarching Business Transformation Asset Management objective to rationalise and maximise the use of our estate service, asset management plans are being drawn up as part of our SDOs to ensure the correct property decisions are able to be made in line with the future service delivery. This includes considering the marketability and timing of disposals to meet the current economic climate. Consideration is being given as to how assets across the Public Sector in Hartlepool can be best used. The Hartlepool Partnership Public Sector Performance Group is leading this.	March 2011
12	The Council needs to develop asset management benchmarking and performance indicators to support improved management and value for money in its use of assets.	2	Assistant Director (Support Services) Regeneration and Neighbourhoods	Yes	The Council is working across the Tees Valley and regionally with the RIEP and CIPFA IPF to agree a set of indicators (based on the Public Audit Office VFM indicators). This will strengthen our property performance measurement and allow benchmarking comparison.	March 2011

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Appendix B

Proposed changes not amended as detailed in Appendix 3 of the Annual Governance Report		
	Issue not Amended	Reasons for not Amending
1.	Incorrect depreciation of land which is non-depreciable.	The incorrect depreciation charge of £0.106 million means that Fixed Assets are valued in the Balance Sheet at £300.244 million, rather than £300.350 million. The difference is not significant.
2.	Duplicate accrual of capital expenditure.	Audit sampling identified a duplicate accrual of £5,728, which based on the sample size indicates potential duplicate accruals of £69,000. In the context of total capital expenditure for 2009/10 of £25.7million this is not significant.
3.	Two assets sold during 2009/10 were not transferred from operational assets to 'surplus assets held for disposal' as required.	This issue does not affect the overall value of Fixed Assets as these assets were disposed of in 2009/10 and had simply not been transferred between asset categories.
4.	Infrastructure errors identifies from testing of 'additions' (misclassifications and wrongly capitalised as per SORP guidance).	Audit sampling identified expenditure of £6,800 was correctly capitalised in accordance with grant conditions. However, this expenditure and the capital grant should have been transferred to the revenue account. Based on the sample size this indicates potential expenditure of £400,000 within this category. As this amount is not significant in relation to the overall Fixed Assets values of £300.244 million and does not impact on the Council's cash position or balances the accounts have not been amended.
5.	There was an imbalance on the Cash Flow Statement.	The Cash Flow Statement has been reconciled at a global level to the Council's other financial statements. This amount represents a difference of classification of cash flows at a detailed level within the cashflow statement. Action has been taken to avoid this situation arising next year.
6.	Narrative disclosure of cumulative actuarial gains and losses omitted as the Actuary had not provided the Council with these figures.	This information was not supplied by the Actuary to the Teesside Pension Fund. It is an FRS17 accounting issue which does not impact on the Council's

		cash position or balances and therefore has not been amended in the accounts.
7.	Collection Fund is overstated compared to the NNDR return submitted to government which is subject to audit. This arose due to late clarification of guidance for the NNDR3 return. There is no net impact on the reported surplus per the Collection Fund.	The total NNDR payment disclosed in the Accounts was £24.898 million and in this context the overstatement of £240,000 is not significant. The correct payment has been made to the NNDR pool and this issue does not affect the Council's financial position.
8.	Estimated understatements of pensions benefits payable in 2008/09; the Actuary had previously excluded former Cleveland County Council employees from his calculations. Correctly shown in 2009/10.	The total FRS17 Liability Related to Defined Pension Scheme and the offsetting Pension Reserves at 31.03.10 was £121.612m. In the context of this figure an understatement of £0.4million is not significant.

AUDIT COMMITTEE

22 September, 2010



Report of: Chief Finance Officer

Subject: TREASURY MANAGEMENT OUTTURN
2009/2010

1. PURPOSE OF REPORT

- 1.1 This report provides a review of the Treasury Management activity for 2009/2010 and the outturn Prudential Indicators for this period.

