

# AUDIT COMMITTEE AGENDA



**Tuesday 26 July 2011**

**at 9.00 am**

**in Committee Room C  
Civic Centre, Hartlepool**

MEMBERS: AUDIT COMMITTEE:

Councillors C Akers-Belcher, Hall, Hill, J W Marshall, Preece, Rogan and Wells.

**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 18 May 2011

**4. ITEMS FOR DISCUSSION/DECISION**

- 4.1 Audit Commission Report Audit Progress – *Chief Finance Officer*
- 4.2 Audit Committee Member Information – *Head of Audit and Governance*
- 4.3 2010/2011 Statement of Accounts – *Chief Finance Officer*
- 4.4 Internal Audit Plan 2011/12 Update – *Head of Audit and Governance*
- 4.5 Risk Management Strategy – *Head of Audit and Governance*
- 4.6 Role of Head of Internal Audit in Local Government – *Chief Finance Officer*
- 4.7 Draft Anti Fraud and Corruption Strategy – *Head of Audit and Governance*

**5. ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

# **AUDIT COMMITTEE**

## **MINUTES AND DECISION RECORD**

18 May 2011

The meeting commenced at 4.00 pm in the Civic Centre, Hartlepool

### **Present:**

Councillor Christopher Akers-Belcher (Chair)

Councillors Gerard Hall, John W Marshall, Arthur Preece and Mike Turner

Officers: Chris Little, Chief Finance Officer  
Noel Adamson, Head of Audit and Governance  
Denise Wimpenny, Principal Democratic Services Officer

Also present: Kathy Eddowes and Diane Harold, Audit Commission

### **41. Apologies for Absence**

Apologies for absence were submitted on behalf of Cath Hill, John W Marshall and Ray Wells.

### **42. Declarations of Interest**

None.

### **43. Minutes of the Meeting held on 23 March 2009**

Confirmed.

### **44. Audit Commission Report – Audit Commission Fee Letter** *(Chief Finance Officer)*

#### **Purpose of Report**

To inform members of the Audit Committee that arrangements had been made for a representative from the Audit Commission to be in attendance at this meeting to present the content of the Audit Commission's fee letter.

#### **Issues for Consideration**

The Audit Commission's letter, attached at Appendix 1 summarised the Audit Commission proposed fee. The fee reflected the risk based approach to audit planning set out in the Code of Audit Practice and work

mandated by the Commission for 2011/12. The audit fee covered the audit of financial statements, the value for money conclusion and the Government accounts.

The Audit Commission's representative advised that the Audit Commission proposed a fee of £240,300. The scale fee reflected proposed decreases in the total audit fee due to a number of factors as set out in the report.

A separate audit plan would be issued in December 2011 detailing the risks identified to both the financial statements audit and the value for money conclusion. The audit plan would set out the audit procedures and any changes in fee.

### **Decision**

That the Audit Commission's 2011/12 fee letter and proposed fee of £240,300 be noted.

## **45. International Standard on Auditing (UK&I) 240 and 250** *(Chief Finance Officer)*

### **Purpose of Report**

To inform Members of the proposal to comply with International Standard on Auditing 240 and 250.

### **Issues for Consideration**

The report outlined the background to the requirement to demonstrate compliance with International Standards for Auditing (UK and Ireland) 240 and 250. The Standard required the Audit Commission to gain each year, an understanding of how the Committee exercised oversight of management's processes for identifying and responding to risks of fraud and the internal controls established to mitigate them. The Audit Commission were required to gain an understanding of the legal and regulatory framework applicable to the audited body and how the audited body was complying with that framework. Auditors were required to undertake audit procedures to help identify instances of non-compliance with those laws and regulations where this impacted on preparing the financial statements.

Attached at Appendix A was a copy of a letter to the Audit Commission from the Chair of the Committee detailing how the Committee had complied with the requirements of IAS 240 and 250.

## Decision

That a letter to the Audit Commission from the Chair of this Committee, attached at Appendix A, outlining how the activities of the Committee complied with the requirements of IAS 240 and 250, be agreed.

## 46. Public Audit Consultation *(Head of Audit and Governance)*

### Purpose of Report

To advise and seek Members' opinions on the consultation process undertaken by the Department for Communities and Local Government (DCLG) for the government's proposals for how a new local external audit framework could work.

### Issues for Consideration

Following the Government's decision to disband the Audit Commission, transfer the work of the Audit commission's in-house practice into the private sector and introduce a new local audit framework, Members were referred to the consultation document, attached at Appendix A and the suggested letter of response from the Chair of the Audit Committee, attached at Appendix B. Members' views were sought in relation to the suggested letter of response to questions posed in the recent consultation document regarding the format of any future audit committee, the appointment process for independent members and the scope of work of the auditors under any new arrangement.

The Chair suggested the following addition to the penultimate paragraph of the letter and sought the Committee's views in this regard.

The consultation proposes the use of independent members of the public to sit on the Audit Committee. Given the constitutional arrangements of a mayoral authority we believe that non executive back bench members are best placed to play this independent role as they have the knowledge of governance arrangements that are in place at the Council.

The Committee went on to discuss the draft letter of response and the proposed responses to the consultation document and the following comments were raised:-

- (i) In relation to the future and role of local audit, a Member referred to the principles contained within the vision for the future of local audit, as set out in the Ministerial foreword of the Hon Grant Shapps MP, attached as an appendix to the report, and indicated that the principles contradicted the purpose of audit and questioned the links in this regard.
- (ii) In view of the comments outlined above, it was suggested that further clarity was required from the Government to ensure the

guidance in relation to the role of local audit was accurate and clear.

A number of additions/amendments as highlighted in bold, were suggested for inclusion in the consultation response as follows:-

- (iii) Question 11 – “Joint appointments **may be achievable on a sub regional basis**. However, this calls into question how constituents in different areas fit into the consultation/appointment process if one authority led on behalf of others.
- (iv) Question 12 – “It is unclear who would set the appointment criteria and what would happen if nobody **met** this criteria.”
- (v) Question 13 – “Knowledge of the Council’s **governance arrangements** is considered more important than an understanding of detailed financial skills.
- (vi) Question 14 – “**However this would not necessarily lead to the best candidates being appointed**”.

### Decision

That the suggested letter and response to questions posed, detailed in Appendix B, be agreed subject to the inclusion of suggested comments/amendments/additions, as outlined above, to be agreed by the Chair prior to despatch.

## 47. Role of the Chief Finance Officer (CFO) in Public Service Organisations *(Chief Finance Officer)*

### Purpose of Report

To inform members of the CIPFA statement – “The Role of the CFO in Public Service Organisations” and to demonstrate how the Council complies with this guidance.

### Issues for Consideration

The Chief Finance Officer referred to the background to the statement issued by CIPFA, as set out in the report together with the five key principles that defined the core activities and behaviours that belonged to the role of the CFO in public service organisations and the organisational arrangements needed to support them. The review of the statement was undertaken annually in line with best practice. Appendix A to the report detailed how the Council ensured the requirements of the statement were met.

### Decision

- (i) That the review of the CIPFA statement – “The Role of the CFO

- in Public Service Organisations”, be noted.
- (ii) That the Council’s compliance with the requirements of the CIPFA statement, as detailed in Appendix A, be noted.

## **48. Internal Audit Outcome Report 2008/09** *(Head of Audit and Governance)*

### **Purpose of Report**

To inform members of the outcome of audit work covering the period April 2011 to March 2011.

### **Issues for Consideration**

The report provided information on the standards of financial administration and management arrangements operating within the Authority, together with a progress report on the extent of implementation of audit recommendations. The report also detailed the performance of Internal Audit in 2010/11 on a range of key performance indicators. The Council also provided the audit service to Cleveland Fire Authority. In addition to the audits detailed in Appendix A, Internal Audit completed 19 major systems and probity reviews for the Cleveland Fire Authority during 2010/11.

Staffing resources were as anticipated ensuring that all high risk functions were reviewed and a balanced programme of work covering all Council departments was achieved for 2010/11. From the work undertaken during the year 2010/11, the Head of Audit and Governance had reached the opinion that reliance could be placed on the adequacy and effectiveness of the organisations control environment. Key systems were operating soundly and there was no fundamental breakdown in controls resulting in material discrepancy.

In response to a request for clarification, the Head of Audit and Governance reported on the audit process for attendance management. The Chair referred to the links between sickness monitoring and the Disability Discrimination Act requirements and questioned whether absence management audits reflected issues of this type. The Head of Audit and Governance provided assurances that those issues would be considered in any future audits in this area.

### **Decision**

That the contents of the report be noted

## **49. Review of the Effectiveness of the System of Internal Audit** *(Chief Finance Officer)*

### **Purpose of Report**

To inform Members of the outcome of the review of the effectiveness of the system of Internal Audit in compliance with the Accounts and Audit Regulations (England) 2003 as amended 2006 and 2011.

### **Issues for Consideration**

The Accounts and Audit Regulations (2003) had been amended and new reporting requirements brought into place. Regulation 6 of the Act required that relevant bodies conduct an annual review of the effectiveness of its system of internal audit and that a committee of the body consider these findings. At their previous meeting members had agreed that the Chief Finance Officer would undertake the review and the Committee would receive and consider a report on the findings of the review.

The report included details of how the review had been undertaken. Tasks included a review of the planning and development work undertaken by Internal Audit in producing an annual audit plan, a review of the use of new audit software and monthly performance reviews with the Head of Audit and Governance. Any reports previously submitted to the Audit Committee were also reviewed to ensure they supported the committee in meeting its remit. The final results indicated that the system of internal audit was operating effectively in accordance with that described in the Annual Governance Statement and as defined by the CIPFA Audit Panel in respect of the requirements of the Accounts and Audit Regulations 2003 (amended 2006).

### **Decision**

That the findings of the review of the effectiveness of the system of internal audit be approved.

## **50. Annual Governance Statement 2010/11** *(Chief Finance Officer)*

### **Purpose of Report**

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

### **Issues for Consideration**

The report considered why the Council needed an AGS, who was responsible, and how the AGS was produced.

In order to assist Members in the process of approving the Annual Governance Statement, attached at Appendix A, the Better Governance Forum had provided briefing papers for Audit Committee members in public sector bodies. The briefing paper was attached, after the statement, for Members consideration in relation to issues they may require assurance on regarding the content and process followed in producing the statement.

A Member referred to the impact the current budgetary constraints had placed on the Council and the Governance Framework.

### **Decision**

That the 2010/11 Annual Governance Statement be approved.

The meeting concluded at 4.40 pm.

CHAIR



## **AUDIT COMMITTEE**

**26 July 2011**



**Report of:** Chief Finance Officer

**Subject:** AUDIT COMMISSION REPORT- AUDIT  
PROGRESS.

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

- 1.1 To inform Members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions Audit Progress Report.

### **2. BACKGROUND**

- 2.1 This report reflects progress on the external audit of Hartlepool Borough Council as at July 2011 and includes an update on the 2011/12 audit fee.
- 2.2 The report also informs the Audit Committee of other matters of interest, highlighting national work undertaken by the Audit Commission.

### **3. FINDINGS OF THE AUDIT COMMISSION**

- 3.1 Details of key messages from the work carried out are included in the main body of the report attached as Appendix 1.
- 3.2 The Audit Commission have started the audit on the Council's financial statements. Overall, the audit is progressing in line with the planned delivery programme with three areas to bring to members attention:
- Controls over journals within the main financial system:
    - Extended testing to be carried out.
  - Formal evidence of exemption from re-opening the Housing Revenue Account:
    - Letter of approval from DCLG needed to evidence an exemption stating a Housing Revenue Account is not needed to be produced.

- Cash flow statement imbalance:
  - Imbalance on the cash flow statement.

3.3 In respect of the cash flow statement I can confirm that the council's bank account is reconciled on a daily basis throughout the year and the year end balances shown in the balance sheet for 'cash and cash equivalents' figures reported in the balance sheet were reconciled to the bank account and the Financial Management System at 31.03.11.

#### **4. RECOMMENDATIONS**

4.1 That the Audit Committee:

- i. note the report of the Audit Commission

# **Audit Progress report**

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**July 2011**

**Hartlepool Borough Council**

**Audit 2010/11**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Introduction

- 1 This report reflects progress on the external audit of Hartlepool Borough Council as at July 2011 and includes an update on the 2011/12 audit fee.
- 2 The report also informs the Audit Committee of other matters of interest, highlighting national work undertaken by the Audit Commission.

# 2010/11 audit progress and update on 2011/12 fee

## Audit plan 2010/11

3 Our key areas of work for the 2010/11 audit are:

- the opinion on the financial statements; and
- the value for money (VFM) conclusion.

4 We have started our audit on the Council's financial statements.

Overall, the audit is progressing in line with our planned delivery programme. There are three areas (reported below) which we need to bring to your attention at this stage. We are discussing these issues with the Chief Finance Officer and will update members at the July Audit Committee of progress in these areas.

Table 1: **Key areas of judgement and audit risk**

Issue or risk	Finding
Controls over journals within the main financial system.	<p>Strong journal controls are important in helping prevent and detect fraud and error and part of helping ensure the integrity of the transactions reported in the main financial system.</p> <p>The Council's controls over journals do not require a second person to review and authorise all journals before submitting them.</p> <p>In response to our concerns, a new control was put in place during 2010/11; a periodic review of journals. We will review the effectiveness of this as part of our audit. However it is possible that we may need to extend our initial planned testing of material <b>year-end</b> adjustment journals to the full year to gain adequate assurance for opinion purposes.</p>
Formal evidence of exemption from re-opening the Housing Revenue Account	<p>The Council has built a number of council dwellings in recent months. It has received informal approval from the Department for Communities and Local Government (CLG) that it is not required to produce a Housing Revenue Account (HRA).</p> <p>This is a statutory requirement and therefore the Council needs to obtain a formal letter of approval to evidence this exemption, before we can issue the opinion. The Council has contacted CLG who have stated that they will write formally to confirm the exemption.</p>

Issue or risk	Finding
Cash flow statement imbalance	There is an imbalance on the cash flow statement in the accounts presented for audit on 30 June. We understand this imbalance is £1.5 million in 2010/11. Efforts should be made to resolve this before the end of the audit. This is a recurring problem, with imbalances in previous years reported.

**5** During the work on the financial statements, we are regularly liaising with finance staff and we will brief the Chief Finance Officer if there are any emerging significant issues.

**6** Our VFM conclusion work is essentially complete. We will update our findings at the year-end and report these in our Annual Governance Report. There are no significant issues that we need to raise with you at this stage.

## Audit fee 2011/12

**7** When confirming the work programme and scales of fees for 2011/12 in February 2011, the Commission agreed, subject to affordability, to make additional rebates in 2011/12. The Audit Commission has recently confirmed its plan to issue rebates of 8 per cent to 2011/12 audit fees and notified authorities in June of this reduction.

**8** Therefore there will be a rebate of £19,224 issued for the 2011/12 audit fee of £240,300. The rebate will be deducted from the monthly instalments billed to audited bodies by the Commission.



# Other developments including national publications

## Introduction

**9** This section of the report summarises other developments, including relevant national work undertaken by the Audit Commission, for consideration by officers and members.

## Update on the future of the Audit Commission's in-house Audit Practice

**10** The Department for Communities and Local Government (DCLG) announced in August 2010 plans to abolish the Audit Commission and put in place new arrangements for auditing England's local public bodies. DCLG has consulted on its proposals for the new audit regime and plans to publish a draft Bill for further scrutiny and comment later in the year. The new regime will see the end of the Commission's responsibilities for overseeing and commissioning local audit and its other statutory functions, including those relating to studies into financial management and value for money.

**11** The Commission is working with DCLG to develop an approach to transferring its existing in-house Audit Practice into the private sector. DCLG's provisional view is that its preferred route is to ask the Commission to invite bids for all existing Audit Practice audit appointments from 2012/13 onwards from private sector firms. If ministers confirm this outsourcing route, the staff of the Commission's in-house Audit Practice intend to submit a bid for the work on offer, probably as a joint venture, which could form the basis of a new employee-owned, or mutual, organisation. The aim will be to provide a distinctive and competitive choice for local public bodies.

**12** We have discussed developments with chief officers and have reaffirmed the Commission's, and our own, commitment to delivering a high quality and effective audit service right through to whatever date the transfer to new arrangements takes place. We will continue to keep you briefed on developments.

**13** Link to Audit Commission website:

[http://www.audit-commission.gov.uk/pressoffice/statements/Pages/20110707\\_Commission\\_welcomes\\_Select\\_Committee\\_report.aspx](http://www.audit-commission.gov.uk/pressoffice/statements/Pages/20110707_Commission_welcomes_Select_Committee_report.aspx)

## Local government claims and returns: The Audit Commission's national report on certification work 2009/10, June 2011

**14** Audit Commission auditors certify claims and returns to provide assurance to grant-paying bodies that claims for grants and subsidies comply with terms and conditions, or that information in financial returns is reliable.

**15** In 2009/10, Commission auditors certified 2,362 claims and returns from authorities (2,856 for 2008/09) for schemes covering £48.9 billion of public money (£45.6 billion for 2008/09). Five areas account for 97 per cent of the total certified: housing and council tax benefit (44 per cent); national non-domestic rates return (39 per cent); teachers' pensions (7 per cent); sure start (4 per cent); and housing (3 per cent).

**16** Auditors agreed amendments to claims and returns totalling £37.5 million (£54.5 million for 2008/09) and issued 548 qualification letters (673 for 2008/09). Nearly a quarter of all claims and returns certified had qualification letters.

**17** The housing and council tax benefit scheme, the largest scheme certified at nearly £21.8 billion, accounting for 63 per cent of total certification fees, continues to have a high proportion of subsidy claims with amendments and qualification letters. Overall, 83 per cent of benefit subsidy claims had qualification letters, or amendments, or both (85 per cent for 2008/09). The scheme and benefit subsidy is complex. It involves a high volume of transactions and changes to the scheme can sometimes be difficult to administer. However, the number of issues identified by auditors remains a cause for concern.

### Action point for authorities

- The level of amendments and qualification letters and the issues raised in auditors' reports on certification work to those charged with governance, show some authorities can improve the preparation of their claims and returns.
- In November 2010 the Commission refreshed its good practice guidance for authorities. The guidance Claims and returns: Good practice for authorities is available on the Commission's website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)). Authorities are encouraged to use this guidance to review their arrangements for preparing claims and returns.

**18 We issued our annual grants certification report to Hartlepool Borough Council earlier in the year and reported it, with specific recommendations to the March Audit Committee. This is the national summary report for all audited bodies.**

**19** It should be noted that our certification of the Council's housing and council tax benefit scheme did not require a qualification letter. The amendments, due to the formulae in the return, actually resulted in an increase in benefit subsidy payable to the Council.

**20** Link to Audit Commission website:

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/certifyinggrantclaimsandreturns.aspx>

## **Improving value for money in adult social care, June 2011**

**21** 'Improving value for money in adult social care' is the first in a series of national briefings that will look at value for money in health and social care.

**22** This briefing finds that, as demographic change and financial pressures combine to create tough times for adult social care, councils have looked at many aspects of the service in order to provide better, more efficient services. Better procurement, improved back office arrangements, and a preference for community-based rather than residential care where possible, are just some of the changes that local authorities have implemented to help them meet the challenges they face.

**23** The briefing also finds the pace and scale of change need to increase if councils want to release material savings, as well as improve care for people.

**24** Link to Audit Commission website:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/vfmadultsocialcare.aspx>

## **Going the distance - Achieving better value for money in road maintenance, May 2011**

**25** 'Going the distance - Achieving better value for money in road maintenance' looks at the challenges faced by the country's 152 council highways authorities. England's 236,000 miles of local roads - used by 30 million drivers every day - are under attack from increasing traffic, severe winters, higher repair costs, and dwindling highways funding.

**26** The report highlights how councils can get more for their money, including cost-saving collaborations with neighbours, asset management to show when road maintenance will be most effective, new ways of keeping residents informed, and weighing short-term repairs against long-term resilience.

**27** It includes a series of case studies which show how some councils have developed strategies that balance growing service demands with reducing resources.

**28** Link to Audit Commission website:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/20110526goingthedistance.aspx>

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- any third party.



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# AUDIT COMMITTEE

26 July 2011



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

**Subject:** AUDIT COMMITTEE MEMBER INFORMATION

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## 1. PURPOSE OF REPORT

- 1.1 To provide Members of the Audit Committee advice received from the Better Governance Forum in respect of International Financial Reporting Standards (IFRS) and the results of the survey of Audit Committees.

## 2. BACKGROUND

- 2.1 In order to ensure that the Audit Committee fulfils its requirements in relation to the review of the Councils accounts and keeps abreast of current thinking into the role of Audit Committees the Better Governance Forum has provided briefing papers for Audit Committee members in public sector bodies.
- 2.2 The briefing papers are attached as Appendix A, and provide background information and questions relevant to the role of Audit Committee members in the processes.

## 3 RECOMMENDATION

- 3.1 It is recommended that Members review the contents of the briefing paper and consider the issues raised when undertaking their role in relation to reviewing the Councils Accounts and the role of the Audit Committee.

Appendix A

## Introduction

Dear Audit Committee Member

Welcome to our fifth issue.

This issue focuses on two main topics the impact of IFRS on the accounts and key results from CIPFA's recent survey on audit committees.

I'm sure most of you will be aware that your finance departments have been getting to grips with new International Financial Reporting Standards (IFRS) which come into effect in local government for the first time this year. Other parts of the public sector will have seen the impact of IFRS changes on their accounts last year.

Our article has been written by Paul Boden of the Finance Advisory Network which has run training events and guidance on IFRS for finance practitioners over the last two years.

We are also pleased to include some of the results from CIPFA's recent survey on audit committees in local government. CIPFA produced the good practice guidance on audit committees a few years ago and we felt it was important to get a good understanding of how audit committees are working in practice. Potential changes to the role of audit committees, as set out in the government's consultation document on local public audit also make the survey results timely.

I hope you have collected this issue at CIPFA's Audit Conference. For the first time we developed the conference with audit committee members in mind as well as auditors. We felt that it was important that audit committees continue to develop their understanding of the issues and challenges affecting public services and understand how it might impact on them.

Best Wishes  
Diana Melville  
CIPFA Better Governance Forum

## **Understanding the impact of IFRS (International Financial Reporting Standards) on your accounts**

A significant change has been taking place in accounting over the last 2 years culminating in a new basis of accounting first applicable from the 2010-11 financial accounts.

When the International Financial Reporting Standards (IFRS) were adopted as the basis of financial reporting in the UK, the public and private sectors have been set the challenge to interpret the accounting principles and apply the new standards to the year end reporting.

Local Government was the last to face the change and 2010-11 is the first time the adopted standards have been applied to a published set of accounts.

### **What are the key changes?**

The journey to the publication has been long for many local authorities. IFRS has meant that many changes in accounting have taken place because IFRS is based on the principle that it has always existed. In practice this has meant that some past accounting treatments required under UK GAAP no longer apply under IFRS. Consequently, previous accounting treatments have been adapted to comply with IFRS requirements and new figures and disclosures produced.

This is particularly the case for leases, mainly property leases, which must be examined and, where necessary, the accounting treatment amended to comply with the IFRS requirements.

Other changes have also taken place such as the need to recognise untaken flexi leave, Time off in lieu and holiday at the year end.

Without legislation some of these changes would have impacted on the general reserves of the local authority, e.g. accounting for untaken flexi and leave may have resulted in a substantial charge to the general fund if legislation was not in place to permit local authorities to defer such charges until they are required to be paid out. Fortunately these issues were recognised and the Department for Communities and Local Government in conjunction with CIPFA took steps to mitigate such issues. This mitigation does not preclude authorities for accounting for it but it does manage the impact on the bottom line.

### **What have the changes meant for finance teams?**

In complying with IFRS authorities have needed to review their leases, accrue for untaken leave, consider the value and classification of assets and ensure that they are clear on the status and conditions surrounding grants from government and 3<sup>rd</sup> party contributions.

The scale of the task involved has challenged both the skills and knowledge of accountants but has also impacted upon other areas of the organisation such as Human Resources, Property and Legal Services in accessing the information needed to support the decisions made when applying the new standards, for

example looking at lease agreements and capturing data relating to untaken leave and flexi.

Support to authorities in understanding and considering the IFRS changes and requirements has been delivered principally by CIPFA via its Finance Advisory Network, Property Services Network and through the publication of comprehensive guidance. Whilst very useful to practitioners, such assistance does not remove the need for authorities to use judgement based on their own expertise in order to determine their own approaches and establish levels of materiality, review their accounting policies and to communicate effectively within their authorities.

### **What are the benefits of the IFRS changes?**

IFRS has given authorities the opportunity to clear out their attics and look afresh at the information and agreements supporting transactions and to ensure they are accounted for correctly under IFRS. This process will also enable them to establish the processes they need in the future to meet the challenges ahead. Used well, this work has benefits in promoting understanding within the organisation, authorities will for example have a better awareness of their assets, the lease agreements that exist and importantly how improvements can be made in the way information is recorded, maintained and used in the future. Large amounts of unused leave and flexi point towards how well (or poorly) the workforce of the organisation is managed and where excessive work demand and pressure points may exist. Similarly, the effectiveness of property management staff can be measured by regularly reviewing numbers of properties classified as surplus to requirements and associated opportunity costs available in their change of use or disposal.

### **How have audit committees been involved?**

In well run authorities the involvement of the audit committee or IFRS committee has proved invaluable as a forum for advising members of the changes faced resulting from the introduction of IFRS, the impact on the accounts and the resources required to deliver the changes. Such involvement is generally supportive to ensure the job is done and is delivered by all areas of the organisation.

Where Committees have agreed the timescales, been well briefed and have approved and supported the necessary changes to accounting policies this will allow the IFRS transition to take place smoothly and prudently, balancing complexity with materiality. The involvement of members in the process will improve their understanding of the 2010-11 and future years accounts when they are presented for final approval anytime from June to September. Auditors are likely to consider this level of involvement as positive.

### **What new things should we look for in the accounts?**

Members will need to be aware that comparative information presented in the 2010-11 accounts, has also been restated to IFRS. This will include the 3<sup>rd</sup>



Balance Sheet which is required to show the opening position for the accounts. All of this leads to a mass of numbers that need to be explained and considered. It is suggested that members familiarise themselves with the look and feel of the accounts in advance of their formal approval by 30<sup>th</sup> September.

There are some key areas that members may be interested in. The Balance Sheet shows the assets and liabilities of the authority. As discussed above, the category of surplus assets may be of interest as this shows assets that are no longer used but are not for sale, the question may be why are we keeping them and not realising their sale potential. Flexi and leave accruals (compensated absences) where significant could point towards lack of management on staff time and leave policies.

As a member, if you are not aware of the changes taking place under IFRS ask yourself why and find out what your authority has been doing. Lack of compliance could lead to a qualification of the accounts by the external auditor. For further assistance, CIPFA have recently produced a briefing note to help Chief Finance Officers and other senior staff present the IFRS-based financial statements for 2010/11 to members and other key stakeholders. This can be found at: [http://www.cipfa.org.uk/ifrs/download/IFRS\\_how\\_to\\_tell\\_the\\_story.pdf](http://www.cipfa.org.uk/ifrs/download/IFRS_how_to_tell_the_story.pdf)

### **Other issues from the accounts**

When reviewing the financial statements the audit committee will need to consider both the changes resulting from IFRS plus those things that are most pertinent to their organisation.

It is helpful to look for trends and significant changes in the figures and to seek to understand the reasons for these.

Each organisation's accounts will present different issues but some general questions that are of use are included below.

### **Key Questions to ask:**

1. What is meant by surplus and deficit on the provision of services?
2. How has the balance on the general fund been affected over the year?
3. How does the segment report note link to final accounts?
4. Do we have any conditions on grants that are preventing us from using them?
5. What reserves are available to us to use for delivering future services to the public?

<sup>1</sup> An authority shall present information on reportable segments within the notes. Reportable segments shall be based on an authority's internal management reporting, for example departments, directorates or portfolios. The aim of segment reporting is to disclose information to enable users of a local authority's financial statements to evaluate the nature and financial effects of the activities in which it engages. *Code of Practice 2010/11*

## Results of the audit committee survey

Earlier this year heads of internal audit in local government were sent a survey by CIPFA to ask about the current arrangements for audit committees in local government. 366 surveys were sent out and 44% were returned. The aim of the survey was to find out how the audit committee role was currently being delivered in local government and to see what topics are regularly on the audit committee agenda. Heads of internal audit were also asked where their audit committee was most effective and to identify any barriers to improvement. CIPFA will use the results to inform its development of guidance and support to audit committees. For audit committee members and those who support audit committees the survey provides a useful snapshot of where we are now, what is working well and what could be better.

### Key findings from the survey

#### Structure and role

The most common structure for the audit committee was a stand alone committee reporting to full council (58%) and a further 23% had joint audit and governance committees. The majority of committees are made up of councillors, but 30% do include at least one co-opted independent representative. One third of committees currently include a member of the executive or cabinet. Current recommended practice is that a member of the executive should not chair the committee; however a minority (9%) do have this arrangement. In 57% of cases the audit committee chair was a member of the ruling party group on the council.

#### Audit committee agendas

We asked a number of questions to find out what topics were on audit committee agendas. The Annual Governance Statement was reviewed by almost all English, Welsh and Northern Irish audit committees whereas 67% of Scottish authorities reviewed the Statement on Internal Financial Control. Reviews of internal audit reports and plans were reviewed almost universally.

73% of councils follow the recommended practice of reviewing the financial statements prior to their approval but 75% of councils were also approving them. With the recent changes under the Accounts and Audit Regulations 2011 it might be an appropriate time to review the role of the audit committee in relation to approving the accounts.

Other agenda areas received a significant response but perhaps still provide opportunities for improvement. Strategic risk registers were seen by 77% of committees but only 53% also reviewed specific risk areas. It is perhaps of concern that some committees reviewing the Annual Governance Statement are not keeping up to date with the council's strategic risks.

48% of committees reviewed value for money arrangements and only 41% reviewed a fraud risk assessment. However, 67% would review the results of a fraud investigation. Again this highlights areas where audit committees could be more aware of the risks and performance of their council.

### Effectiveness

We asked heads of internal audit for their opinions on the effectiveness of the audit committee.

The strongest results were for the committees' support for the internal and external audit process. However few found the committee to be very effective in promoting good governance (11%) or providing accountability to the public (15%). The weakest areas overall were those relating to partnerships.

The survey has highlighted areas for improvement, in particular to develop how the committee interacts with partner organisations and provides leadership on good governance and accountability.

### Barriers to improvement

The most common barriers to improvement were the limited knowledge or experience of the audit committee members (50%) and turnover of committee membership (44%). Clearly there is a linkage between these two factors as it is difficult to develop knowledge and experience if a member's time on the committee is short. Unitary councils highlighted the greatest number of barriers, for example 65% of respondents highlighted limited knowledge and experience as a barrier.

The intrusion of political interests was only cited as a factor by 27% overall, but in unitary councils the response was greater at 42%.

### Future changes

The survey was undertaken before the publication of the Government's consultation document on the Future of Local Public Audit. The majority of respondents (78%) were not planning any major changes to their audit committee. Over half expected the role of the audit committee to stay the same, whilst 43% expected it to expand. Only 1% expected the role to shrink.

### Further information

A more detailed breakdown of the results will be available on the Better Governance Forum website.

Where now for audit committees?

CIPFA will make use of the information to ensure that its guidance, training and support for audit committees will help to address key development needs. In local government changes to the role of audit committees will come about as a result of the Local Government Measure in Wales and the government's proposals in its current consultation. CIPFA will be able to use the survey to identify the changes required to meet future requirements.

It is recommended that audit committees regularly review their terms of reference and their effectiveness. The results of this survey will provide a useful input to that process and may help the committee to identify areas where it could improve.

I have included a few key questions to help this self assessment and reflection process.

**Key Questions to ask:**

- |   |
|---|
| 1. Does our current structure still meet the council's needs? Does it meet recommended practice and is it a good base on which to build for the future? |
| 2. Are our agendas looking at the right things? Do we get assurance on everything we need?  |
| 3. Are we effective in promoting good governance and providing accountability? How could we improve?  |
| 4. What are our barriers to improvement? What can be done about them?   |
| 5. How will our audit committee be affected by government proposals? Are there any steps we should start to take now?                                   |

Diana Melville  
Governance Advisor  
CIPFA Better Governance Forum

# AUDIT COMMITTEE

26<sup>th</sup> July, 2011



**Report of:** Chief Finance Officer

**Subject:** THE 2010/2011 STATEMENT OF ACCOUNTS

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## 1. PURPOSE OF THE REPORT

- 1.1 To inform Members of the revised arrangements for approving the Council's Statement of Accounts and to provide a copy of the 2010/11 unaudited Statement of Accounts.
- 1.2 This will be achieved by considering the following: -
- i) Background;
  - ii) Basis for preparing the Statement of Accounts;
  - iii) Reconciliation of the Council's Management Accounts and the Statement of Accounts;
  - iv) The 2010/2011 Unaudited Statement of Accounts;
  - v) Recommendations.

## 2. BACKGROUND

- 2.1 In accordance with the Accounts and Audit Regulations 2011, all Local Authorities are required to produce an annual Statement of Accounts by 30<sup>th</sup> June. This is a challenging deadline in a normal year and has been particularly challenging this year owing to the implementation of the International Financial Reporting Standards (IFRS) requirements.
- 2.2 The IFRS requirements represent the most significant change in Local Authority Accounting arrangements since the start of the 1990's when significant changes in asset accounting were introduced. The new accounting requirements replace UK GAAP (Generally Accepted Accounting Practice) with IFRS requirements. These new requirements make significant changes to both the format of the statutory Statement of Accounts and the accounting principles underpinning the Statement of Accounts. Details of these changes have previously been reported to your Committee and include:

- IFRS accounting requirement for Employee benefits and the accrual of unused annual leave at the end of the financial year.
- IFRS accounting requirements for leases;
- Changes to Fixed Asset Accounting, including the valuation of assets, component accounting and changes in accounting for Infrastructure assets.

- 2.3 The requirements of IFRS mean that the comparative figures reported for 2009/10 have been restated, which significantly increased the workload for completing the Statement of Accounts. In some cases the figures for 2008/09 have also had to be restated and included in the Statement of Accounts to aid understanding of the Authority's financial position.
- 2.4 The implementation of IFRS does not impact on the Authority's underlying financial position as accounting charges are reversed out before determining the Authorities statutory budget, the level of Council Tax and the value of usable reserves.
- 2.3 In previous years Members were required to approve the draft Statement of Accounts prior to audit by the Audit Commission. This requirement has been removed as a result of the introduction of IFRS requirements. However, Members are still required to approve the audited Statement of Accounts before 30<sup>th</sup> September and a report will be submitted to Committee on 23<sup>rd</sup> September to discharge this responsibility. To enable Members to familiarise themselves with the new format for the Statement of Accounts and to provide time for Members to ask questions the pre-audited Statement of Accounts is being presented to your meeting today. If it should be necessary to amend the accounts during the course of the audit, any major amendments will be reported to Members.

### **3. BASIS FOR PREPARING THE STATEMENT OF ACCOUNTS**

- 3.1 The Statement of Accounts presents the Council's financial position for 2010/2011 in a specified format and reflects the Outturn Strategy previously approved by Cabinet and Council. The initial Outturn Strategy was approved by Council on 10<sup>th</sup> February, 2011 and the final strategy was approved by Cabinet on 6<sup>th</sup> June, 2011.
- 3.2 The initial outturn strategy approved by Council confirmed how the Authority would manage the financial challenges which arose during 2010/11 as a result of in-year cuts in grants implemented by the coalition Government and the Tall Ships income shortfall.
- 3.3. The final outturn strategy approved by Cabinet advised Members that the overall financial position for 2010/11 was more favourable than previously reported. This position reflected actions taken to reduce expenditure in 2010/11 in light of the unprecedented cuts which needed to be made in 2011/12. These measures included:-

- higher vacancies as departments held posts vacant to help manage the 2011/12 budget cuts and reduce the numbers of compulsory redundancies;
- lower expenditure across a range of non-pay budgets as departments managed expenditure to help manage the overall financial position in advance of 2011/12;
- the completion of negotiations to secure income for specific care packages from the NHS;
- favourable outturns for trading accounts; and
- accounting changes in relation to income received in 2010/11 which relates to the 2011/12 financial year, which is now accounted for via the main revenue account and held as reserves, rather than 'income in advance'. This accounting change does not affect the overall financial position of the Council, but does affect how income is accounted for and held on the Balance Sheet.

3.4 Cabinet approved the final outturn strategy proposal which allocated the available resources to establish specific risk reserves to manage a range of departmental risks (as detailed in Appendix A) and corporate risks. These issues are summarised below:-

	Income carried forward to 2011/12 £'000	Risk Reserves £'000	Total £'000
Departmental Reserves			
Chief Executives Department	-	406	406
Child and Adult Services	342	1,114	1,456
Regeneration and Neighbourhoods	514	474	988
	856	1,994	2,850
Corporate Reserves			
Strategic Risk Reserve - covers forecast shortfall on existing risks and additional risks of 2011/12 income shortfalls (Car Parking, Shopping Centre and Land Charges)		874	874
Budget Support Fund - covers existing commitment to support 2011/12 budget		161	161
		1,035	1,035
Contribution to General Fund Balances		89	89
Total Contributions to risk reserves from final 2010/11 Outturn	856	3,118	3,974
Contribution to General Fund Balances - unused Transitional Grant		305	305
	856	3,423	4,279

#### 4. RECONCILIATION OF THE COUNCIL'S MANAGEMENT ACCOUNTS AND THE STATEMENT OF ACCOUNTS

- 4.1 During the financial year regular Management Accounts are presented to Cabinet and Scrutiny Co-ordinating Committee to enable Members to manage the Council's financial position. These reports present information on the basis of Portfolio Holder responsibility. At the end of the financial year the Council's Statement of Accounts is prepared in accordance with the IFRS format.
- 4.2 The Management Accounts and the Statement of Accounts are based on the same primary information, but present information in different formats.



- 4.3 The Statement of Accounts includes a “Comprehensive Income and Expenditure Statement” (page 14 of the Statement of Accounts). This statement shows an accounting surplus for the year of £46.947m. This figure represents the change in the value of the Council’s “Total Reserves” as detailed in the Balance Sheet (page 15 of the Statement of Accounts). The accounting surplus is significantly greater than the real underspend for the year, and the amount transferred to Usable reserves of £4.279m detailed in paragraph 3.4.
- 4.4 The main reason for the difference is the IFRS Accounting Treatment of changes in Pensions liabilities which in accounting terms have reduced significantly owing to the change in the inflation factor for future pension increases from RPI to CPI. As it is anticipated that CPI will be below RPI the value of IFRS pension liabilities has reduced. This is reflected in an ‘actuarial gain on pension assets and liabilities valuation’ in the Comprehensive Income and Expenditure Statement. This is not a real gain and simply represents an accounting gain.
- 4.5 As Members will recall a separate pension fund valuation is completed every 3 years to determine the level of Pension Fund contributions which the Council is required to make from its revenue budget. The latest valuation has set the rate for the three years commencing 2011/12. There has been no change in the current rate. This position reflects the improved financial position of the Teesside Pension Fund which the latest valuation shows covers 98% of estimated future liabilities.
- 4.6 The following table provide a reconciliation of the statutory accounts and the Council’s management accounts.

	£'000
Total Usable and Unusable Reserves 31.03.11	163,243
Total Usable and Unusable Reserves 31.03.10	(116,296)
Accounting Surplus as detailed the Comprehensive Income and Expenditure Statement	46,947
Less Increase in Unusable Reserves	(42,392)
	4,555
Less in-year contributions to/(from) reserves (includes approved use of Budget Support Fund, reserves used in-year to partly offset in-year grant cuts and change in school reserves)	(276)
Contribution to Reserves as detailed in paragraph 3.4	4,279

## 5. THE 2010/2011 PRE-AUDIT STATEMENT OF ACCOUNTS

5.1 The pre-audit Statement of Accounts is attached to this report and in summary this document provides the following information: -

i) Explanatory Foreword

The foreword provides an explanation of the Council's overall financial performance for 2010/11, details of the year-end financial position, outlines the impact of the current economic climate on the Council's ongoing financial position and provides a guide to the most significant matters reported in the Statement of Accounts.

ii) Statement of Responsibilities for the Statement of Accounts

This sets out the responsibilities of the Council and the Chief Finance Officer.

iii) Comprehensive Income and Expenditure Statement

The statement shows the economic cost in the year of providing services in accordance with IFRS accounting practices, rather than the amount funded from taxation. A detailed reconciliation of the difference in IFRS figures and budgeting figures is provided in paragraph 4.6.

There are two exceptional items reported separately on the face of this statement.

- Following the Government announcement to change the inflation factor for future pension increases from RPI to CPI as outlined in paragraph 4.4. This resulted in a post service gain of £34.008m. This is not a real gain but simply represents an accounting gain.
- Both Dyke House and Manor Schools have gained Foundation Status. The legal transfer of the assets was concluded in 2010/11. The transfer resulted in a 'write out' of the value of these assets from the Council's accounts. The value of this totalled £24.868m and is disclosed separately owing to the exceptional nature of these transactions.

iv) Balance Sheet as at 31<sup>st</sup> March, 2011

The Balance Sheet shows the value of the Authority's assets, liabilities and other balances as at 31<sup>st</sup> March, 2011 and I would comment on a number of items: -

a) Investments

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

During 2010/2011 the Council, in accordance with the approved Treasury Management Strategy, continued to reduce exposure to counter party risk by holding shorter maturity investments and reducing external investments to avoid borrowings.

b) Long Term Loans Borrowing

During the previous two financial years (2008/2009 and 2009/10) the Council responded proactively to the credit crunch and uncertainty in the banking sector to protect the Council's financial position. This involved action to reduce investment exposure by temporarily using investments to repay existing higher interest loans. This means the Council's actual level of external debt is significantly lower than the underlying 'Capital Financing Requirement' (CFR) – the level of borrowing needed to fund historic capital expenditure and planned expenditure for the next three years.

Whilst, the financial markets stabilised during 2009/2010 and 2010/11 it was not considered appropriate to begin to address the underlying CFR. Therefore, long term borrowing remained unchanged. In accordance with the approved Treasury Management Strategy this position will continue to be managed carefully to ensure new long term borrowings are taken out at the appropriate time to protect the Council's medium term financial position.

c) Other Long Term Liabilities

These reduced from £122.553m at 31<sup>st</sup> March 2010 to £52.657m 31<sup>st</sup> March 2011 owing to the change in the inflation factor used to estimate future Pension payments from RPI to CPI. As CPI is expected to be lower than RPI this reduces future liability. As this is an accounting valuation this has no impact on the Council's underlining financial position.

d) Earmarked Reserves – Useable Reserves

Earmarked Reserves consist of Unearmarked General Fund Balances, Earmarked General Fund reserves, Schools Balances, Earmarked Capital Reserves and Earmarked

Revenue Reserves. Total values of these reserves were £39.023m at 31<sup>st</sup> March, 2011 (£34.467m at 31<sup>st</sup> March, 2010).

In cash terms these figures show that reserves have increased by £4.555m. This overall analysis masks the fundamental changes which are affecting the Council's financial position, the financial risks these reserves are held to manage, the level of capital commitments funded from reserves and the reserves held on behalf of schools (governing bodies determine how these amounts are used). The following table provides a more detailed analysis of the total reserves to reflect these factors.

This analysis shows that reflecting these specific commitments and reserves held on behalf of schools the Council's own usable reserves were £18.354m at 31<sup>st</sup> March, 2011 (£18.357m at 31<sup>st</sup> March 2010). This amount includes resources allocated to manage a range of departmental risks (such as Looked After Children), the insurance fund and the Strategic Risk Reserves.

	31.03.10 £'000	31.03.11 £'000
Total Usable Reserves	34,467	39,023
Capital Reserves	(4,623)	(7,583)
<u>Reserves held as Specific Revenue Reserve</u>		
Ring Fenced Grant Reserves	(1,391)	(1,410)
School Reserves (held as Specific Revenue Reserves)	(529)	(1,491)
Lotteries Reserves and Museum Acquisition Reserve	(476)	(483)
Unearmarked General Fund Balance	(3,462)	(3,856)
<u>Reserves held as Earmarked General Fund Balances</u>		
School Reserves	(3,543)	(4,410)
Budget Support Fund	(2,086)	(1,436)
	18,357	18,354

Note 7 on page 43 provides a comprehensive analysis of the changes in reserves and the key issues are summarised below:

Earmarked Capital Reserves – the net increase in Capital Reserves reflects resources earmarked to fund capital expenditure commitments rephased to 2011/12.

Earmarked Revenue Reserves - the net increase reflects the specific reserves arising from the outturn strategy detailed

earlier in the report which allocates resources to manage risks and carries forward income received in advance. These reserves are earmarked for specific risks and include the Insurance Fund (£3.2m), Strategic Risk Reserve (£3.3m) and Ring Fenced Grant Reserves (£3.4m).

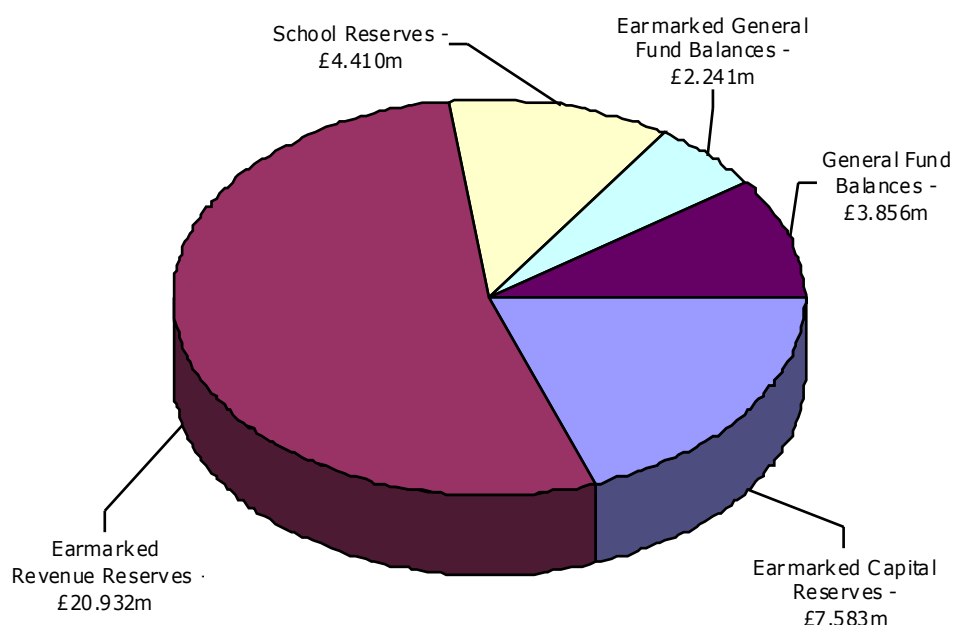
General Fund Balances – the increase reflects the £89,000 contribution from the budget outturn and £305,000 of unused Transitional Grant transferred to this reserve, as agreed by Council in February.

Schools Reserves – the increase reflects local management of individual schools budgets and use of these reserves will be determined by individual school governing bodies.

Earmarked General Fund Balances – the reductions reflect the planned use of the Budget Support Fund in 2010/11. The Budget Support Fund will be fully used by the end of 2011/12 to support the core revenue budget as agreed by Council in February 2011.

The notes included in the Balance Sheet provide a detailed analysis of the movement in reserve. The table below provides an overview.

**Analysis of Reserves at 31/03/11 - Total £39.023m**



v) Cash Flow Statement

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

vi) Statement of Accounting Policies

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

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

vii) Notes to the Core Statement

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

viii) Annual Governance Statement

The statement sets out the Authority's responsibilities for ensuring the Authority has an appropriate system of internal control. This statement was approved by this Committee on 18<sup>th</sup> May, 2011.

ix) Glossary of Terms

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

## 6. RECOMMENDATIONS

### 6.1 It is recommended that Members:-

- i) Note the report;
- ii) Note that the pre-audit accounts will be subject to independent audit by the Audit Commission and details of

any material amendments will be reported to your Committee in September;

- iii) Note that there is the opportunity to raise questions and/or seek clarification of information included in the pre-audit Statement of Accounts in the period up to 23<sup>rd</sup> September 2011, when the audit Statement of Accounts will be presented to your Committee for final approval.

**SCHEDULE OF CONTRIBUTIONS TO SPECIFIC RESERVES APPROVED BY CABINET 6th JUNE 2011**

Name of Reserve	Income carried forward to 2011/12 £'000	Risk Reserves £'000	Total £'000	Purpose of Reserve
<b>Chief Executives Department</b>				
Corporate Strategy		69	69	Resources identified to facilitate the changes required to deliver the savings for the 2012/13 budget round in respect of staffing structures and the required changes.
Corporate Strategy		10	10	Temporary costs in developing and establishing arrangements for enhancing and maintaining the Councils profile including social networking, public relations and other associated elements.
Corporate Strategy		60	60	Temporary development resources for enhancements of current ICT systems such as e bookings and EDRMS and costs attributable to the rationalisation of systems to achieve savings from the provision of ICT.
Corporate Strategy		33	33	Potential costs in relation to the reprocurement and or change of arrangements in respect of the Councils current ICT arrangements.
Legal/Registration and Members		24	24	Temporary additional staffing resources within the Legal Section. Also, additional costs in postage for the renewal of Personal Identifier's for Electoral Registration which must be completed every 5 years.
Registrars		15	15	Redecoration of new marriage/ceremonies room at the Borough Hall and some software integrations/upgrades.
Hartlepool Connect		30	30	Software integrations including Corporate Workflow and upgrade Queue Management System.
Corporate Finance		50	50	Temporary appointments to cover 3 permanent post holders being on maternity leave during 2011-12 in respect of Group Accountant - Adult & Community Services, Senior Accountant - Corporate and a Senior Accounting Technician - Regeneration & Neighbourhood Services.
Revenues and Benefits		50	50	To reduce the impact of Department of Work and Pensions specific grant reduction.
Revenues and Benefits		25	25	Funding required to match fund Department for Works and Pensions projects.
Revenues and Benefits		15	15	Funding for Software Project Developments relating to changes required to various income collection arrangements (BACS (Banks Automated Clearing System) and Direct Debits) and Payment Card Industry security review.
Revenues and Benefits		25	25	Funding for Council Tax Rebate Scheme Software Development and a contribution to development work linked to the corporate booking system Zipporah.
<b>Total Chief Executives Department</b>	<b>0</b>	<b>406</b>	<b>406</b>	



**SCHEDULE OF CONTRIBUTIONS TO SPECIFIC RESERVES APPROVED BY CABINET 6th JUNE 2011**

Name of Reserve	Income carried forward to 2011/12 £'000	Risk Reserves £'000	Total £'000	Purpose of Reserve
<b>Child &amp; Adult Services Department</b>				
Looked After Children		267	267	Contribution to Safeguarding and Specialist Services for the development of Looked After Children Reserve to manage increases in the number of Looked After Children in this volatile area. To contribute to the YOS partnership funding and to secure additional funding from the PCT for a young persons substance misuse service.
Raising Educational Achievement		141	141	Incorporates funding to enhance the Educational achievement and experience through the Space to Learn and Playing for Success. Incorporates some funding to ensure the most vulnerable young people are tracked and supported to remain in education, employment and training. Includes a contingency for schools Broadband SLA. owing to the potential for schools to withdraw from the existing contract.
Transport		33	33	Funding towards post-16 fares previously funded from Government Grants.
Educational Psychology		15	15	Use of grant funding to support initiative at Springwell School during 2011/12.
Integrated Youth Service		4	4	Specific Grant Awards given to the Young People for activities during 2011/12 and contribution to new shower/toilet facilities at Rossmere Youth Centre
Archaeology		12	12	Completion of projects rephased from 2010/11.
Adult Safeguarding	26		26	Additional PCT income received to extend current Safeguarding postholders contract.
Community Pool		8	8	Underspend on this budget carried and 'ring-fenced' to supplement funding available in 2011/12 for Community Pool grants.
Libraries		11	11	Completion of security upgrade to Library system to comply with Government ICT and data protection requirements.
Supporting People - Housing Related Support		185	185	Reserve to be utilised in 2011/12 to fund transitional support arrangements required as a result of implementing significant SDO savings and budget reductions arising from Government grant cuts. Includes temporary funding to cover existing commitments until contracts can be terminated.
Adults Social Care Commissioning	100		100	NHS Reablement Funding received late in 2010/11 from PCT and carried forward to meet specific Department of Health funding requirements in 2011/12.
Strategic Arts	7		7	Carrying forward income generated on Ticket Agency sales, which will be invested in increased marketing on visitor attractions to generate income.
Older People's Social Care and Carers services		420	420	Contribution to risk reserve for Older People and carers owing to continued demographic pressures in this area. The budget for this year was overspent as a result of increased demand for care. Contribution to Carers Emergency Respite Service to enable the continued provision of emergency provision for carers who require it.
Sport & Recreation		5	5	Contributory match funding for Sport England funding for Olympics legacy programme.

**SCHEDULE OF CONTRIBUTIONS TO SPECIFIC RESERVES APPROVED BY CABINET 6th JUNE 2011**

Adult Social Care Reform	188		188	Reserve created by carrying forward remainder of ringfenced Social Care Reform Grant which must be earmarked for identified Social Care initiatives. A variety of schemes funded from this grant have either been rephased to 2011/12, or were part of the year 2 SDO plan in 2011/12 for this service area.
Working Age Adults Commissioning	21		21	PCT funding linked to the DH Campus Reprovision Grant 2008-11 - specific grant - carry forward to facilitate outstanding transfers of individuals into the community from long stay hospitals.
Adult Social Care - Domiciliary Care Service		13	13	Funding required to meet requirements of recent CQC (Care Quality Commission) findings within the area.
<b>Total Child &amp; Adult Services Department</b>	<b>342</b>	<b>1,114</b>	<b>1,456</b>	

**SCHEDULE OF CONTRIBUTIONS TO SPECIFIC RESERVES APPROVED BY CABINET 6th JUNE 2011**

Name of Reserve	Income carried forward to 2011/12 £'000	Risk Reserves £'000	Total £'000	Purpose of Reserve
<b>Regeneration &amp; Neighbourhood Services</b>				
Neighbourhood Management		31	31	Carry forward of NDC (New Deal for Communities) funding to pay redundancy costs in relation to project ending in 2011/12.
Neighbourhood Management		5	5	NDC (New Deal for Communities) Cohesion project - reserves allocated to complete project in 2011/12.
Parks & Countryside		11	11	Tree Works - completion of planned programme
Waste & Environmental		3	3	Dog Warden - earmarked for funding of new bins which were not received by year end
Cemetery & Crematoria	50		50	Planned use of additional income carried forward to partly fund new cremators as previously agreed by Members as part of funding strategy for this project.
Community Safety		46	46	Completion of various contractual/committed projects including 'Target Hardening' & 'Local Volunteering'.
Community Safety		132	132	Local Public Service Agreement Phase 2 reward grant for committed projects approved by Safer Hartlepool Partnership - Domestic Violence.
Property Services and Facilities Management	100		100	Use of some of the surplus generated by Trading Accounts to cover the costs of potential remedial works and protect against future income volatility.
Property Services and Facilities Management		18	18	Completion of various commitments under the Invest to Save programme.
Urban & Planning Policy		37	37	Relates to the part carry forward of funding identified to support major regeneration projects such as the Innovation and Skills Quarter (ISQ) Gateway and development of Church Square. The reserve is to support feasibility costs and contribute match funding towards external funding bids.
Housing		7	7	Committed for Housing Condition Survey/Strategic Housing Market Assessment.

**SCHEDULE OF CONTRIBUTIONS TO SPECIFIC RESERVES APPROVED BY CABINET 6th JUNE 2011**

Economic Development		153	153	Completion of various ongoing commitments including the Employment and Integration Scheme, Training Placements, Connect to Work, Jobsmart.
Economic Development		15	15	Managed Revenue Underspend earmarked for development of Hartlepool's Economic Regeneration Strategy
Economic Development	27		27	Carry forward of Income generated by Graffiti Project which is required to meet ongoing running costs associated with future income generation opportunities.
Social Housing New Build	35		35	Relates to the surplus generated by the New Social Housing which needs to be set aside to cover future maintenance costs in accordance with the approved business case for this project.
Selective Licensing	144		144	Income generated from fees required to fund the scheme over a 5 year period.
Licensing	112		112	Licence Fee Income in Advance - previously this was included on the Balance Sheet as Income in Advance and is now required to be carried forward as an 'Earmarked Reserve' under the new IFRS Code of Accounting Practice. The reserve will cover expenditure in 2011/12.
ITU	46		46	Carry forward of grant set aside to meet the temporary costs of consultancy in relation to the Integrated Transport Unit (ITU).
Speed Cameras		16	16	Relates to the funding ring fenced for the Tees Valley Camera Partnership.
<b>Total Regeneration &amp; Neighbourhood Services</b>	<b>514</b>	<b>474</b>	<b>988</b>	

**DRAFT**  
**STATEMENT OF ACCOUNTS**

**2010 / 2011**



**CHRIS LITTLE**  
**CHIEF FINANCE OFFICER**  
**FINANCE DIVISION**

Hartlepool Borough Council

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## **Explanatory Foreword**

### **INTRODUCTION**

The Statement of Accounts presents the overall financial position for the year ended 31<sup>st</sup> March, 2011 and incorporates all the financial statements and disclosure notes required by statute. The foreword provides an explanation of the Council's overall financial performance for 2010/11, details the year-end financial position for 2010/11, outlines the impact of the current economic climate on the Council's ongoing financial position and provides a guide to the most significant matters reported in the Statement of Accounts.

### **OVERALL FINANCIAL PERFORMANCE AND YEAR END FINANCIAL POSITION FOR 2010/2011**

#### **Revenue Spending 2010/2011 - Budget Position**

The Council prepares a rolling three year financial strategy. This is based on known Government grant settlements for council's. As the previous Government grant settlement covered a fixed period of 3 years up to 2010/11 an assessment of future settlements was made when the Council rolled its financial strategy forward. On this basis it was anticipated that from 2011/12 the Council faced significant reductions in Government funding and a strategy for addressing this issue would need to be developed. Further details are provided later in this foreword.

The preparation of the 2010/2011 budget was set against the background of a relatively favourable grant settlement but continuing uncertainty of the impact of the global and national recession on the public finances. On the downside the Council faced a range of budget pressures as a result of inflation, demographic pressures arising from caring for an ageing population, increased support for vulnerable adults with mental health and/or learning difficulties and increased support for vulnerable children.

For 2010/11 the Council faced an overall budget shortfall of £7 million. The increase in Government grant of £1.7 million reduced this shortfall to £5.3 million. The net shortfall was then bridged through a combination of increasing Council Tax and efficiency savings. Council Tax was increased by 2.5%, which matched the level of increase in state pensions to avoid placing an additional financial burden on pensioners. This raised £1.1 million. The remaining deficit of £4.2 million was bridged from efficiency savings, including a £2.5 million reduction in management and administrative costs from reducing the number of departments from 5 to 3 and reducing the number of managers. The management and administrative changes were achieved by reviewing responsibilities and increased use of Information Technology.

The Council's net 2010/11 General Fund budget, which is the amount funded from Government Grant and Council Tax, was £170.006m.

#### **Revenue Spending 2010/2011 - Outturn Position**

During 2010/2011 the Council had to manage three significant additional financial events, which were not anticipated when the budget was set in February 2010.

The first related to the impact of the new Government's decision to implement in-year reductions to previously agreed grant allocations for 2010/2011. Whilst the Council had already begun to plan for a much more difficult financial position from 2011/2012 and a period of reducing Government grant allocations, it had not been expected that in-year grant cuts would be made. The new Government's decisions reduced the Council's previously agreed revenue grants by £2.154 million and capital grants by £1.402 million. The Council partly mitigated the in-years cuts in revenue grants by re-allocating some of the Council's reserves to continue to fund services with the highest Council priority until the end of the financial year. It was not possible to offset the whole of revenue grant reductions so some services had to be stopped. The reductions in capital grants meant that planned expenditure had to be scaled back to the level of resources available.

The second issue related to the financial outturn for the Tall Ships event. Whilst this was a hugely successful event and costs came in on budget, the level of Park and Ride income was less than forecast. The Council therefore needed to allocate an additional £0.720 million for this event. The majority of this shortfall was funded from lower interest payments on the Council's loans and higher investment income, which avoided this issue impacting on the delivery of services during 2010/11.



The third issue related to the impact of the Government's Spending Review which details public spending reductions for the 4 years commencing 2011/12. Further details of the impact this will have on the Council are provided later in the foreword. Whilst this issue did not directly impact on the Council's 2010/11 financial position, it provided a clear direction of future Government grant levels and the resulting reductions in the Council's budget. In response to the reductions in future Government grants the Council implemented measures in 2010/11 to reduce expenditure wherever possible to help the budget position in 2011/12. As pay costs are the Council's major expenditure this action included careful management of staffing levels and vacancies.

The aims of this measure was to reduce costs in 2010/11 and to hold posts vacant to increase the opportunity for redeploying staff in 2011/12 and minimise the number and cost of compulsory redundancies. As a result of the actions to manage expenditure and the receipt of additional income the Council achieved an under-spend of £4.3m – which equates to 2.5% of the 2010/11 General Fund budget of £170.006 million.

The Council allocated these resources to manage a range of corporate and departmental budget risks. This action helps protect the Council's medium term financial position. The key issues include:

· Corporate Risk - £1.035m

This amount has been earmarked to increase the Strategic Risk Reserve to the level of estimated risks for Equal Pay/Equal Value pay claims, to cover potential salary costs if vacancy levels are less than expected and to cover anticipated shortfalls in income streams for the Shopping Centre, Car Parking and Land Charges.

· Child and Adult Services Risk Reserves - £1.456m

A range of Risk Reserves have been established for volatile (and often high cost) services for vulnerable children and adults. These reserves will help avoid these issues impacting on the 2011/12 budget and provide time to develop a sustainable strategy if costs and/or demand for services increases.

· Regeneration and Neighbourhood Services Risk Reserves - £0.988m

Specific reserves have been established to fund expenditure commitments which have been rephased from 2010/11 to 2011/12, or future years and to manage the costs of potential remedial works and protect against future income volatility.

· Chief Executives Department Risk Reserves - £0.406m

A range of small reserves have been established to cover future redundancy costs, to complete ICT projects which will deliver ongoing savings and to offset specific grant reductions in 2011/12 to enable the reduction to be managed on a planned basis.

After reflecting the above contributions to earmarked reserves the Council made a net contribution to General Fund Balances of £0.394m. This included unused Transitional Support Grant of £0.305m.

## Summary of 2010/2011 Financial Position

Description of Expenditure	2010/2011 Approved Budget £000	2010/2011 Actual Expenditure / Income £000	2010/2011 Variance Adverse / (Favourable) £000
<u>Departmental Expenditure</u>			
Child & Adult Services	62,277	60,173	(2,104)
Chief Executives Department	5,767	5,335	(432)
Regeneration & Neighbourhoods	27,283	26,304	(979)
<b>Total Departmental Expenditure</b>	<b>95,327</b>	<b>91,812</b>	<b>(3,515)</b>
Non Departmental Expenditure	12,962	12,198	(764)
Dedicated Schools Grant Related Expenditure	61,717	61,717	0
<b>Expenditure</b>	<b>170,006</b>	<b>165,727</b>	<b>(4,279)</b>
<b>Contributions to Reserves</b>			
Child & Adult Services	0	1,456	1,456
Chief Executives Risk Reserve	0	406	406
Regeneration & Neighbourhood Services	0	988	988
Strategic Risk Reserve	0	1,035	1,035
<b>Total Contributions to Reserves</b>	<b>0</b>	<b>3,885</b>	<b>3,885</b>
<b>Total Expenditure</b>	<b>170,006</b>	<b>169,612</b>	<b>(394)</b>
<b>Net Contribution to General Fund Balance</b>			<b>394</b>

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

	£000	%
<b><u>Grant Funding</u></b>		
Dedicated Schools Grant	61,717	36%
Share of National Non-Domestic Pool	44,989	26%
Area Based Grant	15,338	9%
Revenue Support Grant	6,533	4%
<b>Total Grant Funding</b>	<b>128,577</b>	<b>76%</b>
<b><u>Other Funding</u></b>		
Council tax (HBC Charge on Collection Fund)	39,655	23%
Use of Reserves	1,774	1%
<b>Total Other Funding</b>	<b>41,429</b>	<b>24%</b>
<b>Total Funding</b>	<b>170,006</b>	<b>100%</b>

### **IMPACT OF THE CURRENT ECONOMIC CLIMATE ON THE COUNCIL'S ONGOING FINANCIAL POSITION**

The current economic climate has reduced the level of income received from the Shopping Centre, Car Parks and Land Charges. In 2010/2011 these reductions, which totalled around £0.7 million, have been managed from within the Council's overall budget. A specific risk reserve has been established at the end of 2010/2011 to cover these shortfalls continuing in 2011/12. The ongoing position will be reviewed as part of budget process for 2012/2013. There has also been a significant reduction in interest earned on the Council's investments, although this has been mitigated by lower interest costs on the Council's borrowing. On a positive note the Council has maintained collection rates for Council Tax at 97% (97% 2009/2010) and Business Rates at 97% (98% 2009/2010).

During 2010/11 the Council began planning for significant reductions in grant funding in 2011/2012 and the following three years. It was my view that these reductions would be front loaded, rather than being phased equally over four years, as the new Government was committed to reducing the national budget deficit. The Council therefore began planning on the basis of potential grant reductions of between 25% and 30% over four years, with these reductions being fronted loaded over the first 2 years at between 15% and 20%.

The Council's fears were confirmed when the Government announced actual grant reductions in Hartlepool's main revenue grant of 12% in 2011/12 and a further 8% in 2012/13. This equates to a cumulative reduction of 20%.

As a result of the grant reduction and demographic pressures the Council needed to reduce costs by £10 million for 2011/2012. This was achieved through a combination of measures -

- £2.9 million was saved through the Council's Business Transformation Programme, which commenced in 2010/11 and was designed to provide savings over a number of years and has now delivered ongoing permanent savings of £5.4 million.

- £1.5 million was saved by corporate measures. This included removing the budget provision for supporting the replacement of Mill House Leisure Centre, which will now not happen until capital grant funding becomes available again and the release of specific reserves which could be allocated to support the budget.

- £5.6 million was saved by reviewing existing services and either scaling back services, or ceasing to provide some services completely. These saving included £1.7 million from reducing management and administration costs.

In recognition of the significant reduction in grant funding the Government provided Hartlepool with a Transitional Grant (which was only paid to 37 other councils) of £1.8 million. The Council used £1.5m of this grant to fund redundancy costs arising from the budget cuts implemented in April 2011. The unused balance of the Transitional Grant was transferred to General Fund balances at 31<sup>st</sup> March 2011.

On the basis of the grant reduction announced for 2012/13 the Council needs to make further budget reductions for this year of £6.6 million and has began planning to achieve these reductions. The position for the following two years is less certain as the Government have not yet provided detailed grant allocation for individual councils for these years. However, the Government have provided details of the cuts in the overall level of funding for councils for these years. On this basis it is expected that further budget reductions of £8.1 million will need to be made before the start of 2014/15. These reductions will mean that by 2014/15 the Council's cash budget will be the same as it was in 2005/06. Detailed proposals for achieving these additional reductions will need to be developed, together with a strategy for funding the resulting redundancy costs.

## **CAPITAL PROGRAMME**

### **Capital Spending 2010/2011 - Outturn Position**

In 2010/2011 the Council had a total Capital Programme of £64.154m and incurred £33.483m. The remaining capital programme of £30.671m has been rephased to 2011/2012. An analysis of this actual 2010/2011 expenditure is shown below, together with an analysis of how this expenditure was financed.

	<b>£000</b>	<b>%</b>
<b><u>Expenditure</u></b>		
School Improvements	12,366	37%
Housing Investment Programme	9,271	28%
Other Schemes	9,074	27%
Highway Maintenance & Construction	1,879	6%
New Deal for Communities Partnership	893	2%
<b>Total Expenditure</b>	<b>33,483</b>	<b>100%</b>
<b><u>Capital Financing</u></b>		
Other	22,266	66%
Borrowing	9,708	29%
Capital Receipts	1,509	5%
<b>Total Capital Financing</b>	<b>33,483</b>	<b>100%</b>

As at 31<sup>st</sup> March, 2011, the Council had capital commitments arising from rephasing of programmed capital spending into 2011/2012 of £30.671m. These commitments can be funded from the following resources, which can be rephased to 2011/2012.

This position reflects the lead time between commissioning capital schemes and the completion of the work. In many cases schemes had commenced in 2010/2011 and will be completed in 2011/2012.

**Capital Financing**

Government Grants

Borrowing

Capital Funding Reserves

**£000**

21,411

6,792

2,468

**30,671**

**Capital Receipts**

The Council received £0.618m from the sale of assets during 2010/2011.

**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 2010/2011 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.

**PENSIONS**

The Council has accounted for retirement benefits according to International Financial Reporting Standard (IFRS) IAS 19. In the Accounts as at 31<sup>st</sup> March 2011, there was a deficit on the Pensions Reserve of £51.856m (£121.612m in 2009/2010) 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 plans announced by the Government to increase future Local Government pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The actuarial assumption is that the CPI will increase at a slower rate than the RPI resulting in pension increases and therefore the IAS19 liabilities being lower. This 'past service gain' of £34.008m is disclosed separately in the Comprehensive Income and Expenditure Statement owing to the exceptional nature of the item. actuarial gains in the pension fund liabilities. Further information is included at Note 46 of the Financial Statements.

The Council is a member of the Teesside Pension Fund and the statutory arrangements for this scheme mean that the IAS19 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 2010/2011 budget.

Further information is included in the Notes to the Statement of accounts.

## **CORE FINANCIAL STATEMENTS**

### **Introduction of International Financial Reporting Standards ( IFRS)**

For 2010/11 the Council adopted the new CIPFA Code of Practice on Local Authority Accounting which is based on International Financial Reporting Standards instead of UK GAAP. The Code requires changes to the layout of the Core Financial Statements and restatement of prior years comparators as if the new Code had always been in existence. The main changes to prior year comparators are described in Note 1- Transition to International Reporting Standards and the new Accounting Policies adopted as a result of the changes.

Note 1 shows that the net worth on the balance sheet as at 31st March 2010 of £86.97m under UK GAAP moved to £116.296m under IFRS. The movement on the 2009/2010 income and expenditure account was from £23.172m under UK GAAP to £19.898m under IFRS. These changes do not affect the financial position of the Council.

A detailed analysis of the Council's financial position can be found in the Core Financial Statements. A brief explanation of the purpose and significant financial issues of each of the statements is given below :

### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (ie those which are accounting reserves). The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

### **Comprehensive Income and Expenditure Statement**

This Statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

There are two exceptional items reported separately on the face of this statement:-

- Pension Past Service Costs Gain Pensions resulting from the Governments decision to increase Local Government pensions in line with CPI rather than RPI (£34.008m).
- Transfer of Foundation School assets following the legal transfer of assets to Dyke House and Manor Schools (£24.368m)

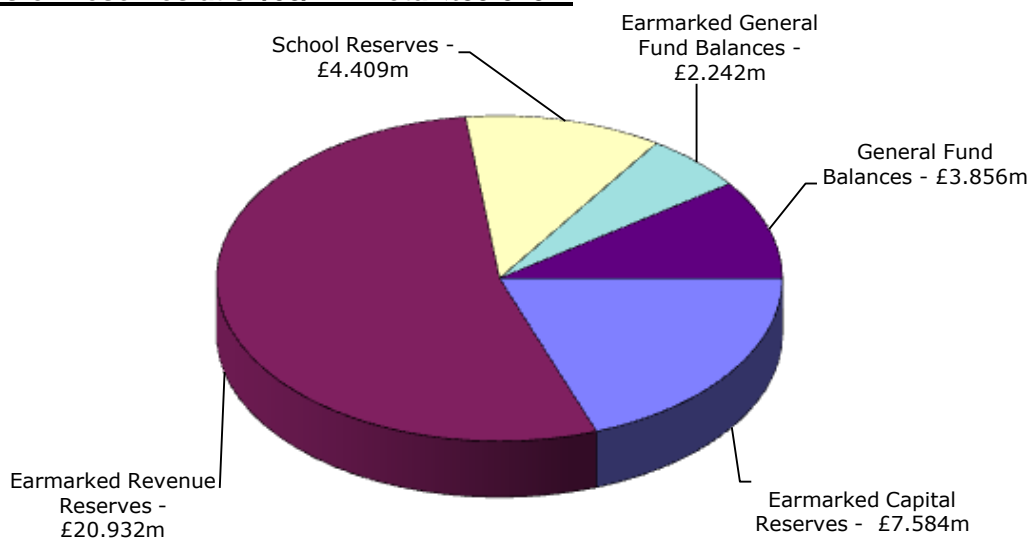
### **Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

The major movements on the Balance Sheet are as follows:

- Property, Plant and Equipment, Revaluation Reserve and Capital Adjustment Account – the Council's total fixed assets have decreased by £23.136m which comprises of expenditure on fixed assets of £27.350m, revaluation of existing assets of £2.559m, less depreciation, impairments and disposals of £53.045m.
- Debtors – as at 31<sup>st</sup> March, 2011, are £17.801m (£17.228m at 31<sup>st</sup> March, 2010). The increase is mainly owing to an amounts owed from Government departments.
- Long Term Investments, plus current investments - totalled £19.022m as at 31<sup>st</sup> March, 2011 (£36.417m at 31<sup>st</sup> March, 2010). The reduction largely relates to the changes in cash flows and the Council's continuing strategy of reducing investments by repaying borrowing.
- Temporary short terms loans plus bank overdraft - as at 31<sup>st</sup> March, 2011, were £6.906m (£18.942m at 31<sup>st</sup> March, 2010). 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.
- Long Term Borrowing – as at 31<sup>st</sup> March, 2011, was £46.821m (£46.821m at 31<sup>st</sup> March, 2010). 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 31<sup>st</sup> March 2011, are £39.023m (£34.466m at 31<sup>st</sup> March 2010). The net increase reflects a number of factors. Firstly, the level of earmarked capital reserves has increased and these resources are earmarked to fund capital expenditure commitments repensed from 2010/2011 to 2011/2012. Secondly, contributions have been made to specific reserves to manage risks and protect the Council's financial position. Finally, school balances have increased as schools prepare for a more challenging financial future and lower increases in funding. These increases have been funded from one-off benefits which will not be repeated. Looking to the future the Council's reserves will fall significantly as these resources are committed for one-off expenditure commitments and supporting the revenue budgets in 2011/2012. Details of the movements on reserves and balances are provided in Note 7. In summary reserves at 31<sup>st</sup> March 2011, consist of five main components:

#### **Analysis of Reserves at 31/03/11 - Total £39.023m**



- Earmarked - Capital Reserves - (£7.584m) these reserves are earmarked for capital expenditure commitments repensed from 2010/2011 to 2011/2012.
- Earmarked - Revenue Reserves - these reserves are earmarked for specific risks and include the Insurance Fund (£3.2m), Strategic Risk Reserve (£3.3m), Ring Fence Grants (£3.4m).
- School Reserves - (£4.409m) these reserves are earmarked for individual schools in accordance with the scheme for funding schools.