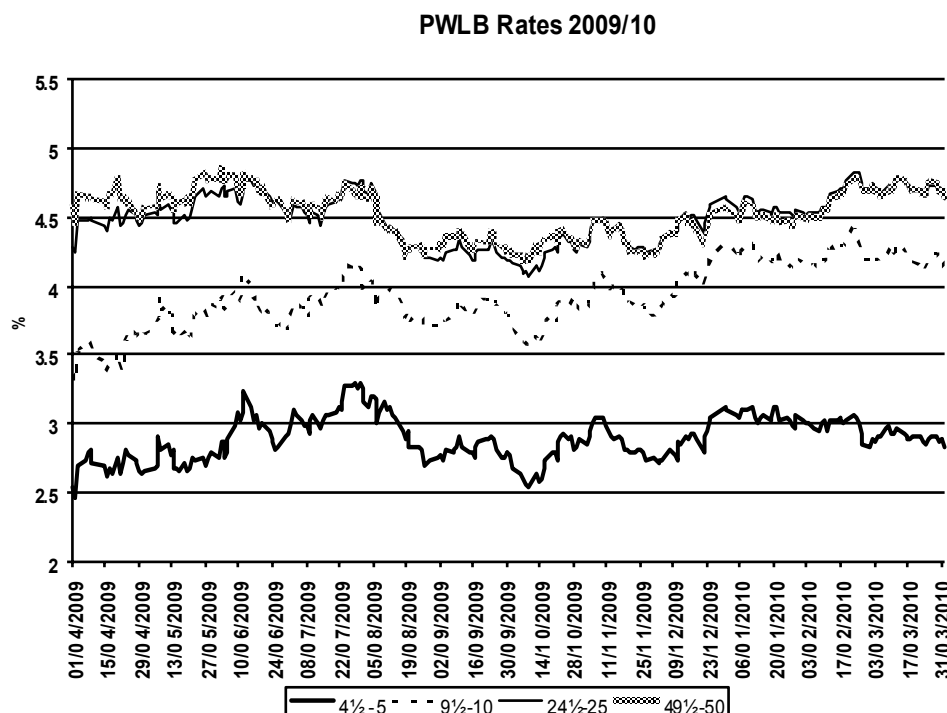
2. BACKGROUND

- 2.1 As part of the annual Budget and Policy Framework process Council approved the 2009/10 Treasury Management Strategy and associated Prudential Indicators on the 12th February, 2009.
- 2.2 The submission of this report to Council is a requirement of the CIPFA Code of Practice on Treasury Management, CLG Investment Guidance and the CIPFA Prudential Code for Capital Finance in Local Authorities. This report is being submitted to the Audit Committee to enable members to scrutinise it prior to it being presented to the Council on the 28th October 2010.
- 2.3 The 2009/10 financial year continued the challenging economic environment of the previous year with weak signs of recovery in the second half of the year. The implications have been the continuation of low investment returns and counterparty risk, albeit less severe than in previous years.
- 2.4 The focus of this report is events relating to the financial year 2009/2010 and summarises:
- the economic background for the year;
 - the Council's capital expenditure and financing in 2009/2010;
 - the Council's overall treasury position, including borrowing and investment activity;
 - the regulatory framework, risk and performance considerations, including compliance with key prudential indicators;
 - Pooled Investment Fund termination
- 2.5 As Members will be aware, a training session for the Audit Committee on Treasury Management issues has been scheduled for the 8th

October, 2010. This report is being submitted to finalise the reporting of 2009/10 Treasury Management issues. The training will enable Members to scrutinise Treasury Management issues for future years more effectively.

3. ECONOMIC BACKGROUND FOR 2009/2010

- 3.1 Financial markets entered calmer waters in the early stages of the 2009/10 financial year as the worst fears of global depression and bank meltdown subsided. However, while economies showed tentative signs of stabilising, a return to a positive growth path was still considered to be a long way off. Indeed, UK GDP data for the first half of 2009 registered its sharpest fall for over 20 years.
- 3.2 It was not until the summer months that economic performances began to stage a small improvement. Fear of a collapse of another leading financial institution lessened markedly and this was reflected in the more 'normal' behaviour of money market rates. However, banking sectors in most countries were far from trouble free; asset write downs persisted, minor US banks continued to fail and the troubles of a number of building societies continued to make the headlines.
- 3.3 The UK economy continued to display mixed performance with the first signs of recovery not materialising until the fourth quarter of 2009/2010. The bias of the Bank of England decisions remained directed towards low interest rates. Official interest rates had been reduced to 0.5% in March 2009 and continued monetary relaxation took the form of the extension of the Quantitative Easing programme. The £125bn tranche sanctioned in March was followed by two further boosts, £50bn in August and £25bn in November.
- 3.4 The accommodative policy approach, coupled with dwindling fears of financial collapse, created an environment in which money market rates eased to lower levels. However, although banks were more comfortable about transacting business between each other, the availability of credit to a wider cross-section of the economy remained problematic.
- 3.5 Long-term interest rates did not rise significantly in response to the massive gilt funding requirement created by the surge in the public sector deficit, as was feared, partly because of the policy of Quantitative Easing (QE). Overall long-term rates remained generally erratic, but fluctuating within a comparatively narrow range. The graph overleaf shows changes to Long term borrowing rates for loans with different maturity periods.



4. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2009/2010

- 4.1 The Council's approved capital programme is funded from a combination of capital receipts, capital grants, revenue contributions and Prudential Borrowing.
- 4.2 Part of the Council's treasury activities is to address this Prudential borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's day to day cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance.
- 4.3 Actual capital expenditure forms one of the required prudential indicators. As shown at Appendix A, the total amount of capital expenditure for the year was £25.9m, of which £7.3m was funded by Prudential Borrowing. A further £20.2m was rephased into 2010/2011.
- 4.4 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is the accumulated value of capital expenditure which has been financed from Prudential Borrowing. Each year the Council is required to apply revenue resources to reduce this outstanding balance.

4.5 Whilst the Council's limit of its underlying need to borrow is the CFR, the Council can manage the actual borrowing position by either:

- borrowing to the level of the CFR; or
- choosing to use temporary internal cash flow funds instead of borrowing; or
- borrowing for future planned increases in the CFR up to 3 years in advance.

4.6 The Council's CFR for the year was £86m as shown at Appendix A. This is lower than the approved estimate owing to the rephasing of capital expenditure until 2010/2011. The Council's total borrowing as at 31st March, 2010 was £50.8m. This is currently less than the CFR as a result of being able to use its balances to internalise the funding of capital expenditure. This strategy was approved in February 2009 and enabled the council to significantly reduce counterparty risk by reducing the level of external investments.

5. TREASURY POSITION AT 31ST MARCH, 2010

5.1 The table below shows the treasury position for the Council as at the 31st March, 2010 compared with the previous year:

5.2

Treasury position	31st March 2009		31st March 2010	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt				
- PWLB	£4.3m	4.77%	£1.8m	4.12%
- Market Loans	£45m	4.00%	£45m	4.00%
Total Long Term Debt	£49.3m	4.07%	£46.8m	4.00%
Variable Interest Rate Debt				
- Temporary loans	£25.6m	0.86%	£4m	0.45%
Total Debt	£74.9m	2.97%	£50.8m	3.24%
Total Investments	£39.5m	4.85%	£29.4m	2.68%
Net borrowing position	£35.4m		£21.4m	

Note that amounts shown only include the Council's share of investments held as part of the 'Pooled Investment Fund' and excludes the £8.1m held on behalf of the Cleveland Fire Authority from both investments and borrowing figures.

As shown in the table, the Council has reduced the level of total debt by repaying £2.5m PWLB borrowing and £21.6m temporary borrowing. This resulted from the Council's Treasury Strategy of funding a greater share of the Council's Capital Finance Requirement by using balance sheet resources, such as reserves and reducing the level of investments. This strategy has enabled the Council to achieve the optimum level of cost effectiveness while also managing to reduce exposure to counterparty default risk.

5.4 A key performance indicator shown in the above table is the very low average rate of external debt of 3.24% for debt held as at 31st March, 2010. The latest available data from CIPFA shows that the Council ranked 2nd lowest out of 46 unitary Councils in terms of lowest average rate for external borrowing.

5.5 The Council's investment policy is governed by Department of Communities and Local Government (DCLG) guidance, which has been implemented in the annual investment strategy approved by Council on 12th February, 2009. The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

6. **REGULATORY FRAMEWORK, RISK AND PERFORMANCE**

6.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/2010);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities;
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November, 2007.

6.2 The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its Treasury Management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low risk approach.

6.3 The Council is aware of the risks of passive management of the Treasury Portfolio and with the support of Butlers, the Council's advisers, has proactively managed its treasury position.

6.4 **Prudential Indicators and Compliance Issues**

6.5 Details of each Prudential Indicator are shown at Appendix A. Some of the prudential indicators provide either an overview or specific limits on treasury activity. The key Prudential Indicators to report at outturn are described below.

6.6 The **Authorised Limit** is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. Appendix A demonstrates that during 2009/2010 the Council has maintained gross borrowing within its Authorised Limit.

6.7 **Net Borrowing and the CFR** - In order to ensure that borrowing levels are prudent, over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not have exceeded the CFR for 2009/2010 plus the expected changes to the CFR over 2010/2011 and 2011/2012. The Council has complied with this Prudential Indicator.

7. **POOLED INVESTMENT FUND TERMINATION**

7.1 The Council with Cleveland Fire Authority has operated a Pooled Investment fund since January 2009. The fund was set up to enable the Council and Fire Authority to diversify the risk of counterparty default by increasing the spread of investments.

The current investment climate has seen a reduction in the risk of potential banking failures and the emphasis on counterparty default is no longer as acute.

The Council and Fire Authority now have differing treasury management needs, as the Council increases its borrowing as reserves are reduced. This creates complexities for sharing investment returns on a neutral basis. It has therefore been agreed with the Fire Authority to terminate the pooled investment fund and

replace it with new separate investments for each Authority by 31st March 2011.