- Earmarked General Fund Balances - this includes the Budget Support Fund (£1.4m) which will be used in 2011/2012.
- General Fund Balances – (£3.856m) this balance is earmarked for unforeseen commitments.

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Council.

## Supplementary Financial Statements

### 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. The Fund is operated and reported on under the same accounting policies as Hartlepool Borough Council.

The total Council Tax for the year was £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 in the Collection Fund notes.

	<b>£000</b>	<b>%</b>
<b>Expenditure</b>		
Cleveland Police Authority Precept	5,218	7%
HBC Precept	39,440	57%
Cleveland Fire Authority Precept	1,777	3%
Payment to NNDR Pool	22,676	32%
Other	692	1%
	<b>69,803</b>	<b>100%</b>
<b>Income</b>		
Council Tax	46,797	67%
NNDR from Rate Payers	22,810	33%
	<b>69,607</b>	<b>100%</b>
<b>Net Deficit / (Surplus) in Year</b>	<b>196</b>	

## **CHANGES IN COUNCIL RESPONSIBILITIES**

There were no significant changes in the Council's statutory responsibilities during 2010/2011.

## **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 in the Statement of Accounting Policies. 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 2009/2010 have been shown where appropriate. The notes affected by IFRS will have a third balance sheet comparator for 1st April 2009.

## **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 2010/2011 financial year the inspection period was 1st July 2011 to 28th July 2011.

Chris Little  
Chief Finance Officer  
Date : 30th June 2011



## **Statement of Responsibilities for the Statement of Accounts**

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

The Council 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 Council, 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 in this document were approved by the Audit Committee at the meeting held on 23rd September, 2011

Councillor C Akers-Belcher  
Chair of Audit Committee  
Date: 23 September 2011

### **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 CODE').

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 Code of Practice on Local Authority Accounting

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 2011 I certify that the Statement of Accounts 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 31<sup>st</sup> March 2011

Chris Little  
Chief Finance Officer  
Date: 30th June, 2011

## Movement in Reserves Statement for the year ended 31 March 2011

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Earmarked General Fund reserves	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Total Reserves</b>
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 31 March 2009</b>	4,575	11,586	18,636	1,533	1,005	37,335	153,393	190,728
<b><u>Movement in reserves during 2009/10</u></b>								
Surplus or (deficit) on provision of services	(19,898)	-	-	-	-	(19,898)	-	(19,898)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	(54,536)	(54,536)
<b>Total Comprehensive Income and Expenditure</b>	(19,898)	-	-	-	-	(19,898)	(54,536)	(74,434)
Adjustments between accounting basis & funding basis under regulations (note 6)	18,012	-	-	(642)	(343)	17,027	(17,027)	0
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	(1,886)	-	-	(642)	(343)	(2,871)	(71,563)	(74,434)
Transfers to/(from) Earmarked Reserves	773	(5,077)	4,304	-	-	-	-	-
<b>Increase/(Decrease) in Year</b>	(1,113)	(5,077)	4,304	(642)	(343)	(2,871)	(71,563)	(74,434)
<b>Balance at 31 March 2010 carried forward</b>	3,462	6,509	22,940	891	662	34,464	81,830	116,294
<b><u>Movement in reserves during 2010/11</u></b>								
Surplus or (deficit) on provision of services	6,713	-	-	-	-	6,713	-	6,713
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	40,236	40,236
<b>Total Comprehensive Income and Expenditure</b>	6,713	-	-	-	-	6,713	40,236	46,949
Adjustments between accounting basis & funding basis under regulations (note 6)	(3,577)	-	-	(891)	2,313	(2,155)	2,155	-
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	3,136	-	-	(891)	2,313	4,558	42,391	46,949
Transfers to/from Earmarked Reserves	(2,742)	142	2,600	-	-	-	-	-
<b>Increase/(Decrease) in Year</b>	394	142	2,600	(891)	2,313	4,558	42,391	46,949
<b>Balance at 31 March 2011 carried forward</b>	3,856	6,651	25,540	-	2,975	39,022	124,221	163,243

For detail on Usable and Unusable Reserves see Notes 29 and 30.

This Statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	Restated 2009/10				2010/11			
£000s	£000s	£000s			£000s	£000s	£000s	
Expenditure	Income	Net	Continuing operations:		Expenditure	Income	Net	Note
17,118	14,919	2,199	Central Services to the Public		19,239	16,908	2,331	
48,498	11,805	36,693	Cultural, Environmental, Regulatory and Planning Services		48,071	16,278	31,793	
125,908	91,004	34,904	Education and Children’s Services		129,400	93,967	35,433	
17,265	4,398	12,867	Highways and Transport Services		18,163	6,247	11,916	
46,053	44,375	1,678	Other Housing Services		53,594	45,026	8,568	
41,703	11,958	29,745	Adult Social Care		42,121	13,581	28,540	
4,487	46	4,441	Corporate and Democratic Core		5,342	513	4,829	
3,333	2	3,331	Non Distributed Costs		1,240	-	1,240	
-	-	-	Past Service Gain - Pensions (see Note (a) below)		(34,008)	-	(34,008)	46
304,365	178,507	125,858	Cost of Services- continuing operations		283,162	192,520	90,642	
108	335	(227)	Other Operating Expenditure		1,010	690	320	9
-	-	-	Transfer of Foundation School Assets (see Note (b) below)		24,368	-	24,368	9
7,270	2,328	4,942	Financing and Investment Income and Expenditure		5,244	2,187	3,057	10
-	110,675	(110,675)	Taxation and Non-Specific Grant Income		-	125,100	(125,100)	11
311,743	291,845	19,898	(Surplus) or Deficit on Provision of Services		30,622	127,977	(6,713)	8
		(8,700)	Surplus or deficit on revaluation of Property, Plant and Equipment				1,476	30 Table 1
		92	Surplus or deficit on revaluation of available for sale financial assets				186	30 Table 2
		63,144	Actuarial gains or losses on pension assets & liabilities				(41,884)	30 Table 4
		-	Other Gains and Losses				(12)	30 Table 5
		54,536	Other Comprehensive Income and Expenditure				(40,234)	
		74,434	Total Comprehensive Income and Expenditure				(46,947)	

Note (a) - The Government announced plans to increase future Local Government pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The actuarial assumption is that the CPI will increase at a slower rate than the RPI resulting in pension increases and therefore the IAS19 liabilities being lower. This 'past service gain' of £34.008m is disclosed separately in the Comprehensive Income and Expenditure Statement owing to the exceptional nature of the item.

Note (b) - Following the transfer of Dyke House and Manor schools to Foundation School Status the legal transfer of assets was actioned during 2010/11. This transfer resulted in the need to 'write out' the value of these assets from the Council's accounts. This 'write-out' totalled £24.368m and is disclosed separately in the Comprehensive Income and Expenditure Statement owing to the exceptional nature of these transactions.

# Balance Sheet as at 31 March 2011

The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

Restated 31 March 2009 £000s	Restated 31 March 2010 £000s		31 March 2011 £000s	Note
278,323	277,099	Property, plant and equipment	253,963	15
14,876	14,976	Investment property	15,285	16
10,696	604	Long term investments	418	18
338	244	Long Term Debtors	259	19
304,233	292,923	<b>Long Term Assets</b>	<b>269,925</b>	
30,599	35,813	Short term investments	18,604	
656	756	Inventories	778	20
20,917	17,228	Short Term Debtors	17,801	21
-	79	LATS	147	22
168	2,391	Cash and Cash Equivalents	5,909	23
400	250	Assets held for sale	470	24
52,740	56,517	<b>Current Assets</b>	<b>43,709</b>	
2,196	6,303	Cash and Cash Equivalents	4,822	23
2,704	2,643	Provisions	2,455	26
28,745	12,639	Short Term Borrowing	2,084	
23,860	29,894	Short Term Creditors	22,674	25
57,505	51,479	<b>Current Liabilities</b>	<b>32,035</b>	
472	472	Provisions	745	26
46,821	46,821	Long Term Borrowing	46,821	
55,930	122,553	Other Long Term Liabilities	52,657	27
5,517	11,819	Capital Grants Receipts in Advance	18,133	28
108,740	181,665	<b>Long Term Liabilities</b>	<b>118,356</b>	
190,728	116,296	<b>Net Assets:</b>	<b>163,243</b>	
4,575	3,462	Unearmarked General Fund Balances	3,856	29
7,732	2,966	Earmarked General Fund reserves	2,241	29
3,854	3,543	Schools Balances	4,410	29
3,721	4,623	Earmarked Capital Reserves	7,583	29
17,453	19,873	Earmarked Revenue Reserves	20,932	29
153,393	81,829	Unusable Reserves	124,221	30
190,728	116,296	<b>Total Reserves:</b>	<b>163,243</b>	

**Statement Of Cash Flows For The Year Ended 31 March 2011**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the council.

Restated 2009/10 £000s		2010/11 £000s	Note
19,873	Net (surplus) or deficit on the provision of services	(6,713)	
(13,757)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(38,180)	40
1,164	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	42,016	41
7,280	<b>Net cash outflow from operating activities</b>	(2,877)	
(11,848)	<b>Investing activities</b>	(20,106)	43
6,452	<b>Financing activities</b>	17,984	44
1,884	Net (increase) or decrease in cash and cash equivalents	(4,999)	
(2,028)	Cash and cash equivalents at the beginning of the reporting period	(3,912)	
(3,912)	<b>Cash and cash equivalents at the end of the reporting period</b>	1,087	23

## **Statement of Accounting Policies**

### **1. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2011 Act.

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 cash flow 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.

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 Council. 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 Council'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.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

## Statement of Accounting Policies

### 2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, 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.

**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.

**Revenue from the sale of goods** is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

**Revenue from the provision of services** is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

**Supplies** 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 inventories on the Balance Sheet.

**Expenses** in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

**Interest receivable** on investments and payable on borrowings is accounted for respectively as income and expenditure 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 revenue and expenditure** have 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## **Statement of Accounting Policies**

### **3. Cash and Cash Equivalents**

Cash and cash equivalents is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### **4. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

### **5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance [MRP], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.



## **Statement of Accounting Policies**

### **7. Employee Benefits**

#### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### **Post Employment Benefits**

Employees of the Council are members of two separate pension schemes:

The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

The Local Government Pensions Scheme, administered by Middlesbrough Council.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

## Statement of Accounting Policies

### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

The liabilities of the Teesside Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

The assets of the Teesside Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into seven components:

**Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

**Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

**Interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

**Expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

**Gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

**Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve

**Contributions paid to the Teesside Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefit are earned by employees.

## **Statement of Accounting Policies**

### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **8. Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **9. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **Statement of Accounting Policies**

### Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

### **10. Interests in Companies and Other Entities**

Under Local Government Reorganisation the Council was allocated 2.46% 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.

### **11. Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the [FIFO/weighted average] costing formula.

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.

### **12. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value (ie market value), based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are reviewed annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **Statement of Accounting Policies**

### **13. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### **The Council as Lessee**

##### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

##### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

## **Statement of Accounting Policies**

### **The Council as Lessor**

#### Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **14. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

**Corporate and Democratic Core** – costs relating to the Council's status as a multi functional, democratic organisation.

## **Statement of Accounting Policies**

**Non Distributed Costs** – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing 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:

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

### **15. Property, Plant and Equipment**

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 1<sup>st</sup> April, 2013. From 1<sup>st</sup> 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 non current 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.

## **Statement of Accounting Policies**

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.

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- community assets and assets under construction – historical cost
- infrastructure – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.



## **Statement of Accounting Policies**

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and Community Assets) and assets that are not yet available for use (ie assets under construction).

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 is calculated on the following bases:

- dwellings – 40 years.
- other buildings – 25 to 40 years.
- vehicles, plant and equipment – 3 to 15 years.
- infrastructure – 15 to 100 years.

## **Statement of Accounting Policies**

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale but remain in property, plant and equipment. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **16. Provisions, Contingent Liabilities and Contingent Assets**

### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

## **Statement of Accounting Policies**

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### Provision for Back Pay Arising from Unequal Pay Claims

The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy. However, statutory arrangements allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established. The provision is therefore balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund balance in the year the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund balance in the Movement in Reserves Statement in future financial years as payments are made.

### Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **Statement of Accounting Policies**

### **17. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### **18. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **19. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### **20. Financial Instruments**

#### Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For existing borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to 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.

## **Statement of Accounting Policies**

### Financial assets

Financial assets are classified into two types:

- Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.
  
- Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the value of equity shares and the net worth of the company. Changes in fair value are balanced by an entry in the Available-for-Sale Reserve

## Note 1: Transition to International Financial Reporting Standards

The Statement of Accounts for 2010/11 is the first to be prepared on an International Financial Reporting Standards (IFRS) basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the figures presented in the Statement of Accounts for 2009/2010.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

### RECONCILIATION OF NET WORTH REPORTED UNDER PREVIOUS GAAP TO NET WORTH UNDER IFRS AT THE DATE OF TRANSITION TO IFRS (1st APRIL 2009)

	Previous	Effect of transition to IFRS				IFRS
	GAAP £000s	Absences £000s	Leases £000s	Grants £000s	Other £000s	£000s
<b>Non-current assets</b>						
Property, plant and equipment	271,144	-	457	-	(173)	<b>271,428</b>
Assets under Construction	6,896	-	-	-	-	<b>6,896</b>
Assets Held for Disposal	5,875	-	-	-	(5,875)	<b>0</b>
Investment property	13,489	-	-	-	1,386	<b>14,875</b>
Assets held for sale	0	-	-	-	-	<b>0</b>
Long term investments	10,696	-	-	-	-	<b>10,696</b>
Long Term Debtors	338	-	-	-	-	<b>338</b>
<b>Total non-current assets</b>	<b>308,438</b>	<b>-</b>	<b>457</b>	<b>-</b>	<b>(4,662)</b>	<b>304,233</b>
<b>Current assets</b>						
Short term investments	30,655	-	-	-	(56)	<b>30,599</b>
Inventories	656	-	-	-	0	<b>656</b>
Short Term Debtors	20,917	-	-	-	0	<b>20,917</b>
Cash and Cash Equivalents	112	-	-	-	56	<b>168</b>
Assets held for sale	0	-	-	-	400	<b>400</b>
<b>Total current assets</b>	<b>52,340</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>400</b>	<b>52,740</b>
<b>Current liabilities</b>						
Cash and Cash Equivalents	2,196	-	-	-	-	<b>2,196</b>
Short Term Borrowing	28,745	-	-	-	-	<b>28,745</b>
Short Term Creditors	21,617	2,323	-	(80)	-	<b>23,860</b>
Capital Grants Unapplied	5,770	-	-	(5,770)	-	<b>-</b>
Provisions	0	-	-	-	-	<b>-</b>
<b>Total current liabilities</b>	<b>58,328</b>	<b>2,323</b>	<b>-</b>	<b>(5,850)</b>	<b>-</b>	<b>54,801</b>
<b>Long term liabilities</b>						
Long Term Creditors	-	-	-	-	-	<b>-</b>
Provisions	3,176	-	-	-	-	<b>3,176</b>
Long Term Borrowing	46,821	-	-	-	-	<b>46,821</b>
Deferred Liabilities	792	-	1,088	(673)	-	<b>1,207</b>
Other Long Term Liabilities	54,723	-	-	-	-	<b>54,723</b>
Govt Grant Deferred	32,506	-	-	(32,506)	-	<b>-</b>
Capital Grants Receipts in Advance	-	-	-	5,517	-	<b>5,517</b>
<b>Total long term liabilities</b>	<b>138,018</b>	<b>-</b>	<b>1,088</b>	<b>(27,662)</b>	<b>-</b>	<b>111,444</b>
<b>Net Assets:</b>	<b>164,432</b>	<b>(2,323)</b>	<b>(631)</b>	<b>33,512</b>	<b>(4,262)</b>	<b>190,728</b>
<b>Reserves</b>						
Usable reserves	36,329	-	-	1,006	-	<b>37,335</b>
Unusable Reserves	128,103	(2,323)	(631)	32,506	(4,262)	<b>153,393</b>
<b>Total Reserves:</b>	<b>164,432</b>	<b>(2,323)</b>	<b>(631)</b>	<b>33,512</b>	<b>(4,262)</b>	<b>190,728</b>

**Note 1: Transition to International Financial Reporting Standards****RECONCILIATION OF NET WORTH REPORTED UNDER PREVIOUS GAAP TO NET WORTH UNDER IFRS AT THE END OF THE LATEST PERIOD PRESENTED IN THE MOST RECENT FINANCIAL STATEMENTS UNDER PREVIOUS GAAP (31st MARCH 2010)**

	Previous	Effect of transition to IFRS				IFRS
	GAAP £000s	Absences £000s	Leases £000s	Grants £000s	Other £000s	£000s
<b>Non-current assets</b>						
Property, plant and equipment	276,868	-	338	-	(107)	<b>277,099</b>
Investment property	13,532	-	-	-	1,444	<b>14,976</b>
Assets held for sale	9,844	-	-	-	(9,844)	-
Long term investments	604	-	-	-	-	<b>604</b>
Investments in Associates & Joint Ventures	-	-	-	-	-	-
Long Term Debtors	244	-	-	-	-	<b>244</b>
<b>Total non-current assets</b>	<b>301,092</b>	-	<b>338</b>	-	<b>(8,507)</b>	<b>292,923</b>
<b>Current assets</b>						
Short term investments	38,093	-	-	-	(2,280)	<b>35,813</b>
Inventories	756	-	-	-	-	<b>756</b>
Short Term Debtors	17,228	-	-	-	-	<b>17,228</b>
LATS	79	-	-	-	-	<b>79</b>
Cash and Cash Equivalents	111	-	-	-	2,280	<b>2,391</b>
Assets held for sale	-	-	-	-	250	<b>250</b>
<b>Total current assets</b>	<b>56,267</b>	-	-	-	<b>250</b>	<b>56,517</b>
<b>Current liabilities</b>						
Cash and Cash Equivalents	6,303	-	-	-	-	<b>6,303</b>
Short Term Borrowing	12,639	-	-	-	-	<b>12,639</b>
Short Term Creditors	27,380	2,594	-	(80)	-	<b>29,894</b>
Capital Grants Unapplied	11,934	-	-	(11,934)	-	-
<b>Total current liabilities</b>	<b>58,256</b>	<b>2,594</b>	-	<b>(12,014)</b>	-	<b>48,836</b>
<b>Long term liabilities</b>						
Long Term Creditors	-	-	-	-	-	-
Provisions	3,115	-	-	-	-	<b>3,115</b>
Long Term Borrowing	46,821	-	-	-	-	<b>46,821</b>
Deferred Liabilities	730	-	867	(668)	-	<b>929</b>
Other Long Term Liabilities	121,624	-	-	-	-	<b>121,624</b>
Govt Grant Deferred	39,842	-	-	(39,842)	-	-
Capital Grants Receipts in Advance	-	-	-	11,819	-	<b>11,819</b>
Deferred tax liability	-	-	-	-	-	-
<b>Total long term liabilities</b>	<b>212,132</b>	-	<b>867</b>	<b>(28,691)</b>	-	<b>184,308</b>
<b>Net Assets:</b>	<b>86,971</b>	<b>(2,594)</b>	<b>(529)</b>	<b>40,705</b>	<b>(8,257)</b>	<b>116,296</b>
<b>Reserves</b>						
Usable reserves	33,603	-	-	864	-	<b>34,467</b>
Unusable Reserves	53,368	(2,594)	(529)	39,841	(8,257)	<b>81,829</b>
<b>Total Reserves:</b>	<b>86,971</b>	<b>(2,594)</b>	<b>(529)</b>	<b>40,705</b>	<b>(8,257)</b>	<b>116,296</b>

**Note 1: Transition to International Financial Reporting Standards****RECONCILIATION TO TOTAL COMPREHENSIVE INCOME & EXPENDITURE UNDER IFRS AT THE END OF THE LATEST PERIOD PRESENTED IN THE MOST RECENT FINANCIAL STATEMENTS UNDER PREVIOUS GAAP (31st MARCH 2010)**

	Previous GAAP £000s	Net Expenditure Effect of transition to IFRS				IFRS £000s
		Absences £000s	Leases £000s	Grants £000s	Other £000s	
<b>Continuing operations:</b>						
Central services to the public	2,203	(1)	(3)	-	-	<b>2,199</b>
Cultural, environmental, regulatory and planning services	32,438	5	(87)	488	3,849	<b>36,693</b>
Education and children's services	34,094	259	(158)	1,071	(362)	<b>34,904</b>
Highways and transport services	11,935	8	(15)	939	-	<b>12,867</b>
Other housing services	1,680	1	(3)	-	-	<b>1,678</b>
Adult social care	29,773	(1)	(51)	24	-	<b>29,745</b>
Corporate and democratic core	4,447	-	(6)	-	-	<b>4,441</b>
Non distributed costs	3,314	-	(6)	23	-	<b>3,331</b>
<b>Cost Of Services</b>	<b>119,884</b>	<b>271</b>	<b>(329)</b>	<b>2,545</b>	<b>3,487</b>	<b>125,858</b>
Other Operating Expenditure	(227)	-	-	-	-	<b>(227)</b>
Financing and Investment Income and Expenditure	4,453	-	227	-	262	<b>4,942</b>
Taxation and Non-Specific Grant Income	(100,938)	-	-	(9,737)	-	<b>(110,675)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>23,172</b>	<b>271</b>	<b>(102)</b>	<b>(7,192)</b>	<b>3,749</b>	<b>19,898</b>
Surplus or deficit on revaluation of fixed assets	(8,946)	-	-	-	246	<b>(8,700)</b>
Surplus or deficit on revaluation of available for sale financial assets	-	-	-	-	-	-
Actuarial gains or losses on pension assets & liabilities	63,144	-	-	-	-	<b>63,144</b>
Other Gains and Losses	92	-	-	-	-	<b>92</b>
<b>Other Comprehensive Income and Expenditure</b>	<b>54,290</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>246</b>	<b>54,536</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>77,462</b>	<b>271</b>	<b>(102)</b>	<b>(7,192)</b>	<b>3,995</b>	<b>74,434</b>

**Short-term accumulating compensated absences**

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when the employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.



## **Note 1: Transition to International Financial Reporting Standards**

### **Leases**

The Code has adopted IAS 17, Accounting for Leases. Under IAS 17 the classification of leases as either operating leases or finance leases has changed. This has resulted in a number of leases for property, plant and equipment that were formerly classified as operating leases being classified as finance leases.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Council is the lessee) will be unchanged. Where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

As a consequence of reclassifying operating leases to finance leases, the financial statements have been amended as follows:

- The Council has recognised an number of non-current assets within Property, Plant and Equipment
  - Operating lease charges made in a number of service areas have been reduced to reflect the change to finance leases
  - The interest element of the lease payment is charged to the Financing and Investment Income & Expenditure line in the Surplus or deficit on the Provision of Services
  - An amount equivalent to the lease repayment has been charged within the statutory charge for capital financing (Minimum Revenue Provision) and is made against the General Fund Balance in the Movement in Reserves Statement (and posted to the Capital Adjustment Account)
  - A depreciation charge has been included against the relevant service area to write down asset values
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account. This
- transfer has been reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year

The depreciation charges are removed by the transfer to the Capital Adjustment Account, the transfer is shown in the Movement in Reserves Statement

### **Government Grants**

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures

### **Other**

Other includes other minor adjustments that are included to provide a complete analysis of the transactions. They include:

### **Cash and Cash Equivalents**

Under the Code, cash equivalents are given the same status as cash. Cash equivalents are defined as investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

## **Note 1: Transition to International Financial Reporting Standards**

### **Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. This is a much tighter definition than previously applied. Property that no longer qualifies as Investment Property has to be reclassified as Property, Plant and Equipment. Having been reclassified, the assets are liable to revaluation.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- A number of assets have been reclassified in the opening 1 April 2009 balance sheet
- They have been revalued in line with the Council's accounting policies

### **Assets Held for Sale**

The definition for Assets Held for Sale is much more prescriptive than the former definition of Surplus Assets Held for Disposal. Property that does not meet the new definition has to be reclassified and Property, Plant and Equipment. Having been reclassified, the assets are liable to revaluation

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- A number of assets have been reclassified in the opening 1 April 2009 balance sheet.  
They have been revalued in line with the Council's accounting policies. Where no balance exists on the
- Revaluation Reserve and properties are revalued downwards, the adjustment is made to the Capital Adjustment Account

## Note 2: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The 2011/12 Code of Practice adopts FRS 30 Heritage Assets, this is detailed in Note 15 to the financial statements. Under FRS 30 the Council will need to account for Heritage Assets held. Heritage Assets are defined as those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art.

## Note 3: Critical Judgements in Applying Accounting Policies

In applying the accounting policies the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government beyond 2012/2013. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

## Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £84,000 for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	These changes would not impact on the Council's revenue budget and the cash cost of services as actual pension rates are determined on an actuarial basis every 3 years. The latest valuation has determined the employers contribution for 3 years from 2011/2012. The Teesside Pension Fund is currently 98% funded.
Equal Pay/ Equal Value Claims	Settlement of claims for equal pay/ equal value are both at a local and national level potentially exposing the Council additional one-off costs.	The Council has established a reserve to help fund this potential liability.

Income Shortfalls	Owing to the current economic downturn the Council continues to face income shortfalls in relation to car park income, shopping centre income and land charges.	The Council has a reserve for 2011/2012 the position will be reviewed as part of the 2012/2013 Medium Term Financial Strategy (MTFS)
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**Note 5: Events after the Balance Sheet Date**

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 30th June 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

**Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations**

2010/11	Usable Reserves					
	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<i>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</i>						
Charges for depreciation and impairment of non-current assets	(23,542)	-	-	-	-	(23,542)
Movements in the market value of investment properties	285	-	-	-	-	285
Capital grants and contributions	15,212	-	-	-	-	15,212
Revenue expenditure funded from capital under statute	(1,348)	-	-	-	-	(1,348)
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income & Expenditure Statement	(25,254)	-	-	-	-	(25,254)
Movement in Donated Assets	9	-	-	-	-	9
<i>Insertion of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</i>						
Statutory provision for the financing of capital investment	4,642	-	-	-	-	4,642
Capital expenditure charged against the General Fund balances						-
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	4,381	-	-	-	(4,381)	-
Capital Grants to Revenue	(18)	-	-	-	18	
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	2,049	2,049
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income & Expenditure Statement	618	-	-	(618)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	1,509	-	1,509
Contribution from the Capital Receipts Reserve towards administrative costs of noncurrent asset disposals	-	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(2)	-	-	2	-	-
Transfer from deferred Capital receipts Reserve upon receipt of cash						-
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income & Expenditure Statement	-	-	-	(2)	-	(2)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-
<b>Adjustments primarily involving the Unequal Pay Back Pay Account:</b>						
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirement	(273)	-	-	-	-	(273)
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	27,872	-	-	-	-	27,872
<b>Adjustments Primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(167)	-	-	-	-	(167)

**Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations**

2010/11	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Adjustments primarily involving the Accumulated Absences</b>						
<b>Adjustment Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,162	-	-	-	-	1,162
<b>Total Adjustments</b>	<b>3,577</b>	<b>-</b>	<b>-</b>	<b>891</b>	<b>(2,314)</b>	<b>2,154</b>

**Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations**

2009/10 Comparative figures	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Earmarked General Fund Reserves	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<i>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</i>						
Charges for depreciation and impairment of non-current assets	(27,186)	-	-	-	-	(27,186)
Movements in the market value of investment properties	(371)	-	-	-	-	(371)
Amortisation of intangible assets	-	-	-	-	-	-
Capital grants and contributions applied	10,008	-	-	-	-	10,008
Revenue expenditure funded from capital under statute	(1,571)	-	-	-	-	(1,571)
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income & Expenditure Statement	(101)	-	-	-	-	(101)
						-
<i>Insertion of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</i>						
Statutory provision for the financing of capital investment	4,153	-	-	-	-	4,153
Capital expenditure charged against the General Fund balances	-	-	-	-	-	-
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(270)	-	-	-	270	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	73	73
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income & Expenditure Statement	1,164	-	-	(1,156)	-	8
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	1,800	-	1,800
Contribution from the Capital Receipts Reserve towards administrative costs of noncurrent asset disposals	-	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	2	-	-	(2)	-	-
Transfer from deferred Capital receipts Reserve upon receipt of cash	-	-	-	-	-	-
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income & Expenditure Statement	-	-	-	-	-	-
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(14,504)	-	-	-	-	(14,504)
Employer's pension contributions and direct payments to pensioners payable in year	10,733	-	-	-	-	10,733
<b>Adjustments Primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	201	-	-	-	-	201
<b>Adjustments primarily involving the Accumulated Absences Adjustment Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(271)	-	-	-	-	(271)
<b>Total Adjustments</b>	<b>(18,013)</b>	<b>-</b>	<b>-</b>	<b>642</b>	<b>343</b>	<b>(17,028)</b>

# Note 7: Transfers to/(from) Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2010/11. Further details are provided in Note 29.

	Balance at 1 April 2009 £000s	Transfers Out 2009/10 £000s	Transfers In 2009/10 £000s	Restated Balance at 31 March 2010 £000s	Transfers Out 2010/11 £000s	Transfers In 2010/11 £000s	Balance at 31 March 2011 £000s
<b>Earmarked Reserves</b>							
<b>Capital Reserves:</b>							
Capital Funding Reserve	1,102	(545)	2,476	3,033	(689)	2,225	4,569
Maritime Avenue Remedial Works	81	(47)	3	37	-	1	38
Capital Grants Unapplied	1,005	(686)	343	662	(2,067)	4,381	2,975
Capital Receipts Unapplied	1,533	(642)	-	891	(891)	-	0
	<b>3,721</b>	<b>(1,920)</b>	<b>2,822</b>	<b>4,623</b>	<b>(3,647)</b>	<b>6,607</b>	<b>7,583</b>
<b>Specific Revenue Reserves :</b>							
School Rates	138	(78)	6	66	-	8	74
Other Fund School Balances	114	(41)	26	99	(47)	103	155
Brierton/Dyke House BSF Costs	-	-	300	300	-	-	300
Building Schools for the Future	1,149	(975)	587	761	(808)	442	396
Strategic Change & Ring Fenced Grants Reserves	8,711	(5,667)	7,785	10,829	(4,491)	5,651	11,989
Strategic Risk Reserve	-	(200)	2,510	2,310	(132)	1,074	3,252
Insurance Fund	5,112	(2,938)	1,859	4,033	(1,992)	1,140	3,181
Lotteries Reserve	413	(17)	17	413	(12)	16	417
Museums Acquisition	65	(5)	3	63	-	3	66
Business Transformation	474	(130)	-	344	(91)	8	261
NDC Fund	729	(74)	-	655	(610)	-	45
Business Transformation One off Costs	-	(1,863)	1,863	-	-	-	-
Termination Costs	524	(524)	-	-	-	-	-
Broadband Implementation	24	(24)	-	-	-	-	-
Carbon Reduction Commitment	-	-	-	-	-	196	196
Incinerator Reserve	-	-	-	-	-	600	600
	<b>17,453</b>	<b>(12,536)</b>	<b>14,956</b>	<b>19,873</b>	<b>(8,182)</b>	<b>9,241</b>	<b>20,932</b>
<b>Total Earmarked Reserves</b>	<b>21,174</b>	<b>(14,456)</b>	<b>17,778</b>	<b>24,496</b>	<b>(11,829)</b>	<b>15,848</b>	<b>28,516</b>
<b>General Fund Balances</b>							
Unearmarked General Fund Balance	4,575	(1,113)	-	3,462	-	394	3,856
<b>Earmarked General Fund Balance</b>							
Balances held by schools under a scheme of delegation	3,854	(3,883)	3,572	3,543	(3,560)	4,427	4,410
Strategic Change Reserve	984	(203)	-	781	(49)	-	732
Budget Support Fund	6,653	(4,630)	63	2,086	(1,444)	794	1,436
Energy Saving Fund	14	-	15	29	(28)	-	1
Strategic Procurement Review	50	-	-	50	-	-	50
LPSA Reward	26	(11)	-	15	(15)	18	18
Cabinet Projects	4	-	-	4	-	-	4
<b>Total General Fund Balances</b>	<b>16,160</b>	<b>(9,840)</b>	<b>3,650</b>	<b>9,970</b>	<b>(5,096)</b>	<b>5,633</b>	<b>10,507</b>
<b>Total Reserves</b>	<b>37,334</b>	<b>(24,296)</b>	<b>21,428</b>	<b>34,466</b>	<b>(16,925)</b>	<b>21,481</b>	<b>39,023</b>



# Note 8: Amounts Reported for Segmental Reporting

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year

The income and expenditure of the Authority's directorates recorded in the budget reports for the year is as follows:

Income and Expenditure 2010/11	Child and Adult Services	Chief Executives	Regeneration and Neighbourhoods	Corporate	Total
	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(30,965)	(10,547)	(40,289)	(14,317)	<b>(96,118)</b>
Government grants	(32,009)	(57,715)	(4,854)	(14,446)	<b>(109,024)</b>
<b>Total Income</b>	<b>(62,974)</b>	<b>(68,262)</b>	<b>(45,143)</b>	<b>(28,763)</b>	<b>(205,142)</b>
Employee expenses	54,190	10,119	24,169	3,332	<b>91,810</b>
Other operating expenses	121,738	58,077	37,338	21,321	<b>238,474</b>
Support Service Recharges	10,130	5,811	11,404	407	<b>27,752</b>
<b>Total Expenditure</b>	<b>186,058</b>	<b>74,007</b>	<b>72,911</b>	<b>25,060</b>	<b>358,036</b>
<b>Net Expenditure</b>	<b>123,084</b>	<b>5,745</b>	<b>27,768</b>	<b>(3,703)</b>	<b>152,894</b>

Income and Expenditure 2009/10 Comparative Figures	Child and Adult Services	Chief Executives	Regeneration and Neighbourhoods	Corporate	Total
	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(32,028)	(11,139)	(39,793)	(19,957)	<b>(102,917)</b>
Government grants	(27,251)	(55,026)	(2,924)	(13,106)	<b>(98,307)</b>
<b>Total Income</b>	<b>(59,279)</b>	<b>(66,165)</b>	<b>(42,717)</b>	<b>(33,063)</b>	<b>(201,224)</b>
Employee expenses	55,799	10,415	24,525	5,277	<b>96,016</b>
Other operating expenses	112,239	55,780	35,759	20,132	<b>223,910</b>
Support Service Recharges	11,484	5,848	11,861	204	<b>29,398</b>
<b>Total Expenditure</b>	<b>179,523</b>	<b>72,043</b>	<b>72,145</b>	<b>25,613</b>	<b>349,324</b>
<b>Net Expenditure</b>	<b>120,243</b>	<b>5,878</b>	<b>29,428</b>	<b>(7,449)</b>	<b>148,100</b>

## Reconciliation to Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2009/10 £000s	2010/11 £000s
Net expenditure in the Directorate Analysis	148,100	152,894
Add services not included in main analysis	-	-
Technical accounting adjustments not reported in Management Accounts	28,748	7,064
Corporate amounts not reported in Management Accounts	(148,100)	(152,894)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(8,850)	(13,777)
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>19,898</b>	<b>(6,713)</b>

## Note 8: Amounts Reported for Segmental Reporting

### Amounts Reported for Resource Allocation Decisions

#### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010/11	Directorate Analysis	Technical accounting adjustments not reported in Management Accounts £000s	Not included in I&E £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
Fees, charges & other service income	(96,118)	(618)	15,134	(81,602)	-	(81,602)
Income from council tax	-	167	-	167	(39,655)	(39,488)
Government grants and contributions	(109,024)	(19,575)	-	(128,599)	(113,239)	(241,838)
<b>Total Income</b>	<b>(205,142)</b>	<b>(20,026)</b>	<b>15,134</b>	<b>(210,034)</b>	<b>(152,894)</b>	<b>(362,928)</b>
Employee expenses	91,810	(18,119)	(10,642)	63,049	-	63,049
Other operating expenses	238,474	(3,293)	(18,269)	216,912	-	216,912
Support Service recharges	27,752	-	-	27,752	-	27,752
Depreciation, amortisation and impairment	-	23,248	-	23,248	-	23,248
Transfer of Foundation School Assets	-	24,368	-	24,368	-	24,368
Gain or Loss on Disposal of Fixed Assets	-	886	-	886	-	886
<b>Total Expenditure</b>	<b>358,036</b>	<b>27,090</b>	<b>(28,911)</b>	<b>356,215</b>	<b>-</b>	<b>356,215</b>
<b>Surplus or deficit on the provision of services</b>	<b>152,894</b>	<b>7,064</b>	<b>(13,777)</b>	<b>146,181</b>	<b>(152,894)</b>	<b>(6,713)</b>

2009/10 Comparative figures	Directorate Analysis	Technical accounting adjustments not reported in Management Accounts £000s	Not included in I&E £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
Fees, charges & other service income	(102,917)	(1,166)	22,982	(81,101)	-	(81,101)
Income from council tax	-	(201)	-	(201)	(38,566)	(38,767)
Government grants and contributions	(98,307)	(9,738)	-	(108,045)	(109,534)	(217,579)
<b>Total Income</b>	<b>(201,224)</b>	<b>(11,105)</b>	<b>22,982</b>	<b>(189,347)</b>	<b>(148,100)</b>	<b>(337,447)</b>
Employee expenses	96,016	14,775	(10,733)	100,058	-	100,058
Other service expenses	223,910	(2,580)	(21,099)	200,231	-	200,231
Support Service recharges	29,398	-	-	29,398	-	29,398
Depreciation, amortisation and impairment	-	27,557	-	27,557	-	27,557
Gain or Loss on Disposal of Fixed Assets	-	101	-	101	-	101
<b>Total Expenditure</b>	<b>349,324</b>	<b>39,853</b>	<b>(31,832)</b>	<b>357,345</b>	<b>-</b>	<b>357,345</b>
<b>Surplus or deficit on the provision of services</b>	<b>148,100</b>	<b>28,748</b>	<b>(8,850)</b>	<b>167,998</b>	<b>(148,100)</b>	<b>19,898</b>

## Note 9: Other Operating Expenditure

This note provides a breakdown of the various components included within the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement.

Restated 2009/10 £000s		2010/11 £000s
112	Parish council precepts	117
6	Payments to the Government Housing Capital Receipts Pool	2
(22)	Receipts from Sale of Former Council Houses	(72)
0	Loss resulting from Foundation Schools Transfer	24,368
(323)	(Gain) or loss on the disposal of non-current assets	273
<u>(227)</u>		<u><b>24,688</b></u>

## Note 10: Financing and Investment Income and Expenditure

This note provides a breakdown of the various components included within the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Restated 2009/10 £000s		2010/11 £000s	Note
2,116	Interest payable and similar charges on borrowing	2,046	
227	Finance lease Interest payable	191	
4,413	Pensions Interest Cost & Expected Return on Pensions Assets	2,518	46
(1,185)	Interest Receivable and Similar Income	(503)	
(112)	Net (Gain) / Loss on Investment Properties	(175)	16
374	Changes in fair values of investment properties	(285)	
(891)	Other Investment Income	(735)	
<u>4,942</u>		<u><b>3,057</b></u>	

## Note 11: Taxation and Non-Specific Grant Income

Taxation and Non-Specific Grant Income comprises of the following :

Restated 2009/10 £000s		2010/11 £000s	Note
38,766	Council Tax income	39,488	
40,489	NNDR distribution	44,989	
21,683	Non-ringfenced government grants	21,030	
9,737	Capital grants and contributions	19,593	
<u>110,675</u>		<u><b>125,100</b></u>	28

## Note 12: Members' Allowances

Details of the amounts paid to each Member of the Council are published annually. The total amount paid to Members in respect of basic, special responsibility and travel and subsistence allowances was £442,533.05 (2009/10: £443,238.32). An analysis of the allowance payments is detailed below.

Member	Basic Allowance	Special Responsibility Allowance	General Travel	General Subsistence	Conference Travel	Conference Fees	Conference Subsistence	Telephone Expenses	Chair/Vice of Chair of Council Allowance	Total 2010/11
	£	£	£	£	£	£	£	£	£	£
Aiken M	5,766.84	-	58.21	-	-	-	-	-	2,428.86	8,253.91
Akers-Belcher C	5,766.84	157.85	-	-	79.78	1,050.00	340.00	-	-	7,394.47
Akers-Belcher S J	5,766.84	3,461.16	-	-	79.78	1,400.00	485.00	-	-	11,192.78
Allison S	620.09	-	-	-	-	-	-	-	-	620.09
Atkinson R	5,766.84	179.77	56.92	-	-	-	-	71.94	-	6,075.47
Barclay A	5,146.86	-	-	-	-	-	-	-	-	5,146.86
Barker C	5,766.84	-	167.51	-	-	-	-	-	-	5,934.35
Brash J	5,766.84	5,766.96	-	-	-	-	-	-	-	11,533.80
Cook R W	5,766.84	5,766.96	-	-	-	-	-	-	-	11,533.80
Cook S	620.09	-	-	-	-	-	-	-	-	620.09
Coward W J	620.09	-	57.64	-	-	-	-	33.00	-	710.73
Cranney K H	5,766.84	3,461.16	-	-	-	-	-	-	-	9,228.00
Drummond S	5,766.84	58,394.63	-	-	-	-	-	-	-	64,161.47
Fenwick S	620.09	-	-	-	-	-	-	-	-	620.09
Fleet M	5,766.84	3,461.16	-	-	-	-	-	-	-	9,228.00
Fleming T	5,766.84	-	-	-	-	-	-	-	-	5,766.84
Flintoff R	5,766.84	-	-	-	-	-	-	127.93	-	5,894.77
Gibbon S	5,766.84	-	-	-	-	-	-	-	-	5,766.84
Griffin S	5,766.84	-	-	-	-	-	-	-	-	5,766.84
Hall G G	5,766.84	5,766.96	-	-	-	-	-	-	-	11,533.80
Hargreaves P	5,766.84	5,766.96	-	-	-	-	-	225.18	-	11,758.98
Hill C F	5,766.84	5,766.96	-	-	53.58	-	-	-	-	11,587.38
Ingham P	5,146.86	-	-	-	-	-	-	-	-	5,146.86
Jackson P	5,766.84	3,364.06	-	-	-	-	-	-	-	9,130.90
James M A	5,766.84	5,766.96	-	-	-	-	-	-	-	11,533.80
Laffey P	5,766.84	-	-	-	-	-	-	-	164.75	5,931.59
Lauderdale J	5,766.84	-	-	-	-	-	-	-	-	5,766.84
Lawton T	5,146.86	-	-	-	-	-	-	-	-	5,146.86
Lilley A E	5,766.84	446.71	-	-	-	-	-	-	-	6,213.55
Lilley G	5,766.84	-	438.24	-	-	-	-	242.64	-	6,447.72
London F	5,766.84	973.20	-	-	-	-	-	-	-	6,740.04
Maness S	5,146.86	-	-	-	-	-	-	-	-	5,146.86
Marshall A	5,766.84	3,461.16	-	-	-	-	-	-	-	9,228.00
Marshall J	5,766.84	-	-	-	-	-	-	-	-	5,766.84
Marshall J W	5,146.86	-	-	-	-	-	-	-	-	5,146.86
McKenna C J	5,766.84	-	-	-	-	-	-	-	-	5,766.84
Morris G	5,766.84	3,461.04	-	-	-	-	-	-	-	9,227.88
Payne R W	5,766.84	5,766.96	-	-	-	-	-	-	-	11,533.80
Plant M	5,766.84	-	-	-	-	-	-	164.15	-	5,930.99
Preece A	5,766.84	3,461.16	309.77	-	-	-	-	151.08	-	9,688.85
Richardson C	5,766.84	4,614.00	-	-	-	-	-	-	10,575.63	20,956.47
Rogan T	5,766.84	539.74	65.94	-	-	-	-	-	-	6,372.52
Shaw J E	5,766.84	3,461.16	119.40	-	-	350.00	110.00	96.17	-	9,903.57
Simmons C	5,766.84	4,174.01	-	-	-	-	-	-	-	9,940.85
Sutheran L M	5,766.84	-	-	-	-	-	-	-	-	5,766.84
Thomas S	5,146.86	2,921.42	-	-	-	-	-	-	-	8,068.28
Thompson H	5,766.84	5,022.96	-	-	-	-	-	-	-	10,789.80
Thompson P	5,146.86	-	-	-	-	-	-	-	-	5,146.86
Tumilty V	620.09	620.10	-	-	-	-	-	-	-	1,240.19
Turner M W	5,766.84	-	-	-	-	-	-	-	-	5,766.84
Wallace S D	620.09	-	-	-	-	-	-	-	-	620.09
Wells R	5,146.86	-	-	-	-	-	-	-	-	5,146.86
Wistow G	620.09	-	-	-	-	-	-	-	-	620.09
Worthy G	5,766.84	-	-	-	-	-	-	144.63	-	5,911.47
Wright E	5,766.84	-	-	-	-	-	-	70.95	-	5,837.79
Yound D R	620.09	-	-	-	-	-	-	-	-	620.09
<b>Totals 2010/2011</b>	<b>276,809.20</b>	<b>146,005.17</b>	<b>1,273.63</b>	<b>-</b>	<b>213.14</b>	<b>2,800.00</b>	<b>935.00</b>	<b>1,327.67</b>	<b>13,169.24</b>	<b>442,533.05</b>
<b>Totals for 2009/10</b>	<b>274,828.59</b>	<b>147,312.30</b>	<b>1,877.52</b>	<b>-</b>	<b>1,449.63</b>	<b>2,385.00</b>	<b>889.00</b>	<b>1,607.16</b>	<b>12,889.12</b>	<b>443,238.32</b>

**Note 12: Members' Allowances**

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 2010 to 31st March 2011. Further details of these allowances can be obtained from the Fire or Police Authorities.

Councillor	Cleveland Fire Authority				Period of Office
	Basic	Special	Travel	Total	
	Allowances	Responsibility	Allowances		
	£	£	Subsistence		
	£	£	£	£	
Akers-Belcher S J	1,810.02	-	-	<b>1,810.02</b>	04/06/10-31/03/11
Atkinson R	1,810.02	-	71.50	<b>1,881.52</b>	04/06/10-31/03/11
Brash J	383.94	-	-	<b>383.94</b>	01/04/10-04/06/11
Flintoff R	2,193.96	-	-	<b>2,193.96</b>	01/04/10-31/03/11
Lilley A E	383.94	-	24.05	<b>407.99</b>	01/04/10-04/06/11
Payne R	2,193.96	3,620.13	190.80	<b>6,004.89</b>	01/04/10-31/03/11

Councillor	Cleveland Police Authority				Period of Office
	Basic and	Travel	Subsistence	Total	
	Special	Allowances			
	Responsibility				
	Allowances				
	£	£	£	£	
Barker C	9,308.04	506.04	325.97	10,140.05	01/04/10-31/03/11
Drummond S	6,705.79	146.38	-	6,852.17	09/07/10-31/03/11
Richardson C	6,705.79	-	-	6,705.79	09/07/10-31/03/11

## Note 13 - Officer's Remuneration

In accordance with the requirements of the Accounts and Audit Regulations 2011 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, statutory Chief Officers and all other 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 3,100 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 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 Members of the Council to lead the development of workable strategies which will deliver the political objectives set by 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:-

#### 2010/2011 - TABLE A

Post holder information (Post title and name)	Salary	Expense Allowances	Car Allowance	Total Remuneration excluding Pension Contributions 2010/11 £	Pension Contributions (Note 6) £	Total Remuneration including Pension Contributions 2010/11 £	Note
<b>Chief Executive</b> Paul Walker	168,795	-	963	<b>169,758</b>	27,176	<b>196,934</b>	a

#### 2009/2010 - TABLE B

Post holder information (Post title and name)	Salary	Expense Allowances	Car Allowance	Total Remuneration excluding Pension Contributions 2009/10 £	Pension Contributions (Note 6) £	Total Remuneration including Pension Contributions 2009/10 £	
<b>Chief Executive</b> Paul Walker	157,205	144	906	<b>158,255</b>	25,310	<b>183,565</b>	a

Note a - In accordance with the Chief Executive's contract of employment a pay review was finalised during 2010/11 which determined the pay scale with effect from 1st April 2009 of £158,000 to £168,000 (previously £142,914 to £157,205). The Chief Executive commenced at the bottom of this salary scale, backdated to 1st April 2009, and in accordance with the agreed progression through the incremental points on the scale moved to £163,000 with effect from 1st October 2009 and £168,000 with effect from 1st October 2010. The salary received during 2010/11 as shown in Table A above therefore consists of 6 months pay at £163,000 pa, 6 months pay at £168,000 pa and £3,295 of pay arrears relating to 2009/10.

# Note 13 - Officer's Remuneration

## Senior Officers reporting directly to the Chief Executive

During 2010/2011 financial year there were six officers, including two 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. The on-going cost savings as a result of reducing the number of Directors are £0.220m per annum. The Directors posts are:

Director of Child and Adult - responsible for a gross annual revenue budget (excluding schools) of £88m and managing 1,500 employees who provide a diverse range of services, education and early years related services, services for vulnerable children and families including looking after children at risk, child and adult protection services, young offenders, children's fostering and adoption services, caring for older people, people with mental health issues, people with physical disabilities or learning disabilities, libraries, sports, culture and leisure services.

Director of Regeneration and Neighbourhoods - responsible for a gross annual revenue budget of £54m and managing 1,200 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.

## 2010/2011 - TABLE C

Post Holder Information (Post Title)	Salary	Car Allowance	Compensation for Loss of Office	Total Remuneration excluding Pension Contributions 2010/11 £	Pension Contributions (Note g) £	Total Remuneration including pension contributions 2010/11 £	Note
	£	£	£				
Director of Child & Adult	122,917	963	-	<b>123,880</b>	19,790	<b>143,670</b>	<i>b</i>
Director of Regeneration & Neighbourhoods	122,917	963	-	<b>123,880</b>	19,790	<b>143,670</b>	<i>b</i>
Chief Finance Officer	69,408	963	-	<b>70,371</b>	11,175	<b>81,546</b>	<i>c</i>
Chief Solicitor	86,524	963	-	<b>87,487</b>	12,733	<b>100,220</b>	<i>d</i>
Assistant Chief Executive	81,062	963	-	<b>82,025</b>	13,051	<b>95,076</b>	<i>e</i>
Chief Customer & Workforce Services Officer	79,486	963	-	<b>80,449</b>	12,797	<b>93,246</b>	<i>f</i>
	<b>562,314</b>	<b>5,778</b>	-	<b>568,092</b>	<b>89,336</b>	<b>657,428</b>	

# Note 13 - Officer's Remuneration

## 2009/2010 - TABLE D

Post Holder Information (Post Title)	Salary	Car Allowance	Compensation for Loss of Office	Total Remuneration excluding Pension Contributions 2009/10 £	Pension Contributions (Note g) £	Total Remuneration including pension contributions 2009/10 £	Note
	£	£	£	£	£	£	
Director of Child & Adult	70,000	378	-	<b>70,378</b>	11,270	<b>81,648</b>	b
Director of Adult & Community Services	47,965	528	-	<b>48,493</b>	7,722	<b>56,215</b>	b
	<b>117,965</b>	<b>906</b>	<b>-</b>	<b>118,871</b>	<b>18,992</b>	<b>137,863</b>	
Director of Regeneration & Neighbourhoods	70,000	378	-	<b>70,378</b>	11,270	<b>81,648</b>	b
Director of Neighbourhood Services	41,528	528	-	<b>42,056</b>	6,686	<b>48,742</b>	b
	<b>111,528</b>	<b>906</b>	<b>-</b>	<b>112,434</b>	<b>17,956</b>	<b>130,390</b>	
Director of Children's Services	46,051	378	42,442	<b>88,871</b>	7,414	<b>96,285</b>	b
Director of Regeneration & Planning	79,684	680	58,075	<b>138,439</b>	12,829	<b>151,268</b>	b
Chief Financial Officer	83,813	899	40,513	<b>125,225</b>	13,494	<b>138,719</b>	c
Chief Finance Officer	533	-	-	<b>533</b>	86	<b>619</b>	c
Chief Solicitor	84,514	906	-	<b>85,420</b>	12,367	<b>97,787</b>	d
Assistant Chief Executive	81,062	906	-	<b>81,968</b>	13,051	<b>95,019</b>	e
Chief Personnel Officer	44,134	529	-	<b>44,663</b>	7,106	<b>51,769</b>	f
Chief Customer & Workforce Services Officer	32,650	377	-	<b>33,027</b>	5,256	<b>38,283</b>	f
	<b>681,934</b>	<b>6,487</b>	<b>141,030</b>	<b>829,451</b>	<b>108,551</b>	<b>938,002</b>	

## Notes

(b) As detailed in the 2009/10 Statement of Accounts the corporate restructure undertaken during 2009/10 resulted in the number of Directors reducing from four to two. The posts of Director of Children's Services and Director of Adult & Community Services were replaced by the Director of Child and Adult Services and the Director of Neighbourhood Services and the Director of Regeneration and Planning posts were replaced by the Director of Regeneration and Neighbourhoods.

The salary scale for the Director of Child & Adult Services and the Director of Regeneration & Neighbourhoods for 2010/11 was £120,000 to £130,000 (£120,000 to £130,000 in 2009/2010). Both Directors were appointed on 1st September 2009 therefore they were paid an increment on the anniversary of this appointment. The annualised salary for both posts for 2010/11 was £125,000 (£120,000 in 2009/10).

(c) The Chief Financial Officer post was deleted from 28th March, 2010 and a new post of Chief Finance Officer was created on 29th March 2010. The 2010/2011 Chief Finance Officer's salary includes a payment of £3,432 (£3,404 for 2009/2010) 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 annualised salary for this post, excluding payments paid by the Fire Authority, for 2010/2011 was £67,552 (£64,850 for 2009/2010). The salary scale for this post for 2010/2011 was £64,850 to £75,658 which has remained unchanged since 1st April 2008.

(d) The Chief Solicitor's salary includes a payment of £3,432 (£3,856 for 2009/2010) 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 £7,434 (£7,702 in 2009/2010) 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 2010/2011 was £75,658 (£72,956 for 2009/2010). The salary scale for this post for 2010/2011 was £70,254 to £81,062 which has remained unchanged since 1st April 2008.

(e) The annualised salary for the Assistant Chief Executive post for 2010/2011 was £81,062 (£81,062 for 2009/2010). The salary scale for this post for 2010/2011 was £70,254 to £81,062 which has remained unchanged since 1st April 2008.



**Note 13 - Officer's Remuneration**

(f) 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 post for 2010/2011 was £81,062 (£78,360 for 2009/10). The salary scale was £70,254 to £81,062 which has remained unchanged since 1st April 2008.

(g) 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.

# Note 13 - Officer's Remuneration

## Employees with a salary of £50,000 or more

In accordance with the Accounts and Audit Regulations 2010, 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 guidance.

Table E below shows how the number of employees (excluding schools) earning above £50,000 has reduced by 8 posts since 2009/10. The on-going savings have been built into the 2011/12 budget and have been achieved following the corporate restructure referred to earlier which resulted from 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 existing posts.

**TABLE E - NON-SCHOOLS EMPLOYEES**

2009/10 No. of Non-School Employees			Remuneration Band (£)	2010/11 No. of Non-School Employees		
<i>Non School</i>	<i>Left in Year</i>	<i>Total</i>		<i>Non School</i>	<i>Left in Year</i>	<i>Total</i>
12	6	18	50,000 to 54,999	11	3	14
7	3	10	55,000 to 59,999	5	1	6
2	7	9	60,000 to 64,999	3	1	4
3	4	7	65,000 to 69,999	2	1	3
6	1	7	70,000 to 74,999	3	2	5
5	1	6	75,000 to 79,999	2	3	5
1	-	1	80,000 to 84,999	1	-	1
-	1	1	85,000 to 89,999	1	-	1
-	-	-	90,000 to 94,999	-	-	-
-	2	2	95,000 to 99,999	-	-	-
-	-	-	100,000 to 104,999	-	-	-
-	-	-	105,000 to 109,999	-	2	2
-	1	1	110,000 to 114,999	-	-	-
36	26	62		28	13	41

**TABLE F - SCHOOL EMPLOYEES**

2009/10 No. of School Employees			Remuneration Band (£)	2010/11 No. of School Employees		
<i>School</i>	<i>Left in Year</i>	<i>Total</i>		<i>School</i>	<i>Left in Year</i>	<i>Total</i>
9	3	12	50,000 to 54,999	8	-	8
3	-	3	55,000 to 59,999	8	-	8
5	-	5	60,000 to 64,999	5	-	5
2	-	2	65,000 to 69,999	2	-	2
-	-	-	70,000 to 74,999	-	-	-
-	1	1	75,000 to 79,999	-	-	-
-	-	-	80,000 to 84,999	-	-	-
1	-	1	85,000 to 89,999	-	-	-
1	-	1	90,000 to 94,999	1	-	1
-	-	-	95,000 to 99,999	-	-	-
-	-	-	100,000 to 104,999	-	-	-
-	-	-	105,000 to 109,999	-	-	-
-	-	-	110,000 to 114,999	-	-	-
-	-	-	115,000 to 120,000	-	-	-
-	1	1	120,000 to 124,999	-	-	-
21	5	26		24	-	24

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.

**Note 14: Termination Benefits**

As part of the on-going Business Transformation Programme and in response to cuts in Government grants in 2010/11 and 2011/12 the Council has had to make significant reductions in ongoing expenditure. The Council has mitigated the impact on staff by managing vacancies and redeploying staff where possible. However, as staff costs make up the largest single element of the Council's budget it has not been possible to avoid reductions in staffing levels. Therefore, in 2010/11 a total of 135 employees (68 employees in 2009/10) either took voluntary redundancy or were made compulsorily redundant. The 2010/11 costs of this involved payments of £1.3m (£1.0m in 2009/10) to employees in the form of redundancy payments and £1.2m (£3.3m in 2009/10) to the pension fund in respect of retirement benefits.

The pay-back period (ie. the amount of time it takes for the on-going savings achieved to 'pay-back' the costs of one-off redundancy and payments to the pension fund) for 2010/11 costs was 0.6 years (1.5 years in 2009/10).

The Council calculates redundancy pay based on the actual salary paid to individual employees, with a maximum redundancy payment not exceeding 30 weeks pay with no enhancements. We understand that the Council's redundancy payments are lower than all other North East Councils who either pay more than 30 weeks pay, or make enhanced payments.

The Officers Remuneration Note (Note 13) includes details of 13 employees who received a combined salary and redundancy payment of £50,000 or above.

## Note 15: Non Current Assets - Property, Plant & Equipment

This note shows the movements in the value of non current assets (Property, Plant and Equipment) during 2010/2011 and the 2009/2010 movement restated under IFRS.

### Movements in 2010/11

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost or Valuation</b>								
At 1 April 2010	116	211,807	15,614	90,328	17,317	583	5,358	<b>341,123</b>
Additions	-	1,165	2,602	1,900	-	1,773	19,901	<b>27,341</b>
Donations	-	-	9	-	-	-	-	<b>9</b>
Revaluation Increases/(decreases) recognised in the Revaluation	-	2,544	-	-	-	15	-	<b>2,559</b>
Derecognition-Disposals	-	(24,475)	(515)	-	-	(10)	-	<b>(25,000)</b>
Reclassified to/from Held for Sale	-	(25)	-	-	-	(27)	(308)	<b>(360)</b>
Other Reclassifications	7,981	3,377	800	1,849	-	703	(14,710)	<b>-</b>
<b>At 31 March 2011</b>	<b>8,097</b>	<b>194,393</b>	<b>18,510</b>	<b>94,077</b>	<b>17,317</b>	<b>3,037</b>	<b>10,241</b>	<b>345,672</b>

### Accumulated Depreciation and Impairment

At 1 April 2010	(5)	(27,837)	(7,751)	(28,192)	(117)	(122)	-	<b>(64,024)</b>
Depreciation Charge	(2)	(2,811)	(2,066)	(4,604)	-	-	-	<b>(9,483)</b>
Depreciation written out to the Revaluation Reserve	-	(449)	-	-	-	-	-	<b>(449)</b>
Impairment losses/reversals recognised in the Revaluation Reserve	-	(4,034)	-	-	-	-	-	<b>(4,034)</b>
Impairment losses/reversals recognised in the Surplus/Deficit on provision of services	(3,656)	(8,607)	(11)	-	-	(1,445)	-	<b>(13,719)</b>
<b>At 31 March 2011</b>	<b>(3,663)</b>	<b>(43,738)</b>	<b>(9,828)</b>	<b>(32,796)</b>	<b>(117)</b>	<b>(1,567)</b>	<b>-</b>	<b>(91,709)</b>

### Net Book Value

At 31 March 2011	4,434	150,655	8,682	61,281	17,200	1,470	10,241	<b>253,963</b>
At 31 March 2010	111	183,970	7,863	62,136	17,200	461	5,358	<b>277,099</b>

### Nature of Asset Holding

Owned	4,434	150,655	8,302	61,281	17,200	1,470	10,241	253,583
Finance Lease	-	-	380	-	-	-	-	380
<b>Total</b>	<b>4,434</b>	<b>150,655</b>	<b>8,682</b>	<b>61,281</b>	<b>17,200</b>	<b>1,470</b>	<b>10,241</b>	<b>253,963</b>

## Note 15: Non Current Assets - Property, Plant & Equipment

### Restated Movements in 2009/10

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost or Valuation</b>								
At 1 April 2009	116	191,612	12,660	88,655	17,226	149	6,896	<b>317,314</b>
Additions	-	2,168	2,807	1,670	193	4,454	6,389	<b>17,681</b>
recognised in the Revaluation Reserve	-	11,906	-	-	-	-	-	<b>11,906</b>
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on provision of services	-	-	-	-	-	(4,020)	-	<b>(4,020)</b>
Derecognition-Disposals	-	(430)	-	-	-	-	-	<b>(430)</b>
Other Reclassifications	-	6,551	147	3	(102)	-	(7,927)	<b>(1,328)</b>
<b>At 31 March 2010</b>	<b>116</b>	<b>211,807</b>	<b>15,614</b>	<b>90,328</b>	<b>17,317</b>	<b>583</b>	<b>5,358</b>	<b>341,123</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2009	(3)	(7,651)	(5,692)	(25,645)	-	-	-	<b>(38,991)</b>
Depreciation Charge	(2)	(3,407)	(2,059)	(2,544)	-	(8)	-	<b>(8,020)</b>
Depreciation written out to the Revaluation Reserve	-	(645)	-	-	-	-	-	<b>(645)</b>
recognised in the Revaluation Reserve	-	(13,407)	-	-	-	-	-	<b>(13,407)</b>
Impairment losses/reversals recognised in the Surplus/Deficit on provision of services	-	(2,727)	-	(3)	(117)	(114)	-	<b>(2,961)</b>
<b>At 31 March 2010</b>	<b>(5)</b>	<b>(27,837)</b>	<b>(7,751)</b>	<b>(28,192)</b>	<b>(117)</b>	<b>(122)</b>	<b>-</b>	<b>(64,024)</b>
<b>Net Book Value</b>								
At 31 March 2010	111	183,970	7,863	62,136	17,200	461	5,358	<b>277,099</b>
At 31 March 2009	113	183,961	6,968	63,010	17,226	149	6,896	<b>278,323</b>
<b>Nature of Asset Holding</b>								
Owned	111	183,970	7,409	62,136	17,200	461	5,358	<b>276,645</b>
Finance Lease	-	-	454	-	-	-	-	<b>454</b>
<b>Total</b>	<b>111</b>	<b>183,970</b>	<b>7,863</b>	<b>62,136</b>	<b>17,200</b>	<b>461</b>	<b>5,358</b>	<b>277,099</b>

### Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings - 40 years
- Other Land and Buildings - straight-line allocation over the useful life of the property as estimated by the valuer, between 25 and 40 years
- Vehicles, Plant, Furniture & Equipment - straight-line allocation over the useful life of the asset, up to 15 years.
- Infrastructure - between 15 and 100 years

### Changes in Estimating Techniques & Accounting Estimates

Infrastructure asset useful lives were reassessed during the year which resulted in an additional charge for depreciation relating to 2009/2010 of £1.650m. This has been reflected in the 2010/2011 accounts. Actual depreciation charges relating the 2010/2011 total £2.954m.

## Note 15: Non Current Assets - Property, Plant & Equipment

### Capital Commitments

At 31 March 2011, the Council's total approved Capital Expenditure Commitments amounted to £32.808m, of which £30.340m will be funded from specific resources (grant and specific borrowing allocations) receivable by the Council. The remaining commitments will be funded from the Council's own resources. Comparable commitments at 31 March 2010 were £23.248m.

The major commitments are:

<b>Scheme</b>	<b>Budget £000s</b>	<b>Spend to date £000s</b>	<b>Commitment £000s</b>
Primary Capital Programme - Rossmere School Remodelling	1,393	675	718
Primary Capital Programme - Jesmond School New Build	7,151	4,780	2,371
Building Schools for the Future Dyke House School Remodelling	9,305	3,812	5,493
Building Schools for the Future ICT Programme	2,027	-	2,027
North Central Hartlepool Housing Regeneration	14,837	13,196	1,641

### Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally and valuations are based on certificates issued by the Council's Estates Manager, Mr D Clarke, a member of the Royal Institute of Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historic cost.

The significant assumptions applied in estimating the fair values unless otherwise noted in the valuation reports are:

- . Properties are in good condition and repair.
- . Properties are freehold and with vacant possession.
- . Properties will continue to be used by the Council into the foreseeable future.
- . Properties do not contravene planning and other statutory matters.

The Council owns a 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 value is currently held at £1.010m on the asset register.

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 (£61.281m) and Property, Plant and Equipment under construction (£10.242m). The basis for the valuation is set out in the statement of accounting policies.

**Note 15: Non Current Assets - Property, Plant & Equipment**

	Operational Assets				
	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Surplus Assets	Total
	£000s	£000s	£000s	£000s	£000s
<b>Valued at Historical Cost</b>	-	1,743	8,682	-	10,425
<b>Valued at fair value as at:</b>					
<u>Current Year</u>					
2010/2011	4,325	57,438	-	787	62,550
2009/2010	34	40,407	-	-	40,441
2008/2009	75	48,646	-	683	49,404
2007/2008	-	2,421	-	-	2,421
2006/2007	-	-	-	-	-
<b>Total</b>	<b>4,434</b>	<b>150,655</b>	<b>8,682</b>	<b>1,470</b>	<b>165,241</b>

**Adoption of FRS 30 Heritage Assets for 2011/2012**

As at the 31st March 2011 the Council's heritage assets have a book value of £8.767m, these are recorded under community assets within property, plant and equipment on the balance sheet. This includes items such as Civic Regalia, Library Collections and Museum Exhibits.

As part of the adoption of FRS 30 during 2011/2012 these assets will be recognised as heritage assets and their values assessed using the latest external insurance valuation as a proxy for market value.

**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 31 March 2010. The interest on these assets were passed to the Council following the abolition of Cleveland County Council on 1 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.

## Note 16: Non Current Assets - Investment Property

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2009/10 £000s		2010/11 £000s
(252)	Rental income from investment property	(272)
140	Direct operating expenses arising from investment property	97
(112)	<b>Net gain/(loss)</b>	<b>(175)</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal.

The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

Restated 2009/10 £000s		2010/11 £000s
14,876	Balance at the start of the year	14,976
	<u>Additions:</u>	
-	Subsequent expenditure	27
(17)	Disposals	(4)
(371)	Net gains/(losses) from fair value adjustments	286
	<u>Transfers</u>	
-	To/from inventories	-
488	To/from Property, Plant & Equipment	-
-	Other changes	-
14,976	<b>Balance at the end of the year</b>	<b>15,285</b>



**Note 17: Impairment Losses**

During 2010/2011, the Council has recognised impairment losses totalling £13.848m in the Comprehensive Income and Expenditure Statement (compared to £2.961m in 2009/2010). The significant impairments are detailed below.

A total of £3.656m relates to Council Dwellings at Golden Meadows, Gladsworthy Close and Empire Square. These properties were built for social housing and have been valued at fair use existing value. This is less than the cost to build the properties and an impairment has recognised.

A further £1.444m impairment relates to houses that have been acquired for the purposes of demolition as part of the Council's Housing Market Renewal Programme. As the cost of acquisition and demolition exceeds the value of the land an impairment has been recognised.

Impairments of £8.607m have been made against operational assets. These impairments recognise the consumption of a number of assets to date at a level greater than depreciation. In particular a £4.162m impairment relates to the former Brierton School site resulting from a large economic obsolescence allowance being applied during the valuation owing to the condition of the school buildings.

## Note 18: Long Term Investments

This note details the carrying values of the Council's investments.

2009/10 £000s		2010/11 £000s
407	Durham and Tees Valley Airport Limited	221
197	SITA Tees Valley Limited	197
604		<b>418</b>

Further details of the Council's long term investments are included in Note 31 'Related Party Transactions'.

## Note 19: Long Term Debtors

This note sets out the value of Long Term Debtors held by the Council at the 31st March 2011.

2009/10 £000s		2010/11 £000s
18	Housing Advances	16
77	Trincomalee Loan and Advances	77
149	Car Loans to Employees	166
244		<b>259</b>

## Note 20: Inventories

This note sets out the value of inventories held by the Council at the 31st March 2011.

2009/10 £000s		2010/11 £000s
656	Balance at 1 April	756
2,508	Purchases	2,590
(2,368)	Recognised as an expense in year	(2,528)
(40)	Written off balances	(40)
756	<b>Balance at 31 March</b>	<b>778</b>

## Note 21: Debtors

This note sets out amounts owed to the Council as at the 31st March 2011.

Restated 1 April 2009 £000s	Restated 2009/10 £000s		2010/11		
			Gross Debtor £000s	Impairment of Bad Debts £000s	Net Debtor £000s
1,343	1,559	Council Tax Payers	2,897	2,118	779
2,094	4,365	General and Other Debtors	5,527	1,143	4,384
1,420	1,419	HM Revenue and Customs	1,700	-	1,700
12,655	3,695	Government Departments	5,963	-	5,963
449	660	Other Local Authorities	1,681	-	1,681
925	2,997	Payments in Advance	1,035	-	1,035
2,031	2,533	Trade Debtors	2,786	527	2,259
20,917	17,228		<b>21,589</b>	<b>3,788</b>	<b>17,801</b>

## Note 22: Landfill Allowances Trading Scheme

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 2010/2011 the Council received a LATS allocation of 17,342 units. These were valued at £12.50 as per unit as per the national average value for the year, giving an initial recognition value of £0.217m. The Council has an agreement with Merseyside Waste Authority to sell its surplus LATS and received £0.222m during the year which was transferred to the Strategic Risk Reserve. The cost of the LATS used was £0.068m based on a usage of 5,469 units. These are held on the Balance Sheet until surrender to DEFRA in September, 2011.

## Note 23: Cash and Cash Equivalents

This note sets out details of the Council's cash in hand and instant access investment accounts in addition to the overdraft included in the Liabilities section of the balance sheet. The latter is actually the cashbook balance after allowing for unpresented cheques. The Council's actual bank statement position as at 31st March 2011 was £0.004m

1 April 2009 £000s	2009/10 £000s		2010/11 £000s
		<b>Assets</b>	
112	111	Bank and Imprests	105
56	2,280	Liquidity Investment Accounts	5,803
168	2,391		<b>5,909</b>
		<b>Liabilities</b>	
(2,196)	(6,303)	Bank Overdraft	(4,822)
(2,028)	(3,912)		<b>1,087</b>

## Note 24: Assets Held for Sale (Less than one year)

This note shows the movement of items of property, plant or equipment, or groups of assets and liabilities whose carrying amount is to be recovered principally through a sale rather than its continued use by the Council.

2009/10 £000s		2010/11 £000s
400	Balance outstanding at start of year	250
	Assets newly classified as held for sale:	
839	Property, Plant and Equipment	360
(589)	Revaluation losses	(72)
-	Revaluation gains	182
	Impairment losses	
-	Assets declassified as held for sale	-
(400)	Assets sold	(250)
-	Transfers from non-current to current	-
-	Other movements	-
250	<b>Balance outstanding at year-end</b>	<b>470</b>

## Note 25: Short Term Creditors

This note sets out amounts owed by the Council as at 31st March 2011.

Restated 1 April 2009 £000s	Restated 2009/10 £000s		2010/11 £000s
1,320	2,635	Government Departments	230
87	0	HM Revenue and Customs	2,243
476	508	Other Local Authorities	714
4,810	5,682	Income in Advance	5,805
11,447	14,458	General and Other Creditors	7,263
2,323	2,594	Employee Absences	1,432
3,397	4,017	Trade Creditors	4,987
23,860	29,894		<b>22,674</b>

## Note 26: Provisions - Current Liabilities

Total provisions at 31st March, 2011, were £3.200m (£3.115m in 2009/2010), as detailed below.

	Equal Pay	Litigation	Job Evaluation/S ingle Status	Land Charges	Total
	£000's	£000's	£000's	£000's	£000's
<b>Balance at 31st March 2010</b>	173	728	1,742	-	<b>2,643</b>
Additional provisions made in 2010/11	-	-	744	77	<b>821</b>
Amounts used in 2010/11	(173)	(595)	(241)	-	<b>(1,009)</b>
Unused amounts reversed in 2010/11	-	-	-	-	-
Unwinding of discounting in 2010/11	-	-	-	-	-
<b>Balance at 31st March 2011</b>	-	133	2,245	77	<b>2,455</b>

## Note 26: Provisions - Long term Liabilities

	Custodian Authority Property Charges	Equal Pay Back Pay	Total
	£000's	£000's	£000's
<b>Balance at 31st March 2010</b>	97	375	<b>472</b>
Additional provisions made in 2010/11	-	273	<b>273</b>
Amounts used in 2010/11	-	-	-
Unused amounts reversed in 2010/11	-	-	-
Unwinding of discounting in 2010/11	-	-	-
<b>Balance at 31st March 2011</b>	97	648	<b>745</b>

Equal Pay - this provision is earmarked to meet the Council's liabilities in relation to Equal Pay.