8 CONCLUSION

- 8.1 The report provides members with an overview of the Treasury Management activities for 2009/2010, as required by legislation. The report demonstrates that these activities have been undertaken in accordance with relevant legislation, regulations and the Council's approved Treasury Management Strategy. Therefore, there are no specific issues to bring to Members attention.

9. RECOMMENDATION

- 8.1 It is recommended that Members note the report.

Appendix A

Prudential Indicators 2009/10 Outturn

1. Ratio of Financing Costs to Net Revenue Stream

This indicator shows the proportion of the total annual revenue budget that is funded by the local tax payer and Central Government, which is spent on servicing debt. The outturn is lower than the estimate, mainly as a result of savings from long term borrowing repayment and the very low rates of interest on short term loans. In addition investment income was higher than budget as a result of deals made late 2007/2008 before the economic downturn resulted in a massive reduction in interest rates.

2009/10 Estimate £'000		2009/10 Outturn £'000
6.89%		2.00%

2. Capital Expenditure

This indicator shows the total of capital expenditure for the year.

2009/10 Estimate £'000		2009/10 Outturn £'000
22,194	Capital Expenditure	25,938

The actual is higher than the estimate as a result of additional grant funded capital schemes. A further £20,217,000 of budgeted capital expenditure was rephased into 2010/2011.

3. Capital Expenditure Financed from Borrowing

This shows the borrowing required to finance the capital expenditure programme.

2009/10 Estimate £'000		2009/10 Outturn £'000
6,282	Capital Expenditure Financed from Borrowing	7,372

The actual is higher than the estimate because it includes approved expenditure rephased from the previous financial year.

4. Capital Financing Requirement

CFR is used to determine the minimum annual revenue charge for capital expenditure repayments (net of interest). It is calculated from the Authority's Balance Sheet and is shown below. Forecasts for future years are directly influenced by the capital expenditure decisions taken and the actual amount of revenue that is set aside to repay debt.

2009/10 Estimate £'000		2009/10 Outturn £'000
86,280	Capital Financing Requirement	86,035

The actual is lower than the estimate as a result of capital expenditure included within the estimate which has been rephased into 2010/2011.

5. Authorised Limit for External Debt

The authorised limit determines the maximum amount the Authority may borrow at any one time and the levels for each forthcoming year are detailed below. The authorised limit covers both long term borrowing for capital purposes and borrowing for short term cash flow requirements. The authorised limit is set above the operational boundary to provide sufficient headroom for operational management and unusual cash movements. In line with the Prudential Code, the level has been set to the flexibility to borrowing to finance capital expenditure occurring for up to three years in advance if more favourable interest rates can be obtained.

2009/10 Limit £'000	
125,000	Authorised limit for external debt

The above Authorised Limit was not exceeded during the year. The level of debt as per the Balance Sheet at the year end, excluding accrued interest and Cleveland Fire Authority's share of the Pooled Investment Fund was £50.8m. The peak level during the year was £75m.

6. Operational Boundary for External Debt

The operational boundary is the most likely prudent, but not worst case scenario, level of borrowing without the additional headroom included within the authorised limit. The level is set so that any sustained breaches serve as an early warning that the Authority is in danger of overspending or failing to achieve income targets and gives sufficient time to take appropriate corrective action.

2009/10 Limit £'000	
87,000	Operational limit for external debt

The operational limit was not exceeded in the year. The peak level of debt was £75m.

7. Interest Rate Exposures

This indicator is designed to reflect the risk associated with both fixed and variable rates of interest, but must be flexible enough to allow the Authority to make best use of any borrowing opportunities.

2009/10 Estimate £'000	Upper limits on fixed and variable interest rate exposure	2009/10 Outturn £'000
91,000	Fixed Rates	50,800
60,000	Variable Rates	25,600

The Outturn figures represent the peak values during the period.

8. Maturity Structure of Borrowing

This indicator is designed to reflect and minimise the situation whereby the Authority has a large repayment of debt needing to be replaced at a time of uncertainty over interest rates, but as with the indicator above, it must also be flexible enough to allow the Authority to take advantage of any borrowing opportunities.

	Upper Limit £000	Lower Limit £000	Actual £000
under 12 months	50,000	0	25,600
12 months and within 24 months	50,000	0	3
24 months and within 5 years	50,000	0	73
5 years and within 10 years	50,000	0	146
10 years and above	90,000	0	49,097

The actual figures show the peak position during the period.

9. Investments over Maturing over One Year

This sets an upper limit for amounts invested for periods longer than 364 days. The limit was not exceeded.

2009/10 Estimate £'000	Total Principal Sums Invested over 364 days	2009/10 Outturn £'000
30,000		10,000