Custodian Authority Property Charges - 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.

Litigation - the litigation provision has been created to cover planning appeals and other potential legal cost liabilities.

Equal Pay Back Pay - 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.

Job Evaluation / Single Status - this provision has been created to fund the potential of backdated successful appeals and protection costs of the implementation of Single Status.

Land Charges - this provision has been create to cover potential refunds of land charges.

## Note 27: Other Long Term Liabilities

The Finance lease liability relates to the outstanding principal on the Council's finance leases. Further details are included in Note 36 - Finance Leases.

1 April 2009 £000s	2009/10 £000s		2010/11 £000s
1,207	929	Finance lease liability	801
20	12	Deferred capital receipt	-
54,703	121,612	Net Pensions liability	51,856
55,930	122,553		<b>52,657</b>

## Note 28: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

2008/09 £000s	2009/10 £000s		2010/11 £000s
<b>Credited to Taxation and Non Specific Grant Income</b>			
10,606	12,296	Area Based Grant	14,497
5,862	9,345	RSG	6,533
36,836	38,766	Council Tax Income	39,488
42,112	40,489	NNDR Pool Contribution	44,989
2,904	42	LABGI	-
613	-	LPSA	-
1,050	1,255	Capital - Devolved Formula Capital Grant	687
-	436	Capital - Primary Capital Programme	4,853
1,232	1,809	Capital - Other DfE Grants	1,066
-	-	Capital - Building Schools for the Future	3,721
3,580	2,915	Capital - Housing Market Renewal	1,853
-	1,325	Capital - Homes & Communities Agency	4,486
1,378	1,997	Other Capital Grants & Contributions	2,927
106,173	110,675	<b>Total</b>	<b>125,100</b>
<b>Credited to Services</b>			
58,525	59,700	Dedicated Schools Grant	61,717
33,401	39,403	Housing Benefit Payments	42,611
11,046	12,111	Council Tax Benefit Subsidy	12,783
11,990	10,959	Schools Standard Fund & Schools Standard Grants	13,045
4,108	4,403	General Sure Start Grant	5,105
4,927	3,985	Supporting People	-
-	1,675	Single Housing Investment Pot	329
3,318	3,684	Learning & Skills Council / Young Peoples Learning Agency	4,762
4,081	2,903	New Deal for Communities	1,809
1,503	2,512	Other Department for Education Grants	2,222
1,180	1,337	Housing Benefit and Council Tax Benefit Administration	1,366
2,046	306	Environment Agency	67
236	1,119	Department for Work & Pensions	3,567
2,586	2,531	Department of Health Grants	797
6,314	6,625	Other Grants	7,412
145,261	153,253	<b>Total</b>	<b>157,592</b>

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end

### Capital Grants Receipts in Advance

2008/09 £000s	2009/10 £000s		2010/11 £000s
1,677	2,358	Homes & Communities Agency	222
2,474	3,353	Other Capital Grants & Contributions	2,236
-	-	Building Schools for the Future	7,622
-	-	Department for Transport	3,326
1,366	1,544	Other Department for Education Grants	1,638
-	4,564	Primary Capital Programme	3,089
5,517	11,819	<b>Total</b>	<b>18,133</b>

**Note 29: Usable Reserves**

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Notes 6 and 7 and are summarised below.

2009/10 £000s		2010/11 £000s	Note
	<b><u>Earmarked Reserves</u></b>		
	<b>Capital Reserves:</b>		
3,033	Capital Funding Reserve	4,569	a
37	Maritime Avenue Remedial Works	38	b
662	Capital Grants Unapplied	2,975	c
891	Capital Receipts Unapplied	0	d
4,623		7,583	
	<b>Specific Revenue Reserves :</b>		
66	School Rates	74	e
99	Other Fund School Balances	155	f
300	Brierton/Dyke House BSF Costs	300	g
761	Building Schools for the Future	396	h
10,829	Strategic Change & Ring Fenced Grants Reserves	11,989	i
2,310	Strategic Risk Reserve	3,252	j
4,033	Insurance Fund	3,181	k
413	Lotteries Reserve	417	l
63	Museums Acquisition	66	m
344	Business Transformation	261	n
655	NDC Fund	45	o
-	Carbon Reduction Commitment	196	p
-	Incinerator Reserve	600	q
19,873		20,932	
24,496	<b><u>Total Earmarked Reserves</u></b>	28,516	
3,462	<b>Unearmarked General Fund Balance</b>	3,856	r
	<b><u>Earmarked General Fund Balances</u></b>		
3,543	Balances held by schools under a scheme of delegation	4,409	s
781	Strategic Change Reserve	732	t
2,086	Budget Support Fund	1,437	u
29	Energy Saving Fund	1	v
50	Strategic Procurement Review	50	w
15	LPSA Reward	18	x
4	Cabinet Projects	4	y
9,970	<b><u>Total General Fund Balances</u></b>	10,507	
34,466	<b><u>Total Reserves</u></b>	39,023	

**Notes**

- a) The Capital Funding Reserve is earmarked to finance specific expenditure rephased to 2011/2012.
- b) From the 1st April, 1998, the Council became responsible for the maintenance of various roads within Hartlepool Marina, which were previously the responsibility of Teesside Development Corporation. These reserves will be used to fund expenditure in future years.
- c) These are capital grants that will be used to finance capital expenditure in future years.
- d) The Useable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years.
- e) The Schools Rates Adjustment arises from reductions in school rates payable following the reassessment of rateable values.
- f) School balances generated from other funding.
- g) 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.
- h) An amount set aside for the implementation of Buildings Schools for the Future.
- i) 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.
- j) 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.
- k) This reserve provides for all payments that fall within policy excesses or relate to self-insured risks, the reserve currently covers the estimated value of unpaid outstanding claims.
- l) The Lotteries Reserve, which consists of the proceeds of the Civic Lottery and donations received, is used for grants and donations to local organisations.
- m) The Museums Acquisition Reserve was set up to put monies aside for the acquisition of items for the Museum.



- n) An amount set aside to fund the Business Transformation Programme.
- o) An amount set aside to fund future expenditure on New Deal for Communities (NDC) projects.
- p) This reserve has been established to meet the 2011/2012 Carbon Reduction Commitment liability.
- q) This reserve has been established to support the additional disposal costs which will be incurred as a result of the Incinerator being closed for 40 weeks in 2011/2012.
- r) This is the General Fund Balance.
- s) Reserves have arisen from the local management of schools. Further details are available from the Child & Adult Services Department. The net balance of £4.410m consists of individual school balances of £4.417m less loans to schools of £0.007m.
- t) 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
- u) This reserve has been established to support future year's budgets and will be fully used by 2012/2013
- v) 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.
- w) 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.
- x) This reserve has been created using monies received from the Government following the Council's successful achievement of LPSA Targets.
- y) This reserve has been created to set aside funding for future projects determined by the Cabinet.

### Note 30: Unusable Reserves

The Unusable Reserves are shown below.

1 April 2009 £000s	2009/10 £000s		2010/11 £000s	Table
20,785	28,778	Revaluation Reserve	22,265	1
696	604	Available for Sale Financial Instruments Reserve	418	2
189,127	176,642	Capital Adjustment Account	155,246	3
-	-	Deferred Capital Receipts Reserve	10	5
(54,703)	(121,612)	Pensions Reserve	(51,856)	4
186	386	Collection Fund Adjustment Account	219	6
(375)	(375)	Unequal Pay Back Pay Account	(648)	
(2,323)	(2,594)	Accumulated Absences Account	(1,432)	7
153,393	81,828		<b>124,222</b>	

#### Table 1 - Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2008/09 £000s	2009/10 £000s		2010/11 £000s
9,441	20,785	<b>Balance at 1 April</b>	28,778
14,272	12,002	Upward revaluation of assets	2,045
(1,831)	(3,297)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(3,519)
12,441	8,705	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(1,474)
(588)	-	Impairment of Fixed Assets	-
(442)	(639)	Difference between fair value depreciation and historical cost depreciation	(449)
(67)	(73)	Accumulated gains on assets sold or scrapped	(4,590)
(1,097)	(712)	Amount written off to the Capital Adjustment Account	(5,039)
20,785	28,778	<b>Balance at 31 March</b>	<b>22,265</b>

## **Table 2 -Available for Sale Financial Instruments Reserve**

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

2008/09 £000s	2009/10 £000s		2010/11 £000s
721	696	<b>Balance at 1 April</b>	604
(25)	(92)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(186)
696	604	<b>Balance at 31 March</b>	418

## **Table 3 -Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 15 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2008/09 £000s	2009/10 £000s		2010/11 £000s
231,240	189,127	<b>Balance at 1 April</b>	176,642
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(45,545)	(27,186)	· Charges for depreciation and impairment of non-current assets	(23,541)
-	-	· Revaluation losses on Property, Plant and Equipment	
-	-	· Amortisation of intangible assets	
(619)	(1,571)	· Revenue expenditure funded from capital under statute	(1,347)
(1,719)	(101)	· Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(25,252)
(47,883)	(28,858)		(50,140)
1,097	712	Adjusting amounts written out of the Revaluation Reserve	5,039
(46,786)	(28,146)	Net written out amount of the cost of non-current assets consumed in the year	(45,101)
		Capital financing applied in the year:	
480	1,800	· Use of the Capital Receipts Reserve to finance new capital expenditure	1,509
-	-	· Use of the Major Repairs Reserve to finance new capital expenditure	-
618	10,006	· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	15,857
-	73	· Application of grants to capital financing from the Capital Grants Unapplied Account	1,403
3,574	4,153	· Statutory provision for the financing of capital investment charged against the General Fund	4,642
-	-	· Capital expenditure charged against the General Fund	
4,672	16,032		23,411
-	(371)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	285
-	-	Movements in Donated Assets credited to the Comprehensive Income and Expenditure Statement	9
-	-	Other Adjustments	-
189,126	176,642	<b>Balance at 31 March</b>	<b>155,246</b>

**Table 4 - Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2008/09 £000s	2009/10 £000s		2010/11 £000s
(55,966)	(54,703)	<b>Balance at 1 April</b>	(121,612)
7,546	(63,138)	Actuarial gains or (losses) on pensions assets and liabilities	41,884
(15,938)	(14,504)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	17,230
9,655	10,733	Employer's pensions contributions and direct payments to pensioners payable in the year	10,642
(54,703)	(121,612)	<b>Balance at 31 March</b>	<b>(51,856)</b>

**Table 5 - Deferred Capital Receipts Reserve**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2009/10 £000s		2010/11 £000s
-	<b>Balance at 1 April</b>	12
-	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	
-	Transfer to the Capital Receipts Reserve upon receipt of cash	(2)
-	<b>Balance at 31 March</b>	<b>10</b>

**Table 6 - Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009/10 £000s		2010/11 £000s
185	<b>Balance at 1 April</b>	<b>386</b>
201	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(167)
386	<b>Balance at 31 March</b>	<b>219</b>

**Table 7 - Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

There has been a significant change in the accrual made for accumulated absences between 31st March 2010 and 31st March 2011. This has arisen owing to employees not carrying forward annual leave to the same level as the previous year.

2008/09 £000s	2009/10 £000s		2010/11 £000s
-	(2,323)	<b>Balance at 1 April</b>	(2,594)
-	2,323	Settlement or cancellation of accrual made at the end of the preceding year	2,594
(2,323)	(2,594)	Amounts accrued at the end of the current year	(1,432)
(2,323)	(271)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	<b>1,162</b>
(2,323)	(2,594)	<b>Balance at 31 March</b>	<b>(1,432)</b>

## **Note 31: 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. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### **Central Government**

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 (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions.

### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2010/11 is shown in Note 12. The Grants Committee paid grants totalling £29,693 to voluntary organisations in which two members had declared prejudicial interests. In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the Register of Members' Interest, open to public inspection at the Civic Centre during office hours.

### **Officers**

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 disclosure.

### **Other Public Bodies [subject to common control by central government]**

The Council provides various support services, predominantly in relation to financial and legal services, to Cleveland Fire Authority for which it received income of £0.178m (£0.166m in 2009/10). In particular, the Council's Chief Solicitor held the position of Legal Advisor and the Chief Financial Officer held the position of Deputy Treasurer (see Note 13 for further details).

The Council continues to provide a range of support services to Housing Hartlepool including Fleet Maintenance and Building Cleaning. The income from these services amounted to £0.879m (£0.609m in 2009/10) which represented the cost of the service provided. In addition, Housing Hartlepool manage a number of recently built domestic properties on the Council's behalf for which the Council paid Housing Hartlepool a management fee of £15,000 per property (nil in 2009/10 as the properties were not built).

### **Entities Controlled or Significantly Influenced by the Authority**

The Council holds minority shares in Durham Tees Valley Airport Ltd and SITA Tees Valley Ltd. The value of shares held by the Council in Durham Tees Valley Airport Limited (formerly Teesside International Airport) is £0.221m based on a shareholding of 2.47%. The value has been determined with reference to the net worth of the company as per their latest accounts for the financial year ending 31st March, 2010.

Issues of note include a loss on the Profit and Loss Account of £6.466m (previous year loss of £2.653m) and a net asset position of £8.941m (previous year £16.476m). Further information and copies of their accounts are available from the Registered Office – Liverpool John Lennon Airport, Liverpool, L24 1YD.

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, 2009, that includes a loss on the Profit and Loss Account of £2.353m (previous year profit of £3.696m) and a net asset position of £34.372m (previous year £36.725m). Further information on their accounts is available from the Registered Office, SITA House, Grenfell Road, Maidenhead, Berkshire, SL6 1ES.

The Council previously produced Group Accounts, which included the accounts of CADCAM Applications Training and Support Company Ltd., as a joint venture company. CADCAM was a company which inherited from the former Cleveland County Council by the Council and three other Tees Valley local authorities. The Council had a 25% share in the company. The company ceased training on 1st April 2004 and was officially wound up on 17th August 2010. Companies House advised that no final accounts were required and the winding up resulted in the redistribution of £1,481 to the Council in respect of its share of CADCAM.

### Note 32: Trading Operations

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

Catering and Leisure Management operations are included within Cultural, Environmental and Planning Services. The (surplus)/deficit of each trading account is included within the relevant service expenditure lines of the Income and Expenditure Account

2009/10 (Surplus) / Deficit £000s	Internal Trading Operations	2010/11		
		Costs	Sales	(Surplus) / Deficit
		£000s	£000s	£000s
(7)	Catering	198	(191)	7
996	Leisure Management	1,468	(492)	976
(111)	Building Maintenance	4,251	(4,611)	(360)
(241)	Highways Works	3,361	(3,634)	(273)
(259)	Grounds Maintenance	2,646	(2,904)	(258)
(157)	Vehicle Maintenance	5,162	(5,188)	(26)
103	Building Cleaning	2,446	(2,375)	71
243	School Catering	4,082	(3,768)	314
-	Housing Revenue Account	15	(50)	(35)
567		<b>23,628</b>	<b>(23,213)</b>	<b>415</b>

### Note 33: External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

2009/10 £000s		2010/11 £000s
262	Fees payable to Audit Commission with regard to external audit services carried out by the appointed auditor for the year	267
-	Rebate for Audit Fees relating to International Financial Reporting Standards (IFRS)	(14)
-	Rebate for Audit Fees relating to Use of Resources	(8)
17	Fees payable to the Audit Commission with regard to statutory inspections	14
30	Fees payable to Audit Commission for the certification of grant claims and returns for the year	42
-	Fees payable in respect of other services provided by Audit Commission during the year	-
309		301

**Note 34: Dedicated Schools Grant**

The Council's expenditure on schools is primarily funded by grant monies provided by the Department for Education, 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 2010/2011 are as follows: -

	<b>Central Expenditure £000s</b>	<b>Individual Schools Budget £000s</b>	<b>Total £000s</b>
Final Dedicated Schools Grant for 2010/11	5,986	55,731	61,717
Brought Forward from 2009/10	190	(49)	141
Carry Forward to 2011/12 agreed in advance	-	-	-
Agreed Budget Distribution in 2010/11	6,176	55,682	61,858
Actual Central Expenditure	5,962	-	5,962
Actual Individual Schools Budget Deployed to Schools	-	55,725	55,725
Local authority contribution for 2010/11	629	-	629
Surplus Carried forward to 2010/11	<b>843</b>	<b>(43)</b>	<b>800</b>

The Local Authority contribution consists of funding from Area Based Grants which have ceased in 2011/12.



## Note 35: Operating Leases

The Council has acquired a number of administrative buildings and its fleet of vehicles by entering into operating leases, with typical lives of five years for vehicles and eight years for property. The future minimum lease payments due under non-cancellable leases in future years are:

### Council as lessee

2009/10 £000s	Future minimum lease payments due	2010/11 £000s
421	Not later than one year	368
780	Later than one year & not later than five years	666
1,255	Later than five years	1,227
2,456		2,261

### Council as lessor

2009/10 £000s	Future minimum lease payments receivable	2010/11 £000s
381	Not later than one year	382
582	Later than one year & not later than five years	409
46	Later than five years	18
1,009		427

The Authority leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres.
- for economic development purposes to provide suitable affordable accommodation for local businesses

The Authority has sub-let some of the office accommodation held under these operating leases. At 31 March 2011 the minimum payments expected to be received under non-cancellable sub-leases was £0.164m (£0.211m as at 31 March 2010).

The expenditure charged to the Comprehensive Expenditure Statement during the years in relation to these leases was:

2009/10 £000s		2010/11 £000s
	<b>Payments recognised as an expense</b>	
517	Minimum lease payments	370
-	Contingent rents	-
(64)	Sub-lease payments	(64)
453	<b>Total</b>	<b>306</b>

## Note 36: Finance Leases

The Council has acquired a number of vehicles and its IT and telecommunications equipment under finance lease.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

### Council as lessee

2009/10 £000s		2010/11 £000s
	<b>Value of Assets held under Finance Leases</b>	
454	Vehicles, plant & equipment	380
454	<b>Total</b>	<b>380</b>

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property and finance costs that will be payable in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

2009/10 £000s		2010/11 £000s
	<b>Future minimum lease payments due</b>	
328	Current	362
601	Non-current	438
410	Finance costs payable in the future	247
1,339	<b>Total minimum lease payments</b>	<b>1,047</b>

**Note 36: Finance Leases**

The minimum lease payments and finance lease liabilities will be payable over the following periods:

	<b>Minimum Lease Payments</b>		<b>Finance Lease liabilities</b>	
	2009/10 £000s	2010/11 £000s	2009/10 £000s	2010/11 £000s
<b>Payable:</b>				
No later than one year	514	497	328	362
Later than one year & not later than five years	825	550	601	439
Later than five years	-	-	-	-
<b>Total</b>	<b>1,339</b>	<b>1,047</b>	<b>929</b>	801

### Note 37: Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

2009/10 £000s		2010/11 £000s
83,683	<b>Opening Capital Financing Requirement</b>	86,903
	<b>Capital investment</b>	
17,681	Property, Plant and Equipment	27,350
-	Investment Properties	27
8,067	Revenue Expenditure Funded from Capital under Statute	6,353
	<b>Sources of Finance</b>	
(1,800)	Capital receipts	(1,509)
(16,575)	Government grants and other contributions	(22,275)
	<i>Sums set aside from revenue:</i>	
(4,153)	Minimum Revenue Position (MRP)	(4,642)
86,903	<b>Closing Capital Financing Requirement</b>	<b>92,207</b>
	<b>Explanation of movements in year</b>	
2,456	Increase in borrowing supported by government financial assistance	2,785
4,917	Increase in borrowing unsupported by government financial assistance	6,923
-	Assets acquired under finance leases	238
(4,153)	Minimum Revenue Provision (MRP)	(4,642)
3,220	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>5,304</b>

## Note 38: Financial Instruments

### Categories of Financial Instruments

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

	Long Term		Current	
	2009/10 £000s	2010/11 £000s	2009/10 £000s	2010/11 £000s
<b>Investments</b>				
Loans and receivables - principal Amount*	-	-	35,300	18,500
Liquidity Accounts included in Cash Equivalents			2,280	5,803
Accrued Interest	-	-	513	104
Loans and receivables at Amortised Cost	-	-	38,093	24,407
Available-for-sale financial assets	604	418	-	-
<b>Total Investments</b>	604	418	38,093	24,407

\* Includes liquid accounts which were previously included within short term investments and have now been reclassified as cash and cash equivalents.

### Debtors

Loans and receivables (Trade Debtors)			3,136	2,786
<b>Total debtors</b>	-	-	3,136	2,786

### Borrowings

Financial liabilities Principal Amount	46,821	46,821	12,161	1,500
Accrued Interest	392	386	86	198
Financial liabilities at amortised cost	47,213		12,247	1,698
<b>Total Borrowings</b>	47,213	47,207	12,247	1,698

### Other Long Term Liabilities

Finance lease liabilities	929	801		
<b>Total other long term liabilities</b>	929	801		

### Creditors

Financial liabilities carried at contract amount (Trade Creditors)	-		4,017	4,987
<b>Total creditors</b>	-	-	4,017	4,987

There have been no reclassifications of financial instruments or gains and losses arising for recognition or derecognition.

# Note 38: Financial Instruments

## Income, Expense, Gains and Losses

This note comprises details of income, expenses and revaluation losses that relate specifically to financial instruments. Interest expense and interest income and are included along with other non financial instrument related income and expenditure within the Financing and Investment Income and Expense line of the Comprehensive Income and Expenditure Statement.

The losses on revaluation relate to the reduction in net worth of the Durham Tees Valley Airport (See Note 31 Related Party Transactions). This type of loss is not recognised in the Comprehensive Income and Expenditure Account but rather the Available for Sale Unusable Reserve as detailed in Note 30.

	2009/10				2010/11			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Interest expense	2,116	-	-	2,116	2,046	-	-	2,046
Interest income	-	(1,185)		(1,185)	-	(503)	-	(503)
Losses on revaluation	-	-	92	92	-	-	186	186
<b>Net gain/(loss) for the year</b>	<b>2,116</b>	<b>(1,185)</b>	<b>92</b>	<b>1,023</b>	<b>2,046</b>	<b>(503)</b>	<b>186</b>	<b>1,729</b>

**Note 38: Financial Instruments****Fair Values of Assets and Liabilities**

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in 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:

- estimated ranges of interest rates at 31 March 2011 of 1.24% to 4.09% for loans from the PWLB and 4.06 % for other loans receivable and payable, based on the PWLB premature repayment rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2010		31 March 2011	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
<b>Financial Liabilities</b>				
Market Loans	45,428	43,183	45,422	44,749
PWLB	1,785	2,605	1,785	2,671
Short Term Borrowing	12,310	12,310	1,698	1,698
Trade Creditors	4,017	4,017	4,987	4,987

The fair value of the liabilities is lower than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate market loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date.

	31 March 2010		31 March 2011	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
<b>Loans and receivables</b>				
Money market loans maturing within 1 year	37,580	37,580	24,408	24,408
Trade Debtors	3,136	3,136	2,786	2,786

The fair value of the assets is equal to the carrying amount because the Council's portfolio of investments only includes short term fixed deposits and instant access liquidity accounts where the current value is considered to be representative of there fair value at the balance sheet date.

The carrying value of the Councils investment with Durham Tees Valley Airport (Note 18) has been determined from the Councils 2.47% shareholding and the net worth of the company as per the latest audited accounts.

## **Note 39: Nature and Extent of Risks Arising from Financial Instruments**

The Authority's activities expose it to a variety of financial risks:

- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.
- credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services 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 CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum and minimum exposures to fixed and variable rates;
  - 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 29th January 2010 and is available on the Council website. The key issues within the strategy were:

- the Authorised Limit for the 2010/2011 was set at £115m. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £102m. This is the expected level of debt and other long term liabilities during the year
- the maximum amounts of fixed and variable interest rate exposure were set at £72m and £42m respectively, based on net debt

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.

### **Price Risk**

The Authority does not invest in equity shares and is consequently not exposed to losses arising from movements in the prices of the shares.

### **Foreign Exchange Risk**

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

### **Collateral Risk**

During the reporting period the Council held no collateral as security and is therefore not exposed to losses arising from this risk.



## Note 39: Nature and Extent of Risks Arising from Financial Instruments

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority'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 full Investment Strategy for 2010/11 was approved by Full Council on the 29th January 2010/11 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £21.203m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2011 that this was likely to crystallise.

No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last three financial years, adjusted to reflect current market conditions.

	Estimated maximum exposure at 31 March 2010 £000s	Amount at 31 March 2011 £000s	Historical experience of default %	Adjustment for market conditions at 31 March 2011 %	Estimated maximum exposure to default at 31 March 2011 £000s
Trade Debtors	560	2,786	20.18%	20.18%	562
	<u>560</u>				<u>562</u>

The historical experience of default is calculated with reference to the outstanding debt balance, rather than as a percentage of income generated in the year.

The Authority does not generally allow credit for customers, such that £1.975m of the £2.786m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2010 £000s	31 March 2011 £000s
Less than three months	1,332	1,262
Three to six months	190	137
Six months to one year	48	172
More than one year	533	404
	<u>2,103</u>	<u>1,975</u>

## Note 39: Nature and Extent of Risks Arising from Financial Instruments

### Liquidity Risk

The authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The authority sets limits on the maturity structure of its fixed rate borrowing during specified periods. The limits have been set to enable maximum flexibility as experience has shown it is possible to move from 100% long term borrowing to 100% short term borrowing and then back to 100% long term borrowing over a period of two years. Therefore the lower limit was set to nil and the upper limit to £102m, equal to the operational boundary.

The maturity structure of borrowing at the year end was as follows:

	31 March 2010 £000s	31 March 2011 £000s
Less than one year	12,704	2,087
Between one and two years	3	3
Between two and five years	73	73
Between five and ten years	146	146
More than ten years	46,597	46,593
	59,523	48,902

All trade and other payables are due to be paid in less than one year.

### Market Risk

#### Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The view of the Chief Financial Officer is that limits on fixed and variable rates of borrowings are unhelpful and should lead to unnecessary higher cost of borrowing. Previous experience has shown that it is possible to move from a position of predominantly fixed rate borrowing to variable rate borrowing and then back to fixed rate borrowing over a period of two years. The intention is to move to fixed rate borrowing when rates are at an appropriate level and may require the use of variable rate borrowing in the interim. The Council has maximised the use of its balances to defer borrowing and avoid the risk of default on investments.

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000s
Increase in interest payable on borrowings	468
Increase in interest receivable on variable rate investments	(353)
Impact on Surplus or Deficit on the Provision of Services	115
Impact on Other Comprehensive Income and Expenditure	115
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(8,011)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

**Note 40: Cash Flow Statement - Adjustments for non-cash movements**

	2009/10 £000s	2010/11 £000s
Depreciation	(23,061)	<b>(27,055)</b>
Impairment and downward valuations	(3,169)	-
Amortisation	2,744	-
Increase in impairment provision for bad debts	-	-
Increase in creditors	(4,118)	<b>6,683</b>
Increase in debtors	5,061	<b>(3,663)</b>
Decrease in stock	100	<b>22</b>
Pension liability	(3,771)	<b>27,871</b>
Carrying amount of non-current assets sold	(841)	<b>(25,252)</b>
Other non-cash items charged to the net surplus or deficit on the provision of services	13,298	<b>(16,786)</b>
	<b>(13,757)</b>	<b>(38,180)</b>

**Note 41: Cash Flow Statement - Adjustment for investing and financing activities**

	2009/10 £000s	2010/11 £000s
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	-	-
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	-	-
Proceeds from the sale of property plant and equipment, investment property and intangible assets	1,164	<b>42,016</b>
	<b>1,164</b>	<b>42,016</b>

**Note 42: Cash Flow Statement - Operating Activities**

The cash flows for operating activities include the following items:

	2009/10 £000s	2010/11 £000s
Interest received	(2,662)	<b>(1,529)</b>
Interest paid	2,592	<b>(1,172)</b>
Dividends received	-	-

### Note 43: Cash Flow Statement - Investing Activities

	2009/10 £000s	2010/11 £000s
Purchase of property, plant and equipment, investment property and intangible assets	17,091	<b>28,549</b>
Purchase of short-term and long-term investments	-	-
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,164)	<b>(620)</b>
Proceeds from short-term and long-term investments	(4,200)	<b>(16,800)</b>
Other receipts from investing activities	(23,575)	<b>(31,235)</b>
<b>Net cash flows from investing activities</b>	<b>(11,848)</b>	<b>(20,106)</b>

### Note 44: Cash Flow Statement - Financing Activities

	2009/10 £000s	2010/11 £000s
Cash receipts of short-term and long-term borrowing	(66,041)	<b>5,406</b>
Other receipts from financing activities	(9,989)	<b>1,552</b>
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	278	<b>366</b>
Repayments of short- and long-term borrowing	82,205	<b>10,660</b>
Other payments for financing activities	-	-
<b>Net cash flows from financing activities</b>	<b>6,453</b>	<b>17,984</b>

### Note 45: Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

This is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of 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 Council's contribution to the Teacher's Pension Scheme in 2010/2011 amounted to £4.530m (£4.415m in 2009/2010) which represented 14.1% of pensionable pay (14.1% in 2009/2010). £0.019m was paid as added years contributions (£0.020m in 2009/2010).

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the Pensions Liability relating to the Local Government Pension Scheme.

## Note 46: Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

The Council participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

### Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2009/10 £000s	2010/11 £000s
<b>Comprehensive Income and Expenditure Statement</b>		
Cost of Services:		
Current Service cost	(7,435)	(13,309)
Past Service cost	-	(34,008)
Curtailment and Settlements	(2,656)	(951)
Financing and Investment Income and Expenditure		
Interest cost	(17,032)	(21,502)
Expected return on scheme assets	12,619	18,983
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>(14,504)</b>	<b>(50,787)</b>
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(63,138)	41,884
Actuarial gains and (losses)	-	-
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(77,642)</b>	<b>(8,903)</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	77,642	8,903
Actual amount charged against the General Fund Balance for pensions in the year:	(10,733)	(10,642)
<b>Employers' contributions payable to scheme</b>	<b>(10,733)</b>	<b>(10,642)</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31st March 2011 is a gain of £41.884m (£63.144m actuarial loss in 2009/2010).

## Note 46: Defined Benefit Pension Schemes

The Government announced plans to increase future Local Government pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The actuarial assumption is that the CPI will increase at a slower rate than the RPI resulting in pension increases and therefore the IAS19 liabilities being lower. This 'past service gain' of £34.008m is disclosed separately in the Comprehensive Income and Expenditure Statement owing to the exceptional nature of the item.

### Assets and Liabilities in Relation to Post-employment Benefits

#### Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2009/10 £000s	2010/11 £000s
Opening balance at 1 April	(254,994)	(400,384)
Current Service Cost	(7,435)	(13,309)
Interest Cost	(17,032)	(21,502)
Contributions by scheme participants	(3,520)	(3,391)
Actuarial gains and (losses)	(127,290)	36,412
Benefits paid	11,634	13,750
Past service costs	-	34,008
Entity combinations	-	-
Curtailments	(2,656)	(951)
Settlements	-	-
Unfunded Pension Payments	909	964
<b>Closing balance at 31 March</b>	<b>(400,384)</b>	<b>(355,367)</b>

#### Reconciliation of fair value of the scheme (plan) assets:

	2009/10 £000s	2010/11 £000s
Opening balance at 1 April	200,291	278,772
Expected rate of return	12,619	18,983
Actuarial gains and (losses)	64,152	5,472
Employer contributions	10,733	10,642
Contributions by scheme participants	3,520	3,391
Benefits paid	(12,543)	(14,714)
Entity combinations	-	-
Settlements	-	-
<b>Closing balance at 31 March</b>	<b>278,772</b>	<b>302,546</b>

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 £23.7m (2009/10: £76.8m).

**Note 46: Defined Benefit Pension Schemes****Scheme history**

	2006/07 £000s	2007/08 £000s	2008/09 £000s	2009/10 £000s	<b>2010/11 £000s</b>
Present value of liabilities (A)	290,935	287,471	254,994	400,384	<b>354,402</b>
Fair value of scheme assets (B)	223,288	231,505	200,291	278,772	<b>302,546</b>
Surplus/(deficit) in Scheme (B)-(A)	(67,647)	(55,966)	(54,703)	(121,612)	<b>(51,856)</b>
Experience Adjustments on Scheme Assets	860	12,144	53,067	(64,152)	<b>(5,472)</b>
Experience Adjustments on Scheme Liabilities	0	11,539	0	(3,983)	<b>7,402</b>

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £51.856m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £163.3. 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 (ie before payments fall due), 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 31 March 2012 is £8.328m.

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddington, an independent firm of actuaries, estimates for the Council based on the latest full valuation of the scheme as at 31st March 2010.

The principal assumptions used by the actuary have been:

	2009/10	<b>2010/11</b>
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.3%	7.2%
Gilts	4.5%	4.4%
Bonds	5.5%	5.5%
Property	5.5%	5.4%
Cash	3.0%	3.0%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	19.51	18.9
Women	22.55	23
Longevity at 65 for future pensioners:		
Men	20.41	20.9
Women	23.43	24.9
Other assumptions:		
Rate of inflation	3.9%	3.5%
Rate of increase in salaries	5.4%	5.0%
Rate of increase in pensions	3.9%	2.7%
Rate for discounting scheme liabilities	5.5%	5.5%
Members will exchange half of their commutable pension for cash at retirement		
Active members will retire one year later than they are first able to do so without reduction		

## Note 46: Defined Benefit Pension Schemes

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

	2009/10 £000s	<b>2010/11</b> <b>%</b>
Equity investments	83.0	84.0
Gilts	7.0	6.0
Other Bonds	1.0	2.0
Property	4.0	4.0
Cash	5.0	4.0
	<b>100.0</b>	<b>100.0</b>

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2006/07 %	2007/08 %	2008/09 %	2009/10 %	<b>2010/11</b> <b>%</b>
Differences between the expected and actual return on assets	0.39	(5.25)	(26.49)	23.01	<b>1.81</b>
Experience gains and (losses) on liabilities	-	4.01	-	(0.99)	<b>2.09</b>



**Note 47: 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 2010/2011 the contingent liabilities are as follows:

- 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.
- A guarantee given to South Tyneside Borough Council, as administrators of the Tyne and Wear Pension Fund, against this authorities share of potential liabilities of £0.056m under the admission agreement for employees of the North East Assembly.
- A guarantee given to the Middlesbrough Pension Scheme for the staff transferred to Hartlepool Housing in 2004.
- The cost of a number of Equal Pay Tribunals that may potentially arise following the settlement of Equal Pay claims.

**Note 48: Agency Services**

For the period 1st April 2010 to 31st July 2010 the Council received 16 -18 year old funding from the Young People's Learning Agency (YPLA) and were required to pass this funding to the Sixth Form College, the College of Further Education and NACRO in accordance with the payment schedules included in the funding arrangements transferred to local authorities from the former Learning and Skills Council (LSC). Prior to 1st April 2010 this funding was the responsibility of the LSC and from 1st August 2010 it reverted to being the responsibility of the YPLA.

As the Council was acting as an agent of the YPLA the entries have been excluded from the Council's financial statements. This equated to £5.0m of grant income and £5.0m of payments to the above providers.

The Council has no other significant agency income and expenditure.

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## THE 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. The Fund is operated and reported on under the same accounting policies as Hartlepool Borough Council.

2009/2010 £000		2010/2011 £000	Notes
<b><u>INCOME</u></b>			
<b>Council Tax :</b>			
33,266	Billed to tax payers	33,873	
12,190	Council Tax Benefits transferred from General Fund	12,925	
<u>45,456</u>		<u>46,798</u>	1
141	Reduced Provision for Non-Payment of Council Tax	-	
24,898	Income Collectable from Business Ratepayers	22,810	2
178	Reduced Provision for Non-Payment of NNDR	-	
<u>25,217</u>		<u>22,810</u>	
<b><u>70,673</u></b>	<b>TOTAL INCOME</b>	<b><u>69,607</u></b>	
<b><u>EXPENDITURE</u></b>			
44,996	<b>Precepts</b>	46,435	3
-	Increased Provision for Non-Payment of Council Tax	306	
-	Increased Provision for Non-Payment of NNDR	8	
<u>-</u>		<u>314</u>	
<b>Non Domestic Rates :</b>			
24,962	Payment to National Pool	22,676	2
115	Cost of Collection Allowance	126	
<b>Contributions for previous years estimated</b>			
<b>Collection Fund Surplus/(Deficit) :</b>			
310	Hartlepool Borough Council	215	
40	Cleveland Police Authority	28	
14	Cleveland Fire Authority	10	
<u>364</u>		<u>253</u>	
<b><u>70,437</u></b>	<b>TOTAL EXPENDITURE</b>	<b><u>69,803</u></b>	
(236)	(Surplus)/Deficit for the year	196	
<u>(218)</u>	(Surplus)/Deficit brought forward	<u>(454)</u>	
<b><u>(454)</u></b>	<b>(Surplus)/Carried forward</b>	<b><u>(258)</u></b>	

# THE COLLECTION FUND

## Note 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. 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 32,458 Band D equivalents in 2010/11 (32,244 for 2009/10) and the basic amount of council tax for a Band D property was £1,670.51 (£1,628.14 in 2009/10).

Set out in the table below are the Band D weightings, 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	24,320	16,213	945.80	125.23	42.65	1,113.68	27,085
B	7/9	6,303	4,916	1,103.43	146.10	49.75	1,299.28	8,189
C	8/9	5,718	5,089	1,261.07	166.97	56.86	1,484.90	8,491
D	9/9	2,916	2,916	1,418.70	187.84	63.97	1,670.51	4,871
E	11/9	1,411	1,725	1,733.97	229.58	78.19	2,041.74	2,881
F	13/9	564	812	2,049.23	271.32	92.40	2,412.95	1,361
G	15/9	410	685	2,364.50	313.07	106.62	2,784.19	1,142
H	18/9	51	102	2,837.40	375.68	127.94	3,341.02	170
<b>TOTALS</b>		<b>41,693</b>	<b>32,458</b>					<b>54,190</b>

The income of £46,798,000 for 2010/11 (£45,456,000 for 2009/10) is receivable from the following sources :

2009/2010 £000		2010/2011 £000
52,467	Opening Liability	54,189
364	Net increase/(decrease) in liability	221
(86)	Disabled Relief	(93)
(5,444)	Discounts	(5,718)
(1,726)	Exemptions	(1,723)
(119)	Write Offs	(78)
<b>45,456</b>		<b>46,798</b>

## Note 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 41.4p in 2010/11 (48.5p in 2009/10) 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 £22.676m (£24.962m in 2009/10).

The total non-domestic rateable value at the year-end was £96,331,133.

The NNDR income collectable from Ratepayers and the amount payable to the NNDR Pool being determined as shown below.

<b>2009/2010 £000</b>		<b>2010/2011 £000</b>
28,691	Gross Rates payable	35,519
(3,320)	Mandatory Reliefs	(4,002)
57	Transitional Relief / Surcharge	(8,387)
(70)	Discretionary Reliefs set against NNDR pool	(93)
(432)	Write Offs	(71)
(30)	Interest on Refunds of Overpayments	(30)
24,898	Income Collectable From Ratepayers	22,938
(115)	Cost of Collection	(126)
178	(Increase)/Decrease in Bad Debt Provision	(8)
2	Other	-
<b>24,962</b>	Contribution to NNDR Pool	<b>22,804</b>

### Note 3 - Precepts and Demands on the Collection Fund

<b>2009/2010 £000</b>		<b>2010/2011</b>		
		<b>Precept / Demand £000</b>	<b>Share of Surplus in Year £000</b>	<b>Total £000</b>
38,456	Hartlepool Borough Council	39,440	(166)	39,274
5,066	Cleveland Police Authority	5,218	(22)	5,196
1,710	Cleveland Fire Authority	1,777	(7)	1,770
<b>45,232</b>		<b>46,435</b>	<b>(196)</b>	<b>46,239</b>

**MEMORANDUM NOTES - TRUST FUNDS**

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

- Music awards
- Pursuit of Education awards.

One of these active Trust Funds (the Sterndale Scholarship Fund which provided music awards) merged during 2010/11 with the Preston Simpson Scholarship Fund which also provided music awards to create a new Trust Fund called the 'Preston Simpson and Sterndale Scholarship in Music Trust'. This merger was approved by both the Trustees and the Charity Commission and the accounts for the newly formed Trust are shown in the Table below which also shows the transfer of the existing assets of the two Trusts into the new Fund.

The Preston Simpson & Sterndale Scholarship in Music Fund consisted of a cash investment of £63,374 with Hartlepool Borough Council as at 31st March, 2011. The Trust also held two separate external investments valued respectively at £86,168 as at 5th April 2011 (£80,266 as at 6th April 2010) and £14,886 as at 31st December, 2010 (£13,968 as at 31st December, 2009).

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.

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.

As at 31st March, 2011, the Doughty Fund consisted wholly of a cash balance investment with the Council.

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

	<b>Balance at 1st April 2010 £000</b>	<b>Income £000</b>	<b>Expenditure £000</b>	<b>Transfer £000</b>	<b>Balance at 31st March 2011 £000</b>
Preston Simpson & Sterndale Scholarship in Music	-	6.7	7.6	64.2	<b>63.3</b>
Preston Simpson (see Notes above)	4.1	-	-	(4.1)	-
Education Trust Funds	174.0	4.2	1.2	(60.1)	<b>116.9</b>
Doughty Fund	4.5	-	-	-	<b>4.5</b>
	<b>182.6</b>	<b>10.9</b>	<b>8.8</b>	<b>-</b>	<b>184.7</b>

External investments for the above Trust Funds are not shown in the Council's Accounts.

## **ANNUAL GOVERNANCE STATEMENT**

### **Scope Of Responsibility**

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.

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.

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.

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](http://www.Hartlepool.gov.uk) or can be obtained from the Councils 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.

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

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.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

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 regular updates have been given to Corporate Management Team Support Group (CMTSG), the Performance and Risk Management Group and Corporate Management Team.

## **Significant Governance Issues Update from 2009/10 Statement**

Progress has been made over the course of 2010/11 to address weakness in the system of governance identified as part of the 2009/10 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

<b>Issue Raised</b>	<b>Action Undertaken</b>
Scheme Of Delegation needs to be updated to reflect new structure and working arrangements.	Update in line with new structures and agreed by Council 09.12.10.
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. £2.9m savings achieved against a target of £1.3m.
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. The rescheduled inspection took place week commencing 24 January 2011. This inspection found that there have been improvements in the service during the intervening period between the inspections and the report refers to the findings as 'encouraging'. The judgment scores have improved in each of the performance criteria areas and local performance is now in line with the national average. The report makes 6 recommendations for action and an improvement plan will be submitted to HMIP for approval. Implementation will be monitored by the local Management Board and the Youth Justice Board.

The Council is still awaiting guidance regarding the adoption of an Employees Code of Conduct. This is not now considered to be a significant governance issue however, as the Council agreed as part of its 'Single Status Agreement' in 2008, a Code based upon that which was provided nationally for local government employees and adapted to reflect and clarify those issues considered particularly relevant to Hartlepool Borough Council. The Code was the result of discussions with local Trade Union representatives and Regional Officers and subject to detailed consultations with employees. The code was approved by the Standards Committee at its meeting of 24.08.10. and when guidance is received nationally any necessary action will be taken accordingly to update the agreed code.

## **The Governance Framework**

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.



Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. Customer and Workforce Services (CWS) policies identify suitable recruitment methods and ensure appropriate job descriptions exist for legal staff. Induction training is arranged by CWS 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.

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.

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 Audit Committee on 3<sup>rd</sup> December 2010 and referred to Council for approval on 10<sup>th</sup> February 2011. 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).

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.

CWS 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.

A Health and Safety Policy has been approved and published and a Communication Strategy implemented to ensure general awareness.

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) was the action plan for achieving the Community Strategy aims. The LAA ended in March 2011 and it has been confirmed that there will be no requirement from central government to prepare a new LAA. The removal of this requirement has provided an immediate opportunity to review the outcome framework and develop a more targeted and slimmed down version of what is currently in place.

With this in mind a review of the outcome framework has been undertaken and the proposed new outcome framework, to be implemented from April 2011 has been agreed. The Authority has adopted the revised outcomes as its own corporate objectives. These have been integrated into the council's corporate plan, department plans and performance management arrangements to enhance management and political accountability. Reviews to consider and make recommendations for how the Council and Hartlepool Partnership service planning arrangements will operate after 2011/12 are underway. These will take account of Coalition Government policy and the level of resources available to the Council in future years.

CMT has defined what it considers to be its significant partnerships 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 environment in which the Council operates evolves, Corporate Governance and Partnerships arrangements and internal controls will need to change to meet future requirements. The Localism Bill starts to set out the Coalition Government's view of the future shape and direction for local government. The range of issues addressed is wide and they range from the strategic, for example the "general power of competence" to the very technical, for example changes to local government finance regulations. In parallel to enacting the Localism Bill the Coalition Government is developing its strategy and policies in relation to local government and the public sector generally. The developments include:

- The Big Society approach;  
The White Paper on Public Service Reform expected to be published shortly (the White Paper will draw on the Green Paper Modernising Commissioning: Increasing the role of charities, social enterprises, mutuals and cooperatives in public service delivery published in December 2010);
- The review of local Government finance scheduled for later this year;
- The Health and Social Care Bill, in particular the transfer of public health function to local government and new performance frameworks for adult social care and public health;
- The Academies Bill;
- The Welfare Reform Bill.

The development of controls around corporate governance arrangements is a transitional, ongoing process that will build upon existing procedures.

To ensure that there is ongoing visibility of these changes at a members level a report has been prepared outlining the current scope of the proposed changes and potential implications and has been considered by Cabinet at the meeting on 21<sup>st</sup> March 2011. In addition and to ensure that there is clarity on respect of the potential impact of other coalition changes a report has been prepared for the portfolio holder for performance in respect of the implications of changes to date on the arrangements and requirements in respect of managing performance and the expectations placed on local authorities. This report was considered by the portfolio holder on 23<sup>rd</sup> March 2011.

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.

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.

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.

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.

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.

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 at the time and was implemented as part of the Business Transformation programme and ensures the maintenance of appropriate control arrangements. During 2010/11 the Council has been developing a new Risk Management Framework. The first draft is currently going through the approval process and should be completed by April 2011. A report to the portfolio holder on 23<sup>rd</sup> March 2011 identified a revised approach to risk management that has been considered and agreed by CMT SG and the Performance and Risk Management Group.

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. Training has also been given to senior officers in October 2010 by GBI our insurance company which helped embed risk further and develop the new Risk Management Framework.

The 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 including risk heat maps are included within the quarterly departmental reports to help ensure that risk and performance reporting are linked. Both corporate and departmental plans are considered as part of the preparation of the AGS.

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 Performance and Risk Management Group, 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.

The Council has long-standing, nationally and regionally recognised emergency planning arrangements through the Cleveland Emergency Planning Unit (EPU). The Council's Emergency Management Response Team (EMRT) meets monthly and exercises at least every 6 months.

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.

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.

The Business Continuity Group meets on a quarterly basis. A revised strategy was reported to CMT on the 23<sup>rd</sup> 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.

The Council has undertaken an 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. This expires on 31 December 2011. A decision has been taken, for the time being, not to seek an assessment under new Equality Framework for Local Government developed by I&DeA. All departments complete 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. Steps are being taken to implement the Equality Act 2010.

A number of budget decisions for 2011/12 affected arrangements for managing equality and diversity issues across the authority. New arrangements are being put in place for 2011/12 to take account of the changes. These will seek to maintain appropriate consultation arrangements with communities. The Council's progress on diversity is reported half yearly and annually to the Performance Portfolio Holder. Plans are in place to update and seek Cabinet approval of the Corporate Equality and Diversity Scheme; the present version of which runs from 2008 to 2011.

Internal Audit reports on a regular basis to the Audit Committee on the effectiveness of the organisation's system of internal control. Recommendations for improvement are also made and reported on. Internal Audits performance is measured against standards agreed by management and Members. Internal Audit reporting arrangements have been formalised and strengthened as part of the review of financial procedure rules.

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. The Council achieved full corporate Investors in People status in August 2008 and Hartlepool Connect has achieved the Customer Service Excellence standard.

### **Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance

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 Authorities 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 Organisational Assessment and inspections that have been undertaken.

- Other review and assurance mechanisms: for example, Department of Education, Care Quality Commission, Ofsted, Audit Commission, HMI Probation, Investors in People and Service Excellence.

HBC business continuity group meets quarterly and co-ordinates the Councils business continuity strategy. The group has undertaken testing of the plan within departments and is moving to test the BCP in conjunction with other plans.

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.

### **Significant Governance Issues**

The following significant governance issues have been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Ensuring effective and comprehensive procurement arrangements.	Audit and mapping of current arrangements.  Internal audit review. Identify options for ongoing improvement, communicate and provide training to staff.	2011/2012	CMT SG
2	Risks involved in managing ongoing budget reductions.	Revised Business Transformation Programme encompassing key required programme elements at a corporate and department level. Members seminars and staff communication. Budget monitoring and defunding budgets at decision point. Project planning and management reporting to Cabinet, CMT and CMT SG.	2011/2014	CMT
3	Electoral reform and reduction in the number of councillors.	Review Constitution through Constitution Working Group and Constitution Committee. Renew scheme of allowances through Constitution Working Group and Constitution Committee.	2011/2012	Assistant Chief Executive, Chief Solicitor.

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

### **Signed:**

.....  
Mayor & Chief Executive on behalf of Hartlepool Borough Council.

## **COUNCILLORS' ALLOWANCES & EXPENSES – ADDITIONAL DISCLOSURE**

Note 7 of the Core Financial Statements details the total value of Basic Allowances and Special Responsibility Allowances paid in 2010/2011 and the comparative figure for 2009/2010. 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 2010/2011, 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 2010/2011 or 2009/2010.

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.

## **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.

### **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 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 or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

## **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**

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.

## **PROPERTY, PLANT & EQUIPMENT**

This covers all assets with physical substance (tangible assets) that are for use in the production or supply of goods and services, for rental to others, or for administrative purpose, and expected to be used during more than one period.

## **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 on 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 of 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 consumption 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۔  
 আপনি এই প্রচারপত্র বাংলায় পেতে চাইলে অনুগ্রহ করে নীচের নম্বরে টেলিফোন করবেন।  
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 ਜੇਕਰ ਤੁਸੀਂ ਇਸ ਪੱਤ੍ਰਿਕਾ ਦਾ ਪੰਜਾਬੀ ਵਿਚ ਤਰਜਮਾ ਚਾਹੁੰਦੇ ਹੋ ਤਾਂ ਕ੍ਰਿਪਾ ਕਰਕੇ ਹੇਠਾਂ ਦਿੱਤੇ  
 ਟੈਲੀਫੋਨ ਨੰਬਰ ਤੇ ਫੋਨ ਕਰੋ।

# AUDIT COMMITTEE

26.07.11



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

**Subject:** INTERNAL AUDIT PLAN 2011/12 UPDATE

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## 1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2011/12.

## 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 has now received data matches from the Audit Commission in relation to the National Fraud Initiative (NFI) for 2010/11. The section, along with the Benefit Fraud Team, is currently investigating any anomalies identified.
- 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
Creditors PI FIN SI 10	Provide assurance that calculations are accurate and in accordance with Performance Indicators definitions and relevant guidance; Systems in place to produce the calculation are robust; Supporting documentation is in place to verify the accuracy of calculations; The methods of collecting and calculating the information are economical, efficient and effective.	<ul style="list-style-type: none"> <li>- Formulae should be password protected from amendment, or alternatively the method of calculation could be reviewed</li> <li>- After the closure of accounts and the final Performance Indicator results have been published and reported, benchmarking exercises should be undertaken with similar authorities.</li> <li>- All checks performed are recorded and evidenced that they have been carried out and that the data provided is correct. If evidence is available to send to Internal Audit to demonstrate this checking takes place it must be received by Internal Audit for the follow up.</li> <li>- Clarification made as to which indicator should be completed and the remaining indicator removed from the system. Data for the period April 2009 to March 2010 should be entered to enable comparisons to be drawn where appropriate.</li> <li>- The process of manually inputting information from one report to another spreadsheet is reviewed and streamlined where possible. The extracts produced may be saved in an excel format and could potentially be used as the basis for the calculation spreadsheet.</li> <li>- The exclusion reports should be retained to enable verification of exclusions.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Creditors	Ensure that Supplier accounts are raised promptly, accurately and only when they do not already exist or when the raising of such suppliers would breach corporate contracts in place at the authority. Controls are in place to prevent the amendment of supplier accounts for fraudulent purposes. Official orders are raised to purchase goods and/or services unless in exceptional circumstances. Payment is only made for goods and/or services received with sufficient evidence retained that checks are made to ensure that goods are received in full and of the appropriate quality. Arrangements are in place to ensure that payments are made	<ul style="list-style-type: none"> <li>- Consideration should be given to involving the Integra User Group (or other most appropriate group) to manage the list of Integra users and their access requirements. This will help ensure that only those staff who require access to Integra to perform transactions continue to have access, and those members of staff whose role has changed as a result of the restructures in each department have their access removed where appropriate.</li> <li>- 2009-10 Audit: A review is undertaken of all duplicate accounts and an exercise undertaken to deactivate duplicate supplier accounts.</li> <li>- 2010-11 Audit: It is recommended that a further review of duplicate accounts is undertaken</li> </ul>	<p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
	promptly, and any discrepancies that prevent the prompt payment are resolved in a timely manner. Processing controls are robust and ensure that all payments are fully processed. The payment process is secure. A management trail is in place to enable financial transactions to be vouched from source to payment.	<p>based on the information provided by Internal Audit.</p> <p>- Measures in addition to the training process are put in place to ensure that departments are aware of the processes in place relating to goods receiving procedures and the importance of retaining proof of delivery documentation. This could be 'championed' by the most appropriate group</p> <p>- Outstanding recommendation from 2009-10 report: For administrative purposes, a report should be produced on an interim basis to indicate whether any staff with full system access have been involved in any aspect of the creditor transaction function. This report should be forwarded to the Shared Services Manager to verify that these transactions are valid and correct.</p> <p>2010-11 Audit: As there has been no change in circumstances, the agreed recommendation from 2009-10 should still be implemented.</p> <p>- In the sample of supplier accounts set up in 2010-11 one appears to already have an account set up. One of the accounts is deactivated.</p> <p>- The issues raised by finance/admin staff within the outstanding orders process should be reviewed and solutions found where appropriate.</p> <p>- The issues raised should be investigated and solutions implemented where appropriate and applicable - through the most relevant group available. (In particular the two invoices where HBC appears to be paying an individual for goods/services should be reviewed to ensure that we are not contravening any legislation or regulation regarding tax and/or national insurance.</p> <p>- A formal periodic payments register is set up to monitor regular payments. The payments should be reviewed to ensure that as many payments as possible and applicable have either an order generated, or have a contractual arrangement set up where more appropriate.</p> <p>- Consideration should be given to completing a costing exercise that shows the cost of processing a cheque payment and a BACS payment (from the start of the order to the actual</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		payment being made), as this will enable HBC to compare overall costs of the current payment arrangements with other similar bodies to help demonstrate cost effectiveness or identify areas where improvements could be made.	
West View Primary	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> <li>- The Governing Body should classify its information assets (both electronic and paper based information) and agree a publication scheme (see model publication schemes) and access policy in accordance with the Freedom of Information Act.</li> <li>- A review should be undertaken for the private fund constitution. This should be updated to include what the income should be spent on i.e. educational visits and equipment etc. Also any changes to the signatories.</li> <li>- All current signatories should be reviewed and updated using a bank mandate form.</li> <li>- Appropriate checks should be undertaken on all new Governors. CRB clearances should be reviewed every three years.</li> <li>- The school should consider register its Private Fund with the Charity Commissioner.</li> <li>- School should obtain written confirmation from Northgate that all electronic data will be backed up centrally at the Civic Centre.</li> <li>- The ICT Strategy should be provided to the auditor during the follow up.</li> <li>- Orders should be used on all goods and services with a few limited exceptions. These orders should then be committed onto the schools financial system to prevent overspending.</li> <li>- The School Development Plan should be provided to the auditor during the follow up.</li> <li>- The school should consider filling the vacancies for the Governing Body to ensure all meetings are quorate. This will ensure timely and appropriate decisions can be made.</li> <li>- Mobile phone recharges should be distributed regularly and payment must be paid into the schools bank promptly.</li> <li>- A medium term budget which reflects the School Improvement Plan should be in place. The school may consider using Children's Services HCSS software.</li> <li>- School should allocate the monies</li> </ul>	<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>

Audit	Objectives	Recommendations	Agreed
		<p>that are received via the weekly import for school meal arrears to the actual debt on SIM's.</p> <ul style="list-style-type: none"> <li>- Documentation relating to recruitment exercises should be retained securely for a period of six months as per guidance in the recruitment and retention policy.</li> <li>- Copies of the original SIM's budget monitoring statements should be retained to provide evidence as to the accuracy of such reports.</li> <li>- The Governing Body should formally adopt a scale of charges which should be reviewed on an annual basis.</li> <li>- Testing of the asset and software inventory will be carried out during the follow up.</li> <li>- All staff with access to IT systems and confidential information should complete a data protection form of undertaking.</li> <li>- The school should seek advice from Children's Services Finance on how to administer and account for the Enterprise Fund.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Debtors	<ul style="list-style-type: none"> <li>- Creation of debtor accounts to ensure that debts for one individual are all in the same account and that the accounts contain sufficient detail to enable effective recovery action to be taken.</li> <li>- Raising of both invoices and credit notes to ensure that they are accurate, timely and authorised.</li> <li>- Allocation of payments to the accounts to establish that the processes in place provide assurance that the payment is accurately and timely allocated to the correct invoice.</li> <li>- Recovery of debt outstanding to ensure that all debt due to the authority is effectively followed up to reduce the amount of debt owing and only written off as a bad debt where all recovery avenues have been exhausted.</li> </ul>	<ul style="list-style-type: none"> <li>- The list of potential duplicate accounts obtained by matching name and postcode needs to be reviewed to identify any which are not required. Also consideration should be given to reducing the numbers of debtor accounts for the same person/company by obtaining one contact point for all invoices to go to and placing the contact details on the invoice itself.</li> <li>- A review of the access rights is required to ensure that access is commensurate to the role being undertaken and that a separation of duties is maintained wherever possible.</li> <li>- More detailed procedures are required which detail the full requirements of the sundry debtors system. These should be provided to all users.</li> <li>- The report should be examined to identify any particular issues which indicate that debts are being raised incorrectly or inappropriately.</li> <li>- A report should be generated on a regular basis to monitor the invoices which have been backdated and establish whether there are any training issues or other concerns.</li> <li>- The performance indicators/collection targets require reviewing to ensure that</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>management are provided with appropriate data to assist in providing assurance that the processes are working effectively and efficiently and these should be reported on a regular basis. Also, Covalent should be updated on a regular basis for those indicators that are part of the Departmental Plan and benchmarking should be undertaken where appropriate.</p> <p>- Whilst across the authority there are a number of officers who have access to input both invoices and credit notes and this is highlighted in a previous finding/recommendation, there should be controls in place to ensure that one officer can not input the credit note for an invoice that they have raised. Also specific authority should be given for the raising of credit notes which should be retained to provide a satisfactory audit trail, it may be beneficial to have a standard request form developed to ensure that all appropriate information is provided and a process introduced to ensure that input is correct. It is also recommended that there is an authorisation process in place for credit note requests to ensure that a division of duties is maintained.</p> <p>- The volume of credit notes raised should be examined and monitored to establish whether there are any underlying issues which require addressing by management.</p> <p>- The debts should be examined with a view to arranging for them to be written off and further checks carried out on other debts within the Legal Division to establish whether these are still collectable.</p> <p>- The lists of officers provided with outstanding debt reports should be reviewed to ensure that the reports are being forwarded to the correct individual. Also guidance should be issued to departments regarding the reporting of outstanding debt at departmental meetings on a quarterly basis.</p> <p>- The reconciliation of the debt written off on INTEGRA and that approved for write off needs to be tested by internal audit as part of the follow up review.</p> <p>- That a corporate charging policy is drawn up and made available to all departments as per Financial</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>Procedure Rules. If Financial Procedure Rule are amended to remove the requirement for this Policy general guidance notes should be compiled.</p> <p>- Training provided should be recorded and reviewed regularly to ensure that all individuals receive the training relevant to the tasks they are undertaking.</p> <p>- Procedures should be introduced which establish that all invoices and credit notes raised are promptly issued.</p>	<p>Y</p> <p>Y</p>
Springwell School	Ensure school financial and governance arrangements are in line with best practice.	<p>- Checks should be undertaken to ensure that salary costs recorded on the Contracts Information on SIMS agree with actual salaries.</p> <p>- All mileage claims are submitted to the HBC Payroll team for processing.</p> <p>- Records are maintained of system back up testing that is carried out.</p> <p>- A FM5 form should be in place and retained by the school for all pupils entitled to free school meals.</p> <p>- Where the school employs contractors to carry out construction type work, it should ensure that the contractor has valid £5m Public Liability Insurance.</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>- The school could give consideration to obtaining a purchase card for relevant non-order transactions.</p> <p>- The Governing Body should evaluate tender/quotation documentation work works in excess of those stated in the Contract Procedure rules which should be reflected in the GB meeting minutes.</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.</p> <p>- The school should ensure that all Internet Use Policy documents are returned by parents.</p> <p>- 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</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>

Audit	Objectives	Recommendations	Agreed
		<p>retained agrees to the software loaded onto machines.</p> <p>- Supporting evidence to is provided to show that the completion of the school profile is no longer required.</p>	Y
Wrap Around Care Provision	<p>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.</p>	<p>- Records should be amended to show clearly the amount of income collected and banked. Weekly reconciliation of income should be undertaken by school office staff with explanation sought where there is a difference.</p> <p>- Income should be received in advance. Where debts arise, recovery action should be taken to recover debts that arise, with debts over stated amounts referred to the LEA for recovery action. Individuals that fall into arrears should no longer be permitted to attend out of school activities until debt is recovered. Credit balances should be refunded in the event of pupils no longer attending out of school provision.</p> <p>- Annual reviews of financial performance of out of school provision should be undertaken by schools with results reported to schools. Such reviews should include an allocation of relevant overheads such as salary costs, heating and lighting etc.</p>	<p>Y</p> <p>Y</p> <p>Y</p>
VAT	<p>The aim of the audit was to review the arrangements in place for administering VAT to ensure that that staff involved in the processing of VAT are aware of their responsibilities, VAT categories are correctly identified accounted for, and effective planning ensures efficient, effective and economic operations which maximise benefits to the Council.</p>	<p>- The VAT manual should be updated fully to reflect current circumstances. It should be circulated to all relevant persons include finance staff at schools, Cleveland Fire Authority and RCC.</p> <p>- Evidence of the validity and accuracy of VAT adjustments in respect to Land charges should be provided to Internal Audit in order that assurance on the accuracy of completed returns can be provided.</p>	<p>Y</p> <p>Y</p>
NNDR	<p>Review the following areas of operation in relation to NNDR:</p> <ul style="list-style-type: none"> <li>• Legislation,</li> <li>• valuation,</li> <li>• liability,</li> <li>• billing,</li> <li>• collection and refunds,</li> <li>• Security.</li> </ul>	<p>- Whilst it is accepted that there are arrangements in place to remind owners of the need to inform the authority when the property becomes occupied, there is still a risk that without inspections properties may be awarded the relief when occupied therefore reducing income. Inspections should be undertaken using a risk based approach to ensure that the limited resources are focussed on the areas where problems are most likely to occur and provide assurance that the postal reminder process is working effectively.</p> <p>- A process should be devised and</p>	<p>Y</p> <p>Y</p>



Audit	Objectives	Recommendations	Agreed
		implemented that enables checks to be performed on the input to the IWorld system regarding amendments to rateable values and reliefs. - Credit balances should be reviewed and refunded or transferred to any other accounts which the ratepayer has.	Y
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.	No Recommendations	
Cash/Bank	Review all cash transactions and the reconciliation process within the Cashbook Section of Accountancy in relation to direct debit payments, holding accounts, payroll and creditor payment transactions.	- All daily cashier reconciliation should be signed by the individual cashier. - Emergency packs should be located and if no longer applicable they should be destroyed appropriately as they contain official HBC stationery i.e. receipts.	Y Y
Benefits	Ensure adequate arrangements are in place for the administration of the service, claims processing, Discretionary Housing Payments, Payments, Fraud prevention and detection, subsidy claims and performance monitoring.	- The Benefits Procedure Manual is updated to reflect the procedures and processes that are in place. - As National Indicators have been reduced, this is a good opportunity for a review to be carried out to establish what performance targets need to be in place to provide assurance to management that the process are working as intended. - Training is undertaken as soon as is possible to enable a review of the current processes to be undertaken and changes/adaptions implemented as previously recommended. - Special privilege access rights should be reviewed and such rights given only to those staff that require them on a regular basis to enable them to perform their roles. Where officers require occasional access (i.e. to perform annual changes etc), temporary access rights should be granted. - The re-write programme is implemented to enable the reconciliation of overpayments written off on iWorld to be undertaken with those authorised for write off. - The draft Backdating Policy is finalised and made available to relevant staff. - Payments made on the cancelled and replaced cheques spreadsheet need to be authorised prior to payment or reconciliation carried out after payment has been made, by the authorising officer.	Y Y Y Y Y Y

Audit	Objectives	Recommendations	Agreed
Council Tax	To evaluate the adequacy of systems and procedures in place to ensure that all taxable properties are identified, assessed and recorded and these records are accurately maintained; all persons liable for council tax and all discounts, exemptions, benefits and other allowances have been identified and correctly recorded; amounts due in respect of each taxable property have been correctly calculated and promptly demanded from the person(s) liable; secure and efficient arrangements exist for all collections, which are promptly posted to the correct taxpayers' accounts; all refunds are authorised and valid; the billing authority complies with all statutory requirements for tax setting and the keeping of accounts.	<ul style="list-style-type: none"> <li>- Consideration should be given to access rights granted to staff to ensure that there is adequate segregation of duties. Where staff have dual roles, compensatory control should be established to reduce the potential for inappropriate actions, e.g. random checks on activity.</li> <li>- Staff should be required to complete statements agreeing to declare any interests that they may have when representing the Council.</li> <li>- Housing Hartlepool should be requested to complete nil returns or number termination sheets consecutively.</li> <li>- Checks should be made to ensure the validity / accuracy of amendments to liability. Given that 100% checks can not be undertaken due to the resource implications, consideration should be given to checking random samples.</li> <li>- Reviews of discounts / exemptions applied to accounts should be carried out as per the established timetable.</li> <li>- Regular checks on the validity of suppressed billing / recovery should be undertaken and documented.</li> <li>- Formal reviews of accounts with credit balances should be undertaken and documented. Where balances appear legitimate they should be refunded or used to reduce liabilities elsewhere within the system.</li> <li>- Authorisation should be required to transfer amounts between accounts on the Iworld system.</li> <li>- Authorisation to enter into special arrangements to recover Council Tax arrears should be documented and recorded on Idipse, particularly when such arrangements do not clear the arrears within the current financial year.</li> <li>- Evidence that Council Tax write offs have been appropriately authorised as defined by Financial Procedure Rules should be provided to internal audit in order that the necessary assurance can be given.</li> </ul>	<p>N</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>N</p> <p>N</p> <p>Y</p>
Members Allowances	That allowances are paid in accordance with the appropriate regulations, are only to be paid in respect of approved duties and there is evidence to support any claims. All relevant records are updated to record the claim. All claim forms are completed properly. Any allowances are paid	<ul style="list-style-type: none"> <li>- Claims should be sent to the Payments Unit to be scanned and attached to the FMS.</li> </ul>	Y

Audit	Objectives	Recommendations	Agreed
	<p>in accordance with the rates issued by the Department of Transport, Environment and the regions. All claims are completed and submitted promptly. Allowances which are paid via invoice are checked to ensure that the duties claimed for are on the approved list and that the member attended. Data is held securely and in line with the authority's policies and the Data Protection Act.</p>		
Hartlepool Maritime Experience	Ensure adequate governance arrangements are in place in respect of the operation of the establishment.	<ul style="list-style-type: none"> <li>- Annual inventory checks are performed for all areas and findings recorded along with details of the officer undertaking the check.</li> <li>- The Quay are provided with assurance from the Trincomalee Trust on an annual basis that all staff are CRB cleared.</li> <li>- The recommendations made in the H&amp;S report are actioned.</li> <li>- Annual refresher training is carried out with all staff in relation to emergency procedures.</li> <li>- Current fire arm certificates are provided for all relevant staff.</li> <li>- As the forms completed contain personal information these should be stored in a secure location (i.e. lockable cabinet) to ensure compliance with the Data Protection Act.</li> <li>- Evidence that all staff have all undergone the relevant Health &amp; Safety training is retained in a central location within the Quay.</li> <li>- A list of key holders is put in place which is maintained and regularly updated.</li> <li>- Management/cashier signatures are obtained for all reconciliation sheets and where amendments have been made, these are initialled by the appropriate staff member.</li> <li>- The monthly stock sheets completed (both by staff and electronically) reflects the stocks held by the Wingfield Castle to ensure accuracy of the stock take. Stock sheets should be signed and dated by the officer completing the stock take.</li> <li>Consideration should be given to no longer completing the daily record as it does not appear to serve any purpose to the overall process. Wastage figures which are recorded on the daily records should still be recorded but this could be on a separate form.</li> </ul>	<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>

Audit	Objectives	Recommendations	Agreed
		<ul style="list-style-type: none"> <li>- Staff carrying out stock takes sign and date the relevant form when completed prior to submittal to the Operations Manager. All forms should be countersigned.</li> <li>- Given the current financial circumstances the Council is dealing with, as a matter of urgency annual accounts are made available to enable the recharge to be processed and for the auditor to carry out testing at the time of the follow up audit. The VAT query is resolved.</li> </ul>	<p>Y</p> <p>Y</p>
Art Gallery Tourist/ Information Centre	Ensure adequate governance arrangements are in place in respect of the operation of the establishment.	<ul style="list-style-type: none"> <li>- The monthly stock sheets completed (both by staff and electronically) reflects the stocks held by the Art Gallery Cafe to ensure accuracy of the stock take. Stock sheets should be signed and dated by the officer completing the stock take. Consideration should be given to no longer completing the daily record as it does not appear to serve any purpose to the overall process. Wastage figures which are recorded on the daily records should still be recorded but this could be on a separate form.</li> <li>- Stock take sheets completed by staff should be signed and dated and where discrepancies have been found the outcome should be noted and initialled by the appropriate officer.</li> <li>- CRB clearances should be in place for all staff.</li> <li>- A list of key holders is put in place which is maintained and regularly updated.</li> <li>- Management/cashier signatures are obtained for all reconciliation sheets and where amendments have been made, these are initialled by the appropriate staff member.</li> <li>- The auditor is provided with copies of signed contracts.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Improvement Grants	Ensure adequate arrangements are in place in respect of initial funding allocation and budget setting; Criteria for awarding grant/loan; Legislative requirements/ local policy; Procedures/training; Evidence required to support claims/applications made; Payments; Repayment; Grant/loan terms and conditions; Budget Monitoring.	<ul style="list-style-type: none"> <li>- To ensure an audit trail exists to show that the top 20 applicants who have the most points are chosen each time a waiting list is produced, the original information from FLARE must be held on file.</li> <li>- The 'Outstanding Decent Homes Financial Assistance Record' should be formalised and used to monitor the progress of those applications that have been taken off the waiting list.</li> <li>- HBC website should be updated to show there are no longer any grants available and the assistance is now 100% loan.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		- A reconciliation between FLARE and Integra should be completed regularly.	Y
NI 62	Provide assurance that calculations are accurate and in accordance with Performance Indicators definitions and relevant guidance; Systems in place to produce the calculation are robust; Supporting documentation is in place to verify the accuracy of calculations; The methods of collecting and calculating the information are economical, efficient and effective.	No Recommendations	
NI 157	Provide assurance that calculations are accurate and in accordance with Performance Indicators definitions and relevant guidance; Systems in place to produce the calculation are robust; Supporting documentation is in place to verify the accuracy of calculations; The methods of collecting and calculating the information are economical, efficient and effective.	- National Indicator guidance notes should be in place which set out the following: When the data is to be collected (i.e. specific dates that two independent systems will produce reports to improve data integrity). How the data collected is to be stored (including any security measures to be taken to protect the data e.g. password protection, locked cupboard, access rights to network location/software). Who will check the calculation to ensure no error has been made, including how this will be evidenced.	Y
NI PO11	Provide assurance that calculations are accurate and in accordance with Performance Indicators definitions and relevant guidance; Systems in place to produce the calculation are robust; Supporting documentation is in place to verify the accuracy of calculations; The methods of collecting and calculating the information are economical, efficient and effective.	- The service should investigate the source of the data for identifying the number of households and ensure that the correct denominator is used in future calculations. - All relevant areas of the database should be populated (e.g. permaccom tab). Notes to each case should contain sufficient detail to enable judgement be made that Local Authority actions have prevented homelessness. This should include details of all activities undertaken by the service to prevent homelessness referenced to the 'intervention actions meeting the definition' described in the ODPM guidance. In order to improve data quality, the service should consider undertaking quality reviews of a random sample of cases or requiring all cases to be signed off by a senior officer. - Password management arrangements should be reviewed to ensure that criteria of passwords are in line with best practice i.e. minimum length, alphanumeric / case sensitive etc. The database should enforce password changes periodically.	Y  Y  Y

[illegible]

## Appendix B

<b>Audit</b>	<b>Objectives</b>
Golden Flatts Primary	Ensure school finance and governance arrangements are in line with best practice.
Payroll	<p>The following areas have been reviewed as part of the 2010-11 annual audit;</p> <ul style="list-style-type: none"> <li>- regulation, policy and procedures,</li> <li>- system access and data security,</li> <li>- standing data and changes to it,</li> <li>- starters and leavers processing,</li> <li>- variations to pay (additional and deductions),</li> <li>- timesheet pay,</li> <li>- data input, processing and output controls,</li> <li>- reconciliation to Integra,</li> <li>- Management Information / Budgetary Control –</li> <li>- cost of payroll,</li> <li>- performance management,</li> </ul> <p>Local Authorities are now required to publish the Chief Officers Salaries on their websites for the general public's information. Compliance with this requirement and the associated guidance has also been reviewed.</p>
Lynnfield Primary	Ensure school finance and governance arrangements are in line with best practice.
Data Information Security	Information risk is considered, managed and monitored by appropriate levels of senior management, Information assets are held securely, Customers are aware of the organisation's information handling policies and have access to avenues to address concerns they may have over information handling, The organisation promotes a culture where information is properly used, protected and valued by ensuring that; new starters are made aware of information policy, there is the opportunity for staff to undertake training in information security to keep up to date with requirements for their posts, there is regular testing of policies and procedures to ensure awareness and understanding of policies amongst staff.
HR File Review	Arrangements are in place that ensure all recruitment checks are undertaken and evidence retained on personal files.
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.
BSF/PCP	<p>To provide assurance that arrangements in place will successfully deliver both the BSF and PCP programmes. It was not intended to review individual projects carried out under the schemes. Due to cessation of the BSF programme, the audit focussed on the Primary Capital Programme and involved reviewing the following areas:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Strategy development;</li> <li><input type="checkbox"/> Governance;</li> <li><input type="checkbox"/> Development and delivery of the BSF / PCP programmes;</li> <li><input type="checkbox"/> Budgetary control;</li> <li><input type="checkbox"/> Risk management.</li> </ul>
Stranton Centre	Ensure centre finance and governance arrangements are in line with best practice.
Kingsley Primary	Ensure school finance and governance arrangements are in line with best practice.
Attendance Management	Ensure a consistent approach to the management of flexi-time and annual leave arrangements across the authority.

Emergency Planning	Ensure effective arrangements are in place for keeping up to date with legislation / best practice. A Local Resilience Forum is established and operates according to the requirements of the CCA and associated regulations. An agreed information classification system is in place which provides guidance on the categories of information that can and cannot be shared. Information classification is in accordance legislation such as FOI, DPA. A Risk Assessment is undertaken as required by CCA and its regulations. There are clear links between risk assessments and emergency plans. Emergency plans are maintained that are designed to prevent, reduce, control or mitigate the effects of emergencies. Risks to civil protection arising from legislation outside of CCA are managed at an acceptable level. Effective arrangements are in place for 'warning and informing' the public are in place. Effective arrangements are in place for managing the Cleveland Emergency Planning Unit. Resources are used in an efficient, effective and economic manner.
Housing Options Centre	Ensure effective arrangements are in place for planning the selective licensing scheme in a manner that ensures that designation is appropriate, consistent with the overall housing strategy and other relevant initiatives, homelessness and ASB initiatives, and will achieve strategic aims and objectives. Arrangements in place for developing and undertaking a consultation exercise ensure that: All relevant parties are identified and consulted; Appropriate questions are developed; Assessment of the most effective methodology for both promoting and undertaking the exercise is undertaken. Applications for selective licensing are completed for all privately rented properties in the area. Appropriate checks are in place to ensure that applicants meet the 'fit and proper' assessment criteria. Mandatory conditions of the licence are communicated to landlords and enforced. A Landlord Accreditation Scheme is in place which promotes good standards of accommodation in private rented housing, increases the availability of housing and develops effective relationships with landlords.
Internet/Email Security	HBC has a management framework for information security. Roles and responsibilities should be defined within the information security function for ensuring the security of email transactions. Effective reporting mechanisms are in place to identify and address security breaches. An up to date email security policy is in place that supports the overall Information Security Policy and clearly defines the terms and conditions of usage of the Council email system. Personal, sensitive and confidential information is only emailed to external networks via secure means. Effective arrangements are in place to ensure staff are aware of their responsibilities when using the Council's emails system. Staff receive the training necessary to protect personal, sensitive or confidential information.
Rift House Primary	Ensure school finance and governance arrangements are in line with best practice.
St. Cuthbert's Primary	Ensure school finance and governance arrangements are in line with best practice.
Business Continuity	To review the arrangements in place for improving the Council's resilience to interruption and planning to facilitate the recovery of key business systems and processes within agreed time frames while maintaining the responder's critical functions and the delivery of its vital services, in the event of disruption.
Energy Management	Ensure arrangements are in place for procuring energy (gas, electricity and water) in compliance with Contract and Financial Procedure Rules and value for money is being obtained to ensure that the correct payments are being made as per the contract.



Loans and Investments	Ensure 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 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.
Carbon Reduction Commitment	Ensure compliance with all relevant guidance / legislation and government requirements in relation to the scheme.
Salary Sacrifice Scheme	ensure that the schemes are in line with HBC strategy/policy, have been set up to meet an assessed need/demand/objective, have been cost benefit analysed, have been commissioned in line with Contract and Financial Procedure Rules where applicable/appropriate, have appropriate contracts in place with the scheme providers, - have been adequately publicised so as to maximise the benefits for both employees and HBC and ensure its continued viability, are being administered, monitored and reported on appropriately, will be reviewed at appropriate intervals to assess continued viability.
Asset Management	Roles and responsibilities are clearly defined on a framework for delivering the effective management of assets across the organisation as a whole. Parties involved in asset management have the skills and competencies required to successfully deliver the objectives of the asset management plan. Accurate, complete and up to date information is maintained of the council's portfolio of assets to enable effective monitoring of the performance of assets in delivering efficient & effective services and aid decision making. The management of assets complies with the capital strategy and asset management plan ensuring that investments in capital schemes provide or configure assets that better suit the public and staff and identify / dispose of surplus and under-performing assets. Buildings and land are used efficiently and effectively to improve value for money and intensify the use of assets through rationalisation, partnership sharing or transferring to third sector organisations. Access to buildings is controlled. Performance measures and benchmarking exercises are used to evaluate how the council's assets contribute to the achievement of corporate and service objectives, including improvement priorities, sustainability objectives and setting challenging targets for improvement.
Capital Accounting	Ensure adequate arrangements are in place in order to comply with all legal and technical requirements.
Building Maintenance	Examine the arrangements in place to manage the maintenance of Council property in line with Council objectives, procuring the services required to provide a maintenance function and the monitoring of this provision.

# AUDIT COMMITTEE

26.07.11



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

**Subject:** RISK MANAGEMENT STRATEGY

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## 1. PURPOSE OF REPORT

- 1.1 To inform Members of the Councils New Risk Management Strategy and its approach to the identification, recording and management of risk as agreed by the Performance Portfolio Holder. The report also provides members of the Audit Committee the Better Governance Forum publication that aids Audit Committee members in their role in respect of risk management.

## 2. BACKGROUND

- 2.1 The Council has a responsibility to put in place arrangements for managing risks and maintaining a sound system of internal control. While in theory the existing risk management arrangement as set out in the current Risk Management Strategy does meet this duty it is believed the new framework will improve this process. The improvements will allow the risk management process to help drive service delivery and improvement.
- 2.2 In order to ensure that the Audit Committee meets its remit, it is important that it is kept up to date with the ongoing identification, monitoring and management of new and emerging risks. It is the role of the Audit Committee to satisfy itself that the Council has an adequate and effective governance framework in place to manage risk.

## 3. BETTER GOVERNANCE FORUM GUIDANCE ON RISK MANAGEMENT

- 3.1 The following Chapter is a copy of the guidance produced by the Better Governance Forum to help members of Audit Committees in their role in relation to risk management.

## **The role of the Audit Committee in strategic risk management:**

This article will outline the key role an Audit Committee should play in supporting and reviewing risk management in their organisation. The role of the Audit Committee is important but it can be difficult sometimes to determine what the discrete role is. The article will outline first of all what risk management is all about and then consider the Audit Committee role. It will end with some key questions that Audit Committees might like to consider.

### **3.2 What is risk management and why is it important to the organisation?**

The British Standard ISO 31000:2009 defines risk management as 'coordinated activities to direct and control an organisation with regard to risk'. Risk is simply defined as the 'effect of uncertainty on objectives'.

Effective risk management has a number of benefits to an organisation and is now seen as a key tool across public and private sectors. Management of risk enables an organisation to:

- Increase the likelihood of achieving objectives;
- Improve governance;
- Comply with legal and regulatory requirements;
- Support better decision making;
- Improve operational effectiveness and efficiency.

These benefits demonstrate that risk management isn't just about dealing with problems better; it is also an aid to improvement.

### **3.3 How does risk management link to internal control and governance?**

The importance of risk management in supporting good governance is clearly set out in the principles of the Good Governance Standard for Public Services. One of the six principles is 'Good governance means taking informed, transparent decisions and managing risk.' In the local government Good Governance Framework this principle has been adapted to the local government context to be 'Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.' The framework emphasises the importance of risk management for the successful delivery of services.

The internal controls of an organisation should be influenced by the risks. An effective control will manage an identified risk, perhaps by reducing the likelihood of the risk happening, or minimising the impact if it did. When controls are reviewed their success in managing those risks should be considered. Sometimes controls are put in place to manage risks but continue to operate even though the risk has changed or other controls now address the risk. This can lead to inefficiency.

### 3.4 What is the typical role for the Audit Committee?

The precise roles and responsibilities towards risk management will vary according to the terms of reference. CIPFA's position statement on audit committees in local government (4) identifies the following core functions:

- Consider the effectiveness of the authority's risk management arrangements.
- Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
- Be satisfied that the authority's assurance statements properly reflect the risk environment.

The way that an Audit Committee fulfils these functions are likely to include:

- Oversight of the risk management function & its effectiveness, for example whether there are senior management and member risk management champions, reviewing improvement plans, results of benchmarking etc.
- Reviewing risk management annual plans, annual reports and the assessment of risk maturity of the organisation.
- Commenting on changes to the risk management policies of the organisation.
- Understanding the key risks facing the organisation, by reviewing risk registers or receiving briefings on key risk areas. Knowledge of the key risks helps the committee discharge their other responsibilities such as reviewing the internal audit plan or reviewing the annual governance statement.

### 3.5 How can the Audit Committee support and encourage the effectiveness of the risk management function?

This is a valuable role for the organisation. Good understanding amongst Audit Committee members of what risk management can and should be doing, will help to raise the profile of risk management across the organisation. By monitoring the performance of risk management and any obstacles to improvement, the Audit Committee can help to ensure the adoption of good practice across the organisation.

When the Audit Committee reviews the organisation's key risks it may want to seek assurance that the actions being undertaken are having an effect. If there are concerns about critical risks then questions from the Audit Committee can help to ensure that the appropriate action is taken.

Understanding the organisation's key risks and the overall risk profile can help the Audit Committee take a more coordinated approach to its assurance statements. This can help those working in risk

management too. For example the committee can consider what assurance it receives about the major risk areas.

The following case studies provide some examples of how an Audit Committee can support their organisations to manage risk better.

#### Case Study 1

A local authority was planning a major refurbishment of the building where the IT data centre was located. This was highlighted as 'high risk' on the risk register because of the IT director's concerns about damage and service interruption. The audit committee requested a briefing from the property team responsible for the refurbishment to ensure that adequate protection and contingency arrangements would be in place.

#### Case Study 2

In one central Government Department, the Chairman of the Audit Committee plays an active role in the corporate governance exercise for preparing the Statement on Internal Control. The Chairman meets with each Director General to discuss the assertion statement and return they have provided on the effectiveness of the risk and internal control environment operating in their Group. This helps the Chairman understand how the Groups are managing their risks as well as identifying some common risk and control themes across the Department. The Chairman then discusses these themes with the Accounting Officer which are fed into the draft Statement on Internal Control. This approach enables the Chairman to be able to attest to the rest of the Audit Committee that an appropriate evidence base exists for the disclosures made in the draft Statement on Internal Control and facilitates the Committee's recommendation to the Accounting Officer that he or she sign the Statement on Internal Control.

#### Case Study 3

At the London Borough of Enfield, in addition to considering corporate risks and opportunities every six months and departmental risk registers on a rolling programme, Members of the Audit Committee decided to track the management of risk relating to safeguarding vulnerable adults and children. A review of procedures against risk of abuse to the vulnerable had been included on the Corporate Risk Register; however Audit Committee Members wanted to seek additional assurance following recent nationally publicised tragedies at neighbouring authorities. Members questioned and challenged reports presented on safeguarding services to vulnerable children, to vulnerable adults, and about ensuring safeguarding within the recruitment process. They gained assurance, despite the inherent risks associated with this high profile area of Council responsibility that every reasonable measure is being taken to minimise and manage relevant risks.

These case studies demonstrate how strategic risk management provides the audit committee with the opportunity to influence and support good governance in the organisation. Familiarity with this role will enable the audit committee to identify new risks to good governance and also support the audit committee to be more effective across the full range of its responsibilities.

#### Key Questions to ask:

1. How consistently is the risk management policy applied across the organisation? What is being done to address any weak areas?
2. Has the risk maturity of our organisation been assessed? In what areas have we improved in the last year and what still needs to be done?
3. What are the major risks facing the organisation?
4. How effectively are risks being managed in a particular area? For example, a major project, change programme or key strategic service.

5. How do we get our assurance about the management of risks and how does this link to the annual governance statement (statement on internal control, statement on internal financial control as appropriate)?

Diana Melville  
Governance Advisor  
CIPFA Better Governance Forum

## 10 governance risks for 2011

The audit committee is well placed to understand the risks to good governance the organisation faces. Such risks might arise from external factors, for example legislative changes. Or they could arise from changes or initiatives within the organisation. The Better Governance Forum has put together a 'Top 10' of governance issues the audit committee might want to review during 2011.

Potential Risk Area		What the audit committee can do
1	<b>Service reduction plans</b> Has the approach to identifying budget savings involved 'good governance' principles? For example have the full range of risks been identified? Will new risks be created by the proposals? There is no 'easy' way to implement a significant programme of savings but the goal should be to maintain a viable organisation. This means looking at longer term issues as well as short term impacts.	Ask about the process to identify proposed budget savings or service reductions. Seek assurance that the proposals are supported by: <ul style="list-style-type: none"> <li>• Good quality data.</li> <li>• Comprehensive risk identification</li> <li>• Evidence of consultation</li> <li>• Impact assessments, for example equalities or environmental</li> <li>• Use the Better Governance Forum risk tool to assess governance risks.</li> </ul>
2	<b>Major organisational change programmes</b> Is your organisation pursuing a major change programme, for example significant outsourcing or shared services arrangements? Such programmes are likely to have significant legal, financial, service continuity and people risks that need to be carefully managed. Assurance and accountability arrangements also need to be considered, both for the project itself and for the new arrangements.	Seek assurance over the effective management of project risks. Ask about the plans for assurance and accountability. For example: <ul style="list-style-type: none"> <li>• Will internal audit have access to the new body?</li> <li>• What financial risks are there and how will these be monitored?</li> <li>• Will the annual governance statement need to cover the new body?</li> </ul>
3	<b>Partnerships and the 'Big Society'</b> Your organisation's goals and objectives for its partnerships might have changed, and so might those of your partners. As well as internal factors such as reduced funding, new initiatives such as the Big Society may change things. The consequence could be that you or a partner needs to change a partnership agreement or withdraw from the partnership. New forms of partnership might be proposed with new partners. Are there any financial, legal or reputation risks as a result? What are the consequences for service delivery?	Ask for the latest partnership risk assessments. Where there are significant strategic risks the audit committee might want to ask for assurance about how these risks are being managed. Consider whether there is scope to work with the audit committees of your partners.

4	<p><b>Fraud Risks</b> All of these governance risk areas also potentially increase the risk of fraud. Does the organisation have an up to date fraud risk assessment that reflects current changes? Has the risk of fraud been considered in relation to service reduction planning, IFRS etc?</p>	<p>Ask whether fraud risks have been identified, assessed and appropriate actions taken. Review major fraud risks. Use the checklist for those charged with governance to review your counter fraud arrangements. Ask if there have been briefings or guidance given for example on legislation such as the Bribery Act and to those working in 'at risk' areas such as procurement and contracts.</p>
5	<p><b>Transparency Agenda</b> All public bodies are expected to publish details of expenditure by January 2011. Has your organisation complied or will they be able to do so? Have other aspects of decision making been made as transparent and accessible as possible? At the same time have you considered the fraud risks of greater transparency? Has the organisation developed a clear strategy to deal with redaction and commercially sensitive information?</p>	<p>Ask what actions have been taken and whether your organisation is ready. Ask whether the fraud risks have been identified and whether controls have been put in place. For example, staff should not change invoice or supplier details without verification from the supplier.</p>
6	<p><b>Changes to information governance legislation</b> The Information Commissioner is now enforcing monetary fines on organisations which fail in their duties to comply with the Data Protection Act 1998. Other enforcement action (Undertakings and Audits) are also available. There is expected to be changes to the Freedom of Information Act to cover private sector organisations which deliver major outsourced public services. Cloud computing is considered as a major source for future efficiencies. Has the audit committee been presented with a business plan?</p>	<p>Ask what your organisation has done to review its compliance arrangements. If the organisation is collaborating with neighbouring authorities, have they set up an Information Sharing Protocol? Does the organisation have a clear policy about data security and encryption and are these policies updated regularly and brought to the attention of staff? Has the organisation developed a strategy of protecting and responding to a cybercrime attack? Do you have clauses in your contracts to manage FOI requests which may go to your private sector partner organisations?</p>
7	<p><b>Forthcoming changes to the standards regime (England)</b> How will leadership in ethical government in your organisation be affected by the forthcoming legislation on standards committees? The Localism Bill was published in December 2010 and once enacted English authorities will no longer be required to have a standards committee or a code of conduct for members. The authority will have a duty to promote and maintain high standards of conduct.</p>	<p>Find out if your authority will be keeping its Standards Committee and whether it plans to develop a voluntary code of conduct. If there will be no standards committee, what Member body will provide leadership on ethical governance to ensure the authority can fulfil its duty to promote high standards of conduct?</p>

8	<b>Local Accountability</b> With the reduction in national accountability such as the CAA, the government has said it wants to see greater local accountability. New plans for local referenda are set out in the recently published Localism Bill, together with measures for pay accountability. How is the audit committee responding to this challenge?	Evaluate how effective the audit committee is in providing local accountability. Existing routes for ensuring accountability are likely to be holding public meetings and publishing an annual report. Consider how effective these are and what more could be done.
9	<b>Changes to external audit of local authorities</b> In England new arrangements are being developed by Communities and Local Government. Legislation and guidance will come out later in 2011, together with any transition arrangements. There are likely to be implications for the audit committee concerning the appointment of external auditors.	Ensure that you are kept up to date with the latest guidance.
10	<b>International Financial Reporting Standards</b> For local authorities the 2010/11 accounts will be the first presented under new IFRS regulations. One of the goals of IFRS is to introduce greater transparency and accountability, but any change carries risks that need to be properly managed.	Ask how the IFRS transition is being managed. Ask for a briefing on what the changes mean for the audit committee and their review of the accounts. Review the Audit Commission checklist 'Countdown to IFRS'

#### 4 RISK MANAGEMENT FRAMEWORK PROPOSALS

- 4.1 Attached as Appendix A is the new risk management framework. In order to improve the process the structure of the risk registers was changed, introducing a specific risk tolerance level to help prioritise risk activity and so help clarify the decisions to be taken about risks that are both above and below the tolerance line.
- 4.2 In practice this will mean that the majority of risks will be monitored although reported less frequently to members – these would be the risks on the **accepted risk register** and will be reported to elected members on an annual basis. This is not to say that departmental management teams and officers wouldn't monitor these risks within the department or within supervision as the department/ responsible officers would still be responsible for the risk throughout the year.
- 4.3 A small number of risks will be **actively managed** and these are risks that the department/responsible officer plan to take further actions/increase control measures (and more than likely allocate resources) to help reduce the likelihood or impact. These will be reported to elected members on a more regular basis.
- 4.4 The aim is that by restructuring the risk registers it will switch the focus from reporting on risks to more actively doing something about the risks that are of most concern. The new system requires less monitoring



and reporting than the existing Risk Management Strategy – once every 12 months during the service planning process for most risks rather than quarterly as the current arrangement expects now.

- 4.5 The Performance and Risk Management Group discussed the framework at the meeting on 22<sup>nd</sup> February 2011 and all comments were taken into account. The framework was then presented to Corporate Management Team Support Group who also approved the new framework and agreed on a Tolerance line on the risk matrix. The framework was agreed by the Performance Portfolio at his meeting of the 23.03.11
- 4.6 The framework defines the role of the Audit Committee as considering the effectiveness of the authority's risk management arrangements and seeking assurances that action is being taken on risk related issues identified by auditors and inspectors.

## **5 RECOMMENDATION**

- 5.1 That members of the Audit Committee consider the new risk management framework attached as Appendix A.

## Appendix A

### Risk Management Framework February 2011

The Council has a responsibility to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in their use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

Proper arrangements include corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- **managing risks and maintaining a sound system of internal control;**
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

The purpose of risk management is NOT to eliminate all risk. It is about gaining a better understanding of nature and scale of risks that could impact on service delivery and outcomes and then taking actions to reduce any negative results of risks or maximise any positives that may arise from an activity.

Effective risk management requires that a balance be struck between two extremes:

- Too little control or ignorance of risk resulting in the organisation being exposed to a damaging level of loss, unnecessary waste and being ill-prepared for events that may take it by surprise

- Too much control or obsession with risk stifles innovation and creativity, will result in lost opportunities and over-investing in control measures that bring no additional cost benefit.

### **The Risk Management Process**

Currently there are a number of risk registers held across the council that are at a strategic, departmental and service level and across all departments. Each of these is reported separately to various groups and meetings and it was decided to review how risks are held and reported.

It is proposed that we move from Strategic and Departmental Risk Registers to an Acceptable and Actively Managed Risk Register within which each department will detail the risk they are responsible for. The proposed framework is described below.

### **Proposed Risk Management Framework**

To meet this requirement Hartlepool has adopted a risk process to ensure the systematic identification, analysis and control of significant risks arising out of activities relating to the desired outcomes set out in Council plans. The Council maintains two risk registers: an Accepted Risk Register and an Actively Managed Risk Register within which each department will detail the risk they are responsible for. Further details of this can be found below. The Council recognises that the purpose is not to remove all risks (this is neither possible nor, in many cases, desirable), rather it is to ensure that potential 'losses' are prevented or minimised and that 'benefits', are maximised.

### **Council's Risk Tolerance**

Any organisation has neither the resources nor the capacity to eliminate all risks nor would any organisation want to. The proposed framework includes setting a tolerance level which would allow the Council to focus on those risks which are addressed either by reducing the impact or the likelihood.

Therefore the Council's Risk Tolerance is an indication of the level of risk that the council is prepared to accept i.e. the maximum risk that can be taken before formally considering whether further action to control the risk is required.

For example if a risk is within the Council's risk tolerance (i.e. below risk rating 8) we may decide only to undertake minimum monitoring of the risk for any change. However if the risk exceeds the Council's risk tolerance we may decide to take further action and allocate resources to help reduce the likelihood or impact. Finally if the risk is well within the council's risk tolerance we may decide we have a greater appetite for risk and relax some controls thus saving on resources.

The Council Tolerance Line has been agreed by CMT and by Cabinet as per Diagram A below.

**Diagram A – Risk Matrix with Tolerance Line**

		IMPACT			
LIKELIHOOD		1 Low	2 Medium	3 High	4 Extreme
Almost certain	4	AMBER 4	RED 8	RED 12	RED 16
Likely	3	GREEN 3	AMBER 6	RED 9	RED 12
Possible	2	GREEN 2	AMBER 4	AMBER 6	RED 8
Unlikely	1	GREEN 1	GREEN 2	GREEN 3	AMBER 4

### Accepted Risk Register

Risks included in this register will have been identified and evaluated with and without control measures (see Diagram A 'Risk Matrix with Tolerance Line').

There are a number of different types of risks that may feature in the accepted risk register:

- Risks that are below the tolerance line and therefore accepted
- Risks that are above the line and a decision has been taken that the risk is beyond further control by the Council and introducing further controls would not significantly change either the impact of the risk or the likelihood of the risk occurring
- Risks that are above the tolerance line and a decision has been taken that introducing further controls, even if they would change the impact of the risk or the likelihood of the risk occurring, is not appropriate

Therefore these risks do not require close/formal monitoring throughout the year. These risks need highlighting as a risk to the council and delivering services but do not require the full monitoring throughout the year.

Nevertheless, throughout the year managers responsible should:

- ensure that existing control measures are operating effectively as part of their day to day management arrangements
- be alert to opportunities for introducing effective control measures
- be alert to changes in the impact or likelihood of the risk occurring and therefore the need to reevaluate the risk

Departments will formally review the evaluation of the risks on the Accepted Risk Register on an annual basis (at least once every 12 months during the

annual service planning process) and review the adequacy of control measures currently in place. The results of this review will be reported to CMT SG and Cabinet.

At any point through the year risks can be amended, added to or removed from the Accepted Risk Register by the department as required. Risks can move between the Accepted and Actively Managed registers at any time and not just at times of review.

### **Actively Managed Risk Register**

The current risk register identifies risks that have a high impact and likelihood (red risks) and these are accepted informally and reported on through quarterly reporting. Through the new risk framework an actively managed risk register will use the same matrix and value guide detailed in Diagram A above 'Risk Matrix with Tolerance Line'.

Again there are a number of different types of risks that could be included in this register:

- a) Risks that are above the tolerance line where additional control measures could be effective and economical reducing either the impact of the risk or the likelihood of the risk occurring.
- b) Risks that are below the tolerance line and a decision has been taken that it is necessary to highlight and monitor the risk through senior managers and elected members via this register.

The risks within this register will have to be of a significant nature whether that be due to the impact and likelihood of the risk (Diagram A Risk Matrix with Tolerance line). It is expected that there would be a relatively small number of risks within this register that will be monitored on a quarterly basis. This monitoring will include reporting progress on the implementation of additional control measures.

Risks can be amended, added to or deescalated to the Actively Managed Risk Register as required through out the year in order to ensure that all significant risks that may impact on the Council's overall defined outcomes and service areas are monitored regularly.

### **Risk Monitoring and Reporting.**

Risk would be monitored within the Performance Management framework through the Corporate, Departmental and Portfolio reports that are currently produced but are also currently under review.

Embedding risk management within the service planning process of the Council will help make it become part of the everyday achievement of objectives and service delivery.

Developing arrangements to assess the performance and delivery of risk management will be done on an ongoing basis through the Performance and Risk Management Group.

### **Risk Management across the Council**

Other functions and activities of the Council also contribute to the Council's approach for managing risks and have a role within the Risk Management Framework. These are detailed below with a short description of their contribution to the framework.

### **Internal Audit**

Internal Audit's role in risk management will be to provide independent assurance that:

- The risk management processes that management has put in place within the authority (covering all risk management processes at corporate, divisional, business unit, business process level, etc) are operating as intended.
- These risk management processes are of sound design.
- A sound framework of controls is in place to sufficiently mitigate those risks to an acceptable level.

Once Internal Audit have gained an understanding of the environment in which it operates it then uses its own audit risk matrix to assess all the elements of operation undertaken in order to determine where assurance needs to be given.

### **The Audit Committee**

The role of the committee has evolved since its inception and in relation to risk plays the following role:

- Consider the effectiveness of the authority's risk management arrangements and seeks assurances that action is being taken on risk related issues identified by auditors and inspectors.

### **Financial Risk Management**

Identification and management of risk is a key part of the Council's budget monitoring process. It highlights areas that need to be closely monitored and ensures that departments manage budgets and service delivery within the overall resource allocation. The Council's Financial Management framework enables departments to establish reserves for significant risks and to carry forward under and over spends between financial years.

The value of expenditure/income on individual areas, together with the percentage of the authority's net budget, are shown in the table below to highlight the potential impact on the Council's overall financial position.

## **Health and Safety**

Hartlepool Borough Council recognises and accepts the financial and legal responsibilities and duties which it has for the health, safety and welfare of its employees and others affected by the activities of the Council. In order to fulfil these responsibilities the Council aims to continually improve health and safety performance by promoting healthy working and minimising where practicable the risk to people's health and welfare which may be affected by the activities of the Council.

As part of this commitment managers are expected to undertake suitable and appropriate risk assessments in relation to their areas of responsibility and ensure that suitable control measures are put in place where necessary to reduce risks to the health, safety and welfare of people who work on behalf of, or are affected by the activities, of the Council

The purpose of this policy is to describe the Council's approach to minimising where practicable the risk to people's health, safety and welfare which may be affected by the activities of the Council and the arrangements for dealing with such matters.

## **Business Continuity (including ICT Disaster Recovery)**

Business Continuity is an important constituent of 'Risk Management' – the overall process by which risks are identified, evaluated and controlled, but more importantly should be recognised as an integral and fundamental aspect of the governance arrangements of the Council.

Business Continuity is a planned process aimed at managing and mitigating the varied operational risks inherent in the day-to-day activities involved in delivering services. The main purpose is to ensure the restoration and maintenance of priority services and activities following an unexpected disruption to normal working arrangements.

The Business Continuity Plan provides a management framework for dealing with events that lead to unexpected disruption. It provides a clear organisational response – combined with pro-active measures, to reduce interruption and avoid losses. Such measures will include systems for activating the response and recovery to the interruption of operations and coordinating the actions of staff. It is the continuity plan and staff who provide the primary defence in ensuring an organised and effective return to normality with minimal impacts on the community.

**AUDIT COMMITTEE****26.07.11****Report of:** Chief Finance Officer**Subject:** ROLE OF THE HEAD OF INTERNAL AUDIT IN  
LOCAL GOVERNMENT

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**1. PURPOSE OF REPORT**

- 1.1 To inform Members of the CIPFA statement – “The Role of the Head of Internal Audit in Local Government”, and to demonstrate how the Council complies with this guidance.

**2. BACKGROUND**

- 2.1 The Statement describes the role of the Head of Internal Audit (HIA) in local government. CIPFA believes the HIA occupies a critical position in a local authority, helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance. Local authorities need to know that they have strong arrangements for controlling their resources and for delivering their objectives. CIPFA believes that HIA's have a unique role to play here. They are senior managers whose business is objectively assessing these arrangements and the risks that authorities face and giving appropriate assurances. HIA's must also provide leadership, promoting good governance and helping authorities to address future challenges.
- 2.2 HIA's need to review the whole system of control, both financial and non-financial, and focus on the areas where assurance is most needed. The HIA also has to give an annual opinion on the adequacy and effectiveness of the control environment; this is used by Chief Executives as a primary source of evidence for their annual governance statement.
- 2.3 HIA's must also be able to show that they can meet the needs of stakeholders such as Chief Executives and Audit Committees, adding value by helping to improve services whilst retaining their objectivity. They also need to work well with partners and other auditors. Authorities should see the Statement as best practice and use it to assess their HIA arrangements to drive up audit quality and governance arrangements.



### 3 THE KEY ROLE PLAYED BY THE HIA

- 3.1 Internal audit is one of the cornerstones of effective governance. The HIA is responsible for reviewing and reporting on the adequacy of the authority's control environment, including the arrangements for achieving value for money. Through the annual internal audit opinion and other reports the HIA gives assurance to the Leadership Team and others, and makes recommendations for improvement.
- 3.2 The HIA's role is a unique one, providing objective challenge and support and acting as a catalyst for positive change and continual improvement in governance in all its aspects. The role is particularly important when authorities are facing uncertain or challenging times. Fulfilling the role requires a range of personal qualities. The HIA has to win the support and trust of others, so that he/she is listened to, and the HIA's role as a critical friend means that sometimes difficult messages must be given and acted on. It is these expectations, combined with the professional, personal and leadership skills required, that have shaped the CIPFA Statement on the role of the HIA in Local Government.
- 3.3 **Primary audience**  
The primary audience for this Statement is those who rely on the HIA's assurances – the Leadership Team and the Audit Committee. CIPFA recommends that they should examine their own authority against this Statement to satisfy themselves that they have effective HIA arrangements in place.
- 3.4 **Local government context**  
CIPFA has drawn up a separate Statement for local government because of the statutory responsibility of specific post holders regarding internal audit and governance. In local government the 'Section 151' officer (the Chief Financial Officer or CFO) is a statutory post as is the Monitoring Officer (often the Head of Legal Services) and the Head of Paid Service (often the Chief Executive). The HIA needs to work well with these post holders and lines of responsibility need to be clear.
- 3.5 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in local government and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:
- the organisation;
  - the role; and
  - the individual.

For each principle the Statement sets out the governance arrangements required within an authority to ensure that HIAs are able

to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA. Summaries of personal skills and professional standards then detail the leadership skills and technical expertise authorities can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and professional standards to which the HIA as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases support other principles as well.

### 3.6 **Demonstrating compliance**

The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the Leadership Team of a local authority to benchmark its existing arrangements against a defined framework.

- 3.7 CIPFA recommends that authorities use the Statement as the framework to assess their existing arrangements and that they should report publically on compliance to demonstrate their commitment to good practice. CIPFA also proposes that authorities should report publicly where their arrangements do not conform to the compliance framework in this Statement, explaining the reasons for this, and how they achieve the same impact. CIPFA will consider how to take this forward in the context of the CIPFA/Society of Local Authority Chief Executives (SOLACE) guidance on good governance.

## 4. **CIPFA STATEMENT ON THE ROLE OF THE HIA IN LOCAL GOVERNMENT**

**The Head of Internal Audit in a local authority plays a critical role in delivering the authority's strategic objectives by:**

1 – championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and

2 – giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

**To perform this role the Head of Internal Audit:**

3 – must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee;

4 – must lead and direct an internal audit service that is resourced to be fit for purpose; and

5 – must be professionally qualified and suitably experienced.

## **5. PROCESS FOLLOWED**

- 5.1 The review is undertaken annually in line with best practice requirements. Appendix A of the report details how the Council ensures that the requirements of the statement are met. Details of the requirements of the statement are outlined along with how the arrangements in place at the council satisfy those requirements.

## **6. RECOMMENDATION**

- 6.1 It is recommended that Members
- i) Note that I have reviewed the CIPFA statement – “The Role of the Head of Internal Audit in Local Government” and can advise Members that the Council complies with these requirements as detailed in Appendix A.

**How the Five Principles Are Met**

**Principle 1 – The HIA in a local authority plays a critical role in delivering the authority's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.**

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
Set out the HIA's role in good governance and how this fits with the role of others, in particular the CFO, the Monitoring Officer and the Head of Paid Service.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual.</i>	Working with others (including the CFO, the Monitoring Officer and the Head of Paid Service) to promote the benefits of good governance throughout the organisation.	<i>Relationships with key officers detailed in agreed protocols i.e. Relationship between CFO and IA.</i>	Provide leadership by giving practical examples of good governance that will inspire others.	<i>HIA undertakes proactive role on relevant working parties and officer groups i.e. Performance and Risk Management Group.</i>
Ensure that the importance of good governance is stressed to all in the authority, through policies, procedures and training.	<i>Code of Corporate Governance agreed by the Audit Committee And adopted by Council. Job descriptions and Management Academy training programme cover governance requirements</i>	Giving advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects.	<i>Regularly report to Audit Committee and Senior Management through CFO and CMTSG on all aspects of governance arrangements.</i>	Deploy effective facilitating and negotiating skills.	<i>HIA undergoes Continuous Professional Development (CPD) tailored to requirements of the role i.e. CIPFA Certificate in Investigatory Practices, Management Academy.</i>
Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.	<i>Protocols in place to ensure regular liaison with key officers and CMTSG.</i>	Promoting the highest standards of ethics and standards across the authority based on the principles of integrity, objectivity, competence and confidentiality.	<i>HIA role as per CIPFA Code of Practice for Internal Audit in Local Government as enshrined in the Audit Manual.</i>	Build and demonstrate commitment to continuous improvement.	As above
Require staff to	<i>Corporate Anti-Fraud</i>	Demonstrating the	<i>HIA undertakes proactive</i>	Demonstrate consultancy	As above

## 4.6

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
report suspected or detected fraud, corruption or impropriety to the HIA.	<i>and Corruption Strategy agreed by Audit Committee</i>	benefits of good governance for effective public service delivery and how the HIA can help.	<i>role on relevant working parties and officer groups i.e. Performance and Risk Management Group.</i>	skills as appropriate – analytical, problem solving, influencing and communicating.	
		Offering consultancy advice where the HIA considers that it is appropriate, drawing up clear terms of reference for such assignments.	<i>Resource built into Audit Plan for advice and guidance to be provided, within strictly agreed scope, terms of reference and outcomes.</i>		

**Principle 2 – The HIA in a local authority plays a critical role in delivering the authority's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.**

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
Set out the responsibilities of the HIA, which should not include the management of operational areas	<i>Job Description in place. Audit Strategy and Charter sets out terms of reference as agreed by Audit Committee.</i>	Giving assurance on the control environment. This includes risk and information management and internal controls across all systems.	<i>Annual opinion provided to Audit Committee in line with Code of Practice for Internal Audit in Local Government, covering all aspects of governance arrangements.</i>	Give clear, professional and objective advice.	<i>Reporting arrangements agreed with management based on a shared understanding of requirements.</i>
Ensure that internal audit is independent of external audit.	<i>Internal and External Audit protocol in place.</i>	Reviewing the adequacy of key corporate arrangements including e.g. risk strategy, risk register, anti fraud and corruption strategy, corporate plan.	<i>All aspects of governance arrangements covered in the annual Internal Audit Plan as agreed by management and the Audit Committee.</i>	Report on what is found, without fear or favour.	<i>Reporting arrangements enshrined within the Audit Strategy and Charter as reflected in the Audit Manual in line with best practice.</i>
Where the HIA does have operational responsibilities the HIA's line manager	<i>Not Applicable.</i>	Producing evidence based annual internal audit opinion on the authority's control	<i>Annual opinion report HIA is produced and presented to the Audit Committee by the HIA.</i>	Demonstrate integrity to staff and others in the authority.	<i>HIA undergoes CPD tailored to requirements of the role i.e. CIPFA Certificate in</i>

## 4.6

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
and the Audit Committee should specifically approve the IA strategy for these and associated plans and reports and ensure the work is independently managed.		environment.			<i>Investigatory Practices, Management Academy.</i>
Establish clear lines of responsibility for those with an interest in governance (e.g. Head of Paid Service, Monitoring Officer, Head of Paid Service, Audit Committee, Members). This covers responsibilities for drawing up and reviewing key corporate strategies, statements and policies.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual. Code of Corporate Governance outlines responsibilities with regard to governance arrangements.</i>	Working closely with others to ensure that sufficient and relevant evidence is used. Where relying on others, clarifying the degree and basis for the reliance.	<i>Reporting arrangements compliant with Code of Practice for Internal Audit in Local Government.</i>	Exercise sound judgement in identifying weaknesses in the authority's control environment and a balanced view on how significant these are.	<i>Experience gained over 18 year Internal Audit career. Professional guidance followed in relation to risk measurement.</i>
Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has significant concerns.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual. Rights of access to key members and officers detailed.</i>	Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect the authority's interests. Assessing whether lines	<i>Internal Audit plan encompasses partnership arrangements and highlighted as key area of concern of Audit Committee.</i>	Work well with others with specific responsibilities for internal control, risk management and governance including the Head of Paid Service, the Monitoring Officer, the CFO, Audit Committee and Members.	<i>Relationships with key officers detailed in agreed protocols i.e. Relationship between CFO and IA. Relationships built up over a number of years.</i>

## 4.6

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		of responsibility and assurance are clear.			
Agree the terms of reference for internal audit with the HIA, the Audit Committee and the CFO, as well as with the Leadership Team.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual.</i>	Liaising closely with the external auditor to share knowledge and to use audit resources most effectively.	<i>Protocol in place for joint working with External Audit.</i>	Be concerned for action - influencing the Leadership Team, Audit Committee and others to ensure that the HIA's recommendations are implemented.	<i>As above</i>
Set out the basis on which the HIA can give assurances to other organisations and the basis on which the HIA can place reliance on assurances from others.	<i>Audit Manual sets out roles and levels of assurances.</i>	Producing an internal audit strategy that fits with and supports the authority's objectives.	<i>Strategy produced and agreed by management and Audit Committee.</i>	Be a role model, dynamic, determined, positive, robust and with resilient leadership, able to inspire confidence and respect and exemplify high standards of conduct.	<i>Experience gained over 18 year Internal Audit career. HIA CPD tailored to requirements of the role.</i>
Ensure that comprehensive governance arrangements are in place, with supporting documents covering e.g. risk management, corporate planning, anti fraud and corruption and whistle blowing.	<i>Production of Annual Governance Statement in line with best practice covering all aspects of the governance framework and supporting documentation in place.</i>	Reviewing the authority's risk maturity (including the authority's own assessment) and reflecting this in the strategy.	<i>Key member of Performance and Risk Management Group reviewing risk strategy, maturity and tolerance.</i>		
Ensure that the annual internal audit opinion and report are issued in the name of the HIA.	<i>Reported independently by the HIA to the Audit Committee.</i>	Consulting stakeholders, including senior managers and Members on the internal audit strategy.	<i>Internal Audit Strategy agreed by senior management before approval sought from the Audit Committee.</i>		
Include awareness	<i>Job descriptions and</i>	Setting out how the HIA	<i>Internal Audit Strategy</i>		

## 4.6

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
of governance in the competencies required by members of the Leadership Team.	<i>Management Academy training programme cover governance requirements</i>	plans to rely on others for assurance on the authority's controls and risks and taking account of any limitations in assurance given by others.	<i>and Charter in place with Code of Practice for Internal Audit in Local Government detailing day to day arrangements.</i>		
Set out the framework of assurance that supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for preparing the report.	<i>Included in the Annual Governance Statement which is produced by senior management.</i>	Liaising with external inspectors and review agencies where appropriate when drawing up the internal audit strategy.	<i>The process followed is recorded in the Audit Manual.</i>		
Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team.	<i>Internal Audit Strategy agreed by senior management before approval by the Audit Committee.</i>	Liaising with the external audit on the internal audit strategy, but not being driven by external audit's own priorities.	<i>Protocol in place for joint working with External Audit.</i>		

**Principle 3 – The HIA in a local authority must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee.**

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Designate a named individual as HIA in line with the principles in this	<i>HIA designated individual employed within the Authority.</i>	Escalating any concerns through the line manager, CFO, Monitoring Officer, Head	<i>Protocols in place and enshrined in Internal Audit Charter and Strategy for escalation of concerns.</i>	Network effectively to raise the profile and status of internal audit.	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with</i>



## 4.6

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contract or agreement.		of Paid Service, Audit Committee, Leadership Team and external auditor as appropriate.			<i>key officers.</i>
Ensure that where the HIA is an employee that they are sufficiently senior and independent within the authority's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team.	<i>HIA senior manager within the Finance function reporting directly to the CFO with access to key officers as detailed in the Internal Audit Strategy Charter and Councils Constitution.</i>	Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements.	<i>Audit Committee provided with advice and guidance to enable it to fulfil its function.</i>	Adopt a flexible style, being able to collaborate and advise but also able to challenge as appropriate.	<i>Experience gained over 18 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with CFO in order to support development in all areas.</i>
Ensure that where the HIA is an employee the HIA is line managed by a member of the Management Team. Where the HIA is not an employee then the reporting line	<i>HIA senior manager within the Finance function reporting directly to the CFO.</i>	Consulting stakeholders, including senior managers and Members on the internal audit strategy.	<i>Internal Audit Strategy agreed by senior management before approval by the Audit Committee.</i>	Deploy effective facilitation and meeting skills.	<i>As above</i>

## 4.6

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
must be clearly set out in the contract or agreement with the internal audit supplier.					
Establish an Audit Committee in line with guidance and good practice.	<i>Audit Committee established in line with CIPFA guidelines.</i>			Build and demonstrate commitment to continuous improvement and innovative, but risk-aware, solutions.	<i>As above</i>
Set out the HIA's relationship with the Audit Committee and its Chair.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual.</i>			Place stewardship and probity as the bedrock for management of the organisation's finances.	<i>Leads by example in approach with Directors and other senior managers that Internal Audit function role is to help achieve organisations objectives, whilst ensuring compliance with best practice and legislative requirements.</i>
Ensure that the authority's governance arrangements allow the HIA: <input type="checkbox"/> to bring influence to bear on material decisions reflecting governance <input type="checkbox"/> direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit <input type="checkbox"/> to attend meetings	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual. Rights of access to key members and officers detailed.</i>			Build productive relationships both internally and externally.	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with key officers.</i>

## 4.6

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
of the Leadership Team and Management Team where the HIA considers this to be appropriate.					
Set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in (significant) partner organisations.	<i>Councils Constitution details access arrangements for Internal Audit, reflected in the Audit Manual.</i>			Work effectively with the Leadership Team and Audit Committee with political awareness and sensitivity.	<i>Experience gained over 18 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with CFO in order to support development in all areas.</i>
Set out the HIA's responsibilities relating to partners including joint ventures and outsourced and shared services.	<i>Major ventures undertaken detail rights of access to Internal Audit for governance opinion purposes.</i>			Be seen to be objective and independent but also pragmatic where appropriate.	<i>As above</i>

**Principle 4 – The HIA in a local authority must lead and direct an internal audit service that is resourced to be fit for purpose.**

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Provide the HIA with the resources, expertise and systems necessary to perform their role effectively.	<i>Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met.</i>	Leading and directing the internal audit service so that it makes a full contribution to and meets the needs of the authority and external	<i>Approval and consultation process for the Internal Audit plan ensures that it adds value to the organisation. HIA responsible for facilitating</i>	Demonstrate leadership and be an ambassador for internal audit.	<i>HIA undergoes CPD tailored to requirements of the role i.e. CIPFA Certificate in Investigatory Practices, Management Academy.</i>

## 4.6

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		stakeholders.	<i>this process.</i>		
Ensure that the Audit Committee sets out a performance framework for the HIA and their team and assesses performance and takes action as appropriate.	<i>Internal Audit report annually to the Audit Committee on a wide range of performance measures.</i>	Determining the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives; using a full range of resourcing options including consultancy, working with others and buying in where appropriate.	<i>Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met.</i>	Create, communicate and implement a vision for the internal audit service.	<i>HIA has a clear understanding of these issues and is committed to continuous improvements. These issues addressed through performance appraisal.</i>
Ensure that there is a regular external review of internal audit quality.	<i>Three yearly review carried out by External Audit, Constant review by CFO via performance monitoring and appraisal system.</i>	Informing the CFO, the Leadership Team and Audit Committee if there are insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given.	<i>Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met and reporting arrangements if shortfalls are anticipated.</i>	Create a customer focused internal audit service	<i>HIA has a clear understanding of these issues and is committed to continuous improvements.</i>
Ensure that where the HIA is from another organisation that they do not also provide the external audit service.	<i>Not Applicable.</i>	Implementing robust processes for recruitment of internal audit staff and/or the procurement of internal audit services from external suppliers.	<i>Corporate recruitment process followed for any appointments made.</i>	Establish an open culture, built on effective coaching and a constructive approach.	<i>HIA undergoes CPD tailored to requirements of the role.</i>
		Ensuring that the professional and personal training needs for staff are assessed and seeing that these needs are met.	<i>Professional guidance implemented in respect of training needs and development issues are addressed.</i>	Promote effective communication within internal audit, across the broader organisation and with external stakeholders.	<i>HIA has a clear understanding of these issues and is committed to continuous improvements.</i>

## 4.6

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA Responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
		Developing succession plans and helping staff with their career progression.	<i>As above</i>	Set and monitor meaningful performance objectives for staff.	<i>CIPFA "Excellent Auditor Framework" implemented within section for all training and development needs.</i>
		Establishing a quality assurance and improvement programme that includes: ensuring that professional internal audit standards are complied with; reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and needs of its stakeholders; providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievements against targets; putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that	<i>CIPFA guidance in relation to continuous improvement followed.</i>	Manage and coach staff effectively	<i>As above.</i>

## 4.6

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		audit plans, work and reports are evidence based and of good quality; ensuring that any internal auditors declare any interests that they have; seeking continuous improvement in the internal audit service.			
		Keeping up to date with developments in governance, risk management, control and internal auditing, including networking with other HIA's and learning from them, implementing improvements where appropriate.	<i>Member of Better Governance Forum, Technical Information Service, CIPFA NE IA Group, North East Fraud Forum in order to ensure up to date with current best practice and ideas.</i>	Comply with professional standards and ethics	<i>Professional standards and ethics outlined within Audit Manual and also bound by CIPFA standards.</i>
		Demonstrating how internal audit adds value to the authority.	<i>Annual report to the Audit Committee.</i>	Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality. In particular, ensuring that internal auditors identify and report any conflicts of interest and act appropriately	<i>As above as well as procedures for the identification and recording of conflicts of interest are detailed in the Audit Manual.</i>
				Ensure, when necessary, that outside expertise is called upon for specialist advice not available within	<i>Arrangements in place to ensure specialist services can be procured as and when</i>

## 4.6

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				the internal audit service.	<i>necessary.</i>
				Promote discussion on current governance and professional issues and their implications.	<i>HIA mentors audit staff and undertakes regular team meetings to facilitate discussion. Role on various working groups ensures topics are discussed and disseminated.</i>

**Principle 5 – The HIA in a local authority must be professionally qualified and suitably experienced**

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Appoint a professionally qualified HIA whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.	<i>Job description and recruitment process ensure only appropriately qualified and experienced individuals considered.</i>			Be a full member of an appropriate professional body and have an active programme for personal professional development.	<i>HIA qualified with CIPFA in 1997 and actively participates in mandatory CPD scheme</i>
Ensure that the HIA has the skills, knowledge, experience and resources to perform	<i>As above, monitoring and mentoring role undertaken by CFO in his role as Section 151 officer ensures compliance.</i>			Adhere to professional internal auditing (and where appropriate accounting and auditing) standards.	<i>HIA member of CIPFA for 14 years and is bound by all relevant professional and personal requirements.</i>

## 4.6

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
effectively in his or her role.					
				Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consultancy.	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by CFO.</i>
				Have prior experience of working in internal audit.	<i>HIA has held a variety of position within Local Government, before appointment as HIA in 2008, including Group Auditor at HBC and Head of Audit at a district council.</i>
				Understand and have experience of strategic objective setting and management.	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by CFO.</i>
				Understand the internal audit and regulatory environment applicable to public service organisations.	<i>HIA has 14 years post qualification experience and sound understanding of public service governance arrangements and its regulatory environment.</i>
				Demonstrate a comprehensive understanding of governance, risk management and internal control.	<i>Regularly advises management on these issues and is a key member of the Performance and risk Management Group.</i>
				Undertake appropriate development or obtain relevant experience as appropriate in order to	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by CFO.</i>



## 4.6

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				demonstrate an understanding of the full range of the authority's activities and processes.	

## **AUDIT COMMITTEE**

26.07.11



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

**Subject:** DRAFT ANTI-FRAUD AND CORRUPTION  
STRATEGY

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

- 1.1 The purpose of the report is to enable members of the Audit Committee to consider and endorse the Anti-Fraud and Corruption Strategy. The report also provides members of the Audit Committee the Better Governance Forum publication that aids Audit Committee members in their role in respect of counter fraud arrangements.

### **2. BACKGROUND**

- 2.1 In order to ensure that the Council has robust and relevant procedures and processes in place in respect of the detection and deterrence of fraud and corruption, it is necessary to periodically revisit the current strategy to ensure it is up to date and relevant. This refresh occurs on a cyclical basis to take into account any relevant changes in legislation or accepted best practice.
- 2.2 Since the Council adopted the current strategy CIPFA has updated its publication "Managing the Risk of Fraud" which is considered best practice in terms of describing what actions are needed for an organisation to take to be effective in countering fraud and corruption.
- 2.3 The public sector has also been subjected to massive budget cuts at a time of financial uncertainty which also has an impact on potential fraudulent activity undertaken against the Council.

### **3. BETTER GOVERNANCE FORUM GUIDANCE ON COUNTERING FRAUD**

- 3.1 The following Chapter is a copy of the guidance produced by the Better Governance Forum to help members of Audit Committees in their role in relation to assessing and reviewing counter fraud arrangements.

### **Counter fraud arrangements – What is the role of the Audit Committee?**

- 3.2 The Audit Committee exists to gain and provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the organisation is operating effectively – calling the organisation to account. Its key role is overseeing and assessing the risk management, control and governance arrangements and advising the governing body (for example the full Council in a local authority) on the adequacy and effectiveness of these arrangements. An Audit Committee's main responsibilities include advising the organisation on all matters relating to its governance and in doing so considering the effectiveness of the risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- 3.3 Fundamentally, the Audit Committee makes sure that effective actions to counter fraud and corruption take place. It acts to enforce, enable and encourage successful actions to counter fraud. Good counter fraud is essential for organisations that want to stop losing money, harm, hurt and fear and maintain a high status and good reputation with their stakeholders, regulators and funders. On the other hand, poor governance weakens an organisation's potential and, at worst, can pave the way for financial difficulties, poor performance, loss of reputation, fraud and corruption.
- 3.4 The mere existence of an Audit Committee does not eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an Audit Committee can:
- gain and give assurance through a process of independent and objective review
  - raise awareness of the need for sound control and the implementation of recommendations by internal and external audit.
- 3.5 Managers (directly employed people) are responsible for establishing and implementing arrangements to counter fraud and corruption. The Audit Committee is responsible for overseeing these management arrangements. The Audit Committee is powerful (e.g. it has delegated responsibility to act on behalf of the full Council, and is “those charged with governance”).
- The role of the Audit Committee is crucial to support managers in achieving their anti-fraud objectives. The action needed to be effective in countering fraud and corruption is described in the CIPFA Red Book 2, *“Managing the Risk of Fraud – Actions to Counter Fraud and Corruption”*.
- This is available from the following web link: [CIPFA Networks - Better Governance Forum](#)
- Countering fraud and corruption is everyone's job. It requires organisational and individual commitment to a culture of zero-tolerance,

Nolan principals and ensuring that money is spent on what it was intended for.

*“Taking actions to proactively stop fraud occurring in the first place is a far better remedy than merely managing the risk.”*

Steve Freer, Chief Executive, the CIPFA Group.

- 3.6 It is management's responsibility to establish and implement effective arrangements. It is the job of the Audit Committee to oversee, monitor, support, enable, encourage, evaluate and when necessary enforce effective actions to counter fraud. A good committee agenda includes regular reports, updates and discussion of fraud issues and cases. It may be necessary to hold separate special meetings and/or exclude the press and public from main meetings. Committee members are better able to accomplish their role when they have been provided with training to understand their counter fraud responsibilities, for example:
- Internal control
  - Fraud risk factors: the fraud triangle – incentives, rationalization, opportunity
  - Good governance
  - Financial management and reporting
  - International Financial Reporting Standards and Standards on Auditing
  - Links to achieving organisational objectives
  - Final accounts.

#### **Counter fraud arrangements –**

#### **So, what questions should an Audit Committee ask?**

#### **3.7 20 Questions:**

This checklist can be used by those responsible for governance (Audit Committees or equivalent) to assess their contribution to the fraud defences of their organisation and determine what action is needed. This is appropriate to use in any organisation. It is adapted from the checklist designed specifically for local authorities published by the Audit Commission in September 2009 as part of Protecting the Public Purse.

#### **Checklist for those responsible for governance**

Issue	Yes	No	Action
1. Have we committed ourselves to zero tolerance against fraud?			
2. Do we have appropriate strategies, policies and plans?			
3. Do we have dedicated counter-fraud resources?			
4. Do the resources cover all of the activities of our organisation?			

5. Do we receive regular reports on fraud risks, plans and outcomes?			
6. Have we assessed our management of counter fraud resources against good practice?			
7. Do we raise awareness of fraud risks with: - new staff (including agency staff)? - existing staff? - non executives/members?			
8. Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?			
9. Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?			
10. Do we identify areas where internal controls may not be performing as intended?			
11. Do we maximise the benefit of our participation in data matching?			
12. Do we set the right “tone at the top” to influence the creation / maintenance of a strong counter fraud culture in the organisation?			
13. Is there a level of financial investment in work to counter fraud and corruption that is proportionate to the risk that has been identified?			
14. Have we reassessed our fraud risks because of the current economic climate?			
15. Have we amended our counter-fraud action plan as a result?			
16. Have we reallocated staffing as a result?			
17. Are we satisfied that payment controls are working as intended?			
18. Have we reviewed our contract letting procedures against the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?			
19. Are we satisfied that our recruitment procedures are: - preventing employment of people working under false identities? - validating employment references effectively? - ensuring applicants are eligible to work in the UK?			
20. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?			

#### 4. PROPOSED ANTI FRAUD AND CORRUPTION STRATEGY

4.1 The strategy has been update in line with CIPFA guidance and is broken down into sections that cover the following objectives:

- **The creation of an Anti Fraud Culture** – both internally and amongst the general public so that tackling fraud becomes a joint responsibility.
- **Maximising fraud Deterrence** – to ensure that counter-fraud measures represent the strongest deterrent possible to those perpetrating or considering perpetrating fraud.
- **Successful Prevention of fraud that cannot be deterred** – to develop the most effective preventative measures so that if fraud is attempted, it will fail.
- **Prompt Detection of fraud that cannot be prevented and Professional Investigation of detected fraud** – to establish the most effective processes to detect fraud and professionally investigate any detected fraud objectively.
- **Effective Sanctions and methods for seeking Redress** – to take appropriate legal and/or disciplinary action to administer effective sanctions against those committing fraud and to seek to recover losses from fraud committed by using all possible means.

4.2 Attached as Appendices to the Strategy are documents that support the Strategy. These are the:

- Fraud Response Plan;
- Whistleblowing Policy;
- Prosecution Policy.

Taken together these documents add weight and back up the overall purpose of the strategy by outlining ways in which employees or members can voice their concerns about suspected fraud and corruption and how they will be protected if they do so. It also details the Councils commitment to prosecute cases where appropriate.

#### 5. RECOMMENDATION

5.1 The Audit Committee considers and endorses the update Anti-Fraud and Corruption Strategy attached as Appendix A.

**HARTLEPOOL BOROUGH COUNCIL**

**ANTI-FRAUD**

**&**

**CORRUPTION**

**STRATEGY**

**HARTLEPOOL BOROUGH COUNCIL**  
**ANTI-FRAUD & CORRUPTION STRATEGY**

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1. Introduction
2. Anti-Fraud Culture
3. Deterrence
4. Prevention
5. Detection and Investigation
6. Sanctions and Redress
7. Conclusion

Appendix 1 - Fraud Response Plan  
Appendix 2 - Whistleblowing Policy  
Appendix 3 - Prosecution Policy



**HARTLEPOOL BOROUGH COUNCIL**  
**ANTI-FRAUD & CORRUPTION STRATEGY**

## **1 INTRODUCTION**

- 1.1 We (Hartlepool Borough Council) employ approximately 3500 employees and have a revenue and capital budget of over £250 million. As with other large organisations, the size and nature of our services puts us at risk of loss due to fraud and corruption both from within the Council and outside it.
- 1.2 The stewardship of public money is a fundamental responsibility for both elected Members and employees. We are committed to making sure that the opportunity for fraud and corruption is reduced to the lowest possible risk. Where there is the possibility that fraud, corruption or other irregularities have occurred, we will deal with the issue in a firm and controlled manner.
- 1.3 An important part of Hartlepool Borough Council's approach is introducing an anti-fraud and corruption strategy, which we will use to advise and guide Members and employees on our approach to the serious issues of fraud and corruption. This document also includes a 'fraud response plan' which provides more detailed guidance on how to deal with instances of potential fraud and corruption.
- 1.4 In administering its responsibilities the Council is committed to the prevention of fraud and corruption. This strategy statement emphasises to all employees the importance placed by the Council on probity, financial control and honest administration. The main message is that we expect all Members, employees, consultants, contractors, and others, to be fair and honest, and to give us any help, information and support we need to deal with fraud and corruption.
- 1.5 The strategy set out in this document covers the following areas:
- Anti-Fraud Culture;
  - Deterrence;
  - Prevention;
  - Detection and Investigation;
  - Sanctions and Redress.
- 1.6 Attached as Appendix 1 is the Fraud Response Plan which sets out the ways in which employees or members of the public can voice their concerns about suspected fraud or corruption. It also outlines how the Council will deal with such complaints.

## **2 ANTI-FRAUD CULTURE**

- 2.1 As a council we will publicise what is being done to combat fraud and corruption, ensuring that the message that fraud is a serious matter and takes resources away from important services is adequately relayed. This makes fraud against the authority socially unacceptable both internally and externally.

- 2.2 We will develop clear reporting lines both internally and externally by using a whistle blowing policy, fraud hotline and fraud response plan so that employees and the public are clear as to what action to take to report a fraud and do not shy away or feel fearful of doing so.

We will ensure that fraud and corruption is a key issue in policy design.

- 2.3 We will ensure training is provided for our employees who are involved in, or managing, internal control systems, to make sure that their responsibilities and duties are regularly reviewed and reinforced. We will also ensure that any employees, who may be involved in investigating fraud and corruption, have received suitable training.

We will ensure that everyone is aware that they have a role to play in tackling fraud and corruption.

We will make counter fraud literature available in induction packs and on the intranet.

### **How we expect Council Members and employees to behave**

- 2.4 We expect all people and organisations that are in any way associated with us to be honest and fair in their dealings with us. We expect our Members and employees to lead by example in these matters.
- 2.5 Our Code of Conduct for Members sets out an approach to work that is both honest and fair. Members must act in line with the code at all times. Officers must also act in line with all current codes and when a code of employee conduct is agreed nationally this will be formally adopted as it is expected to mirror existing arrangements.
- 2.6 Hartlepool Borough Council Members and employees have an important part to play in our anti-fraud and corruption arrangements. We encourage our employees and Members to inform us if they suspect a case of fraud. We will endeavour not to reveal the names of the people who gave us the information. We will deal with all information fairly and confidentially. Our fraud response plan attached (Appendix 1) gives more advice on this issue for employees.
- 2.7 Members are required to record their financial and other interests and record any receipt and offering of hospitality or gifts. At formal meetings Members are required to declare any interests in the matters under discussion, where the interest is personal and prejudicial.
- 2.8 The Relevant Authorities (General Principles) Order 2001 sets out the ten guiding principles that apply to people who serve the public and incorporates the seven general principles of conduct developed by the Nolan Committee. We will develop our working behaviour around these principles, which are set out below:

**Selflessness**

Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person.

**Honesty & Integrity**

Members should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly and should on all occasions avoid the appearance of such behaviour.

**Objectivity**

Members should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefits.

**Accountability**

Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities, and should co-operate fully and honestly with any scrutiny appropriate to their particular office.

**Openness**

Members should be as open as possible about their actions and those of their authority, and should be prepared to give reasons for those actions.

**Personal Judgement**

Members may take account of the views of others, including their political groups, but should reach their own conclusions on the issues before them and act in accordance with those conclusions.

**Respect for Others**

Members should promote equality by not discriminating unlawfully against any person, and by treating people with respect, regardless of their race, age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers, and its other employees.

**Duty to Uphold the Law**

Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them.

**Stewardship**

Members should do whatever they are able to do to ensure that their authorities use their resources prudently and in accordance with the law.

**Leadership**

Members should promote and support these principles by leadership, and example, and should act in a way that secures or preserves public confidence.

- 2.9 We expect our Senior Officers and Managers to deal firmly and quickly with anyone who is responsible for fraud or corruption. The Chief Executive in

consultation with the Chief Finance Officer and Monitoring Officer may refer matters to the police if he suspects any criminal activity has been carried out.

- 2.10 We must ensure that any investigative process is not misused and, therefore, any abuse, such as raising unfounded malicious allegations, may be dealt with as a disciplinary matter.

### **3 DETERRENCE**

- 3.1 We will ensure strong systems that act as a deterrent to any potential fraudster are in place so that they feel that the attempt is not worthwhile.
- 3.2 We will put effective detective processes in place so that the potential fraudster feels that the risk of getting caught is too great.
- 3.3 The presence of investigators and professional investigation work will help to make the fraudster feel that evidence of fraud can always be uncovered.
- 3.4 The use of effective legal action and sanctions and publicising results will help to make the fraudster feel penalties of being caught are too certain and too severe.
- 3.5 By seeking the effective recovery of losses to fraud from the perpetrator we will ensure the fraudster feels they stand to gain nothing from the fraud.
- 3.6 We will ensure there is a strong declaration of intent about what will happen to those who commit fraud in order to provide a deterrent effect.
- 3.7 We will ensure that the effective use of publicity will put a strong message out that the council has a zero tolerance policy on fraud and potential fraudsters may be deterred from attempting to commit the fraud if they are aware that strong measures are in place to prevent and detect their attempts.

### **4 PREVENTION**

- 4.1 To address the potential challenge of fraud and corruption, we must endeavour to prevent it from happening in the first place. It is essential that we have clear rules and procedures, to provide a framework within which Members, employees, consultants and contractors can work. These are:
- Financial Procedure Rules;
  - Contract Procedure Rules;
  - Scheme of Delegation;
  - Officer Employment Procedure Rules;
  - Code of Conduct for Employees;
  - Code of Conduct for Members;
  - Disciplinary Procedures;
  - Employees' Conditions of Service.
- 4.2 The Council also recognises the high level of public scrutiny of its affairs by a variety of bodies including;

- External Audit;
- Government Departments;
- Inland Revenue;
- HM Customs & Excise;
- General Public;
- Local and National Media.

- 4.3 The Council will positively respond to such scrutiny, demonstrating its commitment to this process, by effective liaison with the Audit Commission and other statutory agencies to ensure that it achieves the required standards of probity.
- 4.4 Individual departments have also introduced their own measures, which are designed to control their activities. Examples include accounting control procedures, working manuals and operating procedures. Senior Officers and Managers must make sure that suitable levels of internal checks are included in working procedures, particularly financial procedures. It is important that duties are organised so that no one person can carry out a complete transaction without some form of checking process being built into the system.
- 4.5 Senior Officers and Management must make sure that all employees have access to these rules and regulations and that staff receive suitable training. Members and employees must make sure that they read and understand the rules and regulations that apply to them, and act in line with them.
- 4.6 If anyone breaks these rules and regulations we may take formal action against them. This may include, in particular circumstances, ending their employment with the Council in respect of employees and referral to Standards Committee in respect of Members. It will be the responsibility of the Monitoring Officer to report matters amounting to any infringement of the code of conduct, to the Standards Committee
- 4.7 We will as an authority regularly review and update our written rules and procedures.
- 4.8 To ensure the effective use of audit resources an annual risk based Internal Audit Activity Plan is in operation. This plan ensures that the challenge of potential fraud is appropriately addressed through;
- regular reviews of controls within the main financial systems;
  - protective audit visits to Council establishments to ensure appropriate standards of financial administration are in operation;
  - detailed probity work using computer interrogation techniques.
- 4.9 By its nature, corruption is difficult to identify and prosecute successfully. The Council's approach is to have in place a robust framework of procedures and subject them to regular review.
- 4.10 We will check the previous employment records of anyone we are considering employing. This applies to both temporary and permanent employees. The role that employees are expected to play in ensuring effective internal control

will be included within employee induction procedures when they begin their employment. This will be followed up with training as appropriate.

- 4.11 We are committed to working and co-operating with other organisations to prevent organised fraud and corruption. Wherever possible, we will be prepared to help and exchange information with other Authorities and organisations to deal with fraud.
- 4.12 We will participate in computerised data matching initiatives, co-ordinated by the Audit Commission and other government agencies e.g. Dept for Work and Pensions Housing Benefit Matching Service and we will abide by Codes of Practice covering such processes. This kind of work needs to be tightly controlled particularly in relation to data protection issues.
- 4.13 We will make sure that full details of arrangements for reporting concerns are widely published to the public, Members and employees, and that all information we receive in this way is investigated and dealt with.

## **5 DETECTION AND INVESTIGATION**

- 5.1 The array of preventative systems, particularly internal control systems, within the Council has been designed to provide indicators of any fraudulent activity, although generally they should be sufficient in themselves to deter fraud. You should read this section with our fraud response plan (Appendix 1) and our Prosecution Policy (Appendix 3).
- 5.2 Under our Code of Conduct and Financial Procedure Rules, employees should report any suspected cases of fraud and corruption to the appropriate manager, or, if necessary, direct to the Head of Audit and Governance. Reporting cases in this way is essential to the anti-fraud and corruption strategy and makes sure that:
  - suspected cases of fraud and corruption are investigated properly;
  - the fraud response plan is properly carried out;
  - there is a standard process for dealing with all suspected cases of fraud and corruption; and people and our interests are protected.
- 5.3 The Council's Whistleblowing Policy (Appendix 2) is intended to encourage and enable employees and others to raise serious concerns of misconduct. Employees reporting concerns in this way are afforded certain protection against discrimination through legislation (Public Interest Disclosure Act 1998).
- 5.4 The Head of Audit and Governance will work with the Chief Executive and Senior Officers and Managers to decide on the type and course of the investigation. This will include referring cases to the police where necessary. We will prosecute offenders and we will carry out our disciplinary procedures where appropriate. We will ensure that any internal proceedings do not prejudice any criminal case.

- 5.5 The investigation protocol agreed between HR and Internal audit will be followed in all relevant investigations.
- 5.6 We will ensure the existence of skilled Investigators in order to ensure that detected frauds are investigated to the highest possible standards and expeditiously and that good results are achieved.
- 5.7 We will ensure that the Investigators are, or become, professionally trained and accredited. This ensures that all suspected instances of fraud or corruption are investigated objectively and in the most professional and timely manner possible and that the laws surrounding investigation work are adhered to at all times.
- 5.8 We will ensure that cases accepted for investigation, are assigned following an intelligence-led and risk-based approach. This ensures that the right cases (with the highest chance of a successful outcome) are identified for investigation and that resources are being used efficiently.

## 6 SANCTIONS AND REDRESS

- 6.1 Where investigations find evidence of fraud, it is desirable to seek to impose some form of sanction.
- 6.2 In every individual case, it is necessary to consider the full range of sanctions that are available at the earliest opportunity. All investigations are conducted in accordance with the Police and Criminal Evidence Act 1984 i.e. to a criminal standard and to ensure that the full range of sanctions remains available.
- 6.3 At the conclusion of an investigation we are able to make a fully informed and proportionate judgment, based on all the evidence obtained, about a recommendation on action to penalise the individual concerned.
- 6.4 **For employees** – The sanctions available are disciplinary action in accordance with the Council's **Disciplinary Code**; prosecution (either taken by the Council's Legal Services or by the Crown Prosecution Service where the Police have been involved in the investigation); Police Caution or by civil remedy (to recover money, interest and costs). Prosecution may result in imprisonment or suspended prison sentence, fine, confiscation or compensation orders or community punishment order. Any sentence will be determined by a Magistrates or Crown Court. Where a combination of sanctions is applied e.g. disciplinary action and prosecution, this is known as applying parallel sanctions.
- 6.5 **For the public** – For non-housing benefit instances of fraud or theft committed by the public against the authority, cases will be investigated to a criminal standard where the option to prosecute the offender is always considered. Where prosecution is not seen to be in the public interest or the evidence is not considered robust enough to result in a successful

prosecution, civil action will be considered in order to recover any losses to the authority.

- 6.6 We will ensure that the message is put across that all methods to recover losses to fraud will be sought in order to ensure that fraud does not pay.
- 6.7 We will ensure systems are in place and staff are properly trained for the effective recovery of losses gained through fraud.
- 6.8 We will use all available methods to recover losses from fraud. Losses may be recovered through the criminal process with the use of restraint, confiscation, forfeiture and/or compensation orders. Alternatively, losses may be recovered through the civil courts where the court can make an order against the defendant requiring them to compensate the plaintiff if it is proven, on the balance of probabilities, that it has cause of action against the defendant and the amount taken.

## **7 CONCLUSION**

- 7.1 We are committed to tackling fraud and corruption whenever it happens. Our response will be effective and organised and will rely on the principles included in this document. The Council has in place a clear network of systems and procedures to assist it in the fight against fraud and corruption. It is determined that these arrangements will keep pace with any future developments in both preventative and detection techniques regarding fraudulent or corrupt activity that may affect its operation.
- 7.2 To this end, the Council maintains a continuous overview of such arrangements through, in particular, its Section 151 Officer, and its Internal and External Auditors.



**Appendix 1****FRAUD RESPONSE PLAN****1. INTRODUCTION**

- 1.1 Hartlepool Borough Council is committed to the highest possible standards of openness, probity and accountability in all its affairs. It is determined to develop a culture of honesty and opposition to fraud and corruption.
- 1.2 In line with that commitment, the Council's Anti-Fraud and Corruption Strategy the principles we are committed to in relation to preventing, reporting and managing fraud and corruption.
- 1.3 This Fraud Response Plan reinforces the Council's robust approach by setting out the ways in which employees or members of the public can voice their concerns about suspected fraud or corruption. It also outlines how the Council will deal with such complaints.

**2. WHAT DO WE WANT TO KNOW ABOUT?**

- 2.1 This Plan is intended to be implemented where suspicions of fraud or corruption have been raised.

Fraud is defined as:

"The intentional distortion of financial statements or other records by persons internal or external to the Authority which is carried out to conceal the misappropriation of assets or otherwise for gain".

Corruption is defined as:

"The offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action of any person".

- 2.2 Concerns or allegations which fall within the scope of other, existing procedures e.g. discrimination issues will normally be referred for consideration under those procedures.
- 2.3 Fraudulent or corrupt acts may include:
  - Systems Issues i.e. where a process/system exists which is prone to abuse by either employees or the public;
  - Financial Issues i.e. where individuals or companies have fraudulently obtained money from the Council e.g. invalid invoices/work not done;
  - Equipment Issues i.e. where Council equipment is used for personal use e.g. unauthorised/inappropriate personal use of Council vehicles;
  - Resource Issues i.e. where there is a misuse of resources e.g. theft of materials;
  - Other Issues i.e. activities undertaken by employees of the Council which may be: unlawful; against the Council's Procedure Rules or

policies, falls below established standards or practices; or amounts to improper conduct e.g. receiving inappropriate hospitality.

- 2.4 This is not an exhaustive list. If you are in any doubt about the seriousness of your concern, advice and guidance can be obtained from the Head of Audit and Governance on 01429 266522.

### 3. SAFEGUARDS

- 3.1 **Harassment or Victimisation** – The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the possible fear of reprisal from those responsible for the malpractice. The Council will not tolerate harassment or victimisation and will take action to protect those who raise a concern in good faith.
- 3.2 **Confidentiality** – The Council will do its best to protect an individual's identity when he or she raises a concern and does not want their name to be disclosed. It must be appreciated, however, that the investigation process may reveal the source of the information and a statement by the individual may be required as part of the evidence.
- 3.3 **Anonymous Allegations** – This policy encourages individuals to put their names to allegations. Concerns expressed anonymously are much less powerful, but they will be considered at the discretion of the Chief Finance Officer and Chief Executive of the Council. In exercising this discretion, the factors to be taken into account would include:
- the seriousness of the issues raised;
  - the credibility of the concern; and
  - the likelihood of confirming the allegation from attributable sources.
- 3.4 **Untrue Allegations** – If an allegation is made in good faith, but it is not confirmed by the investigation, no action will be taken against the originator. If, however, individuals make malicious or vexatious allegations, disciplinary action may be considered against the individual making the allegation.

### 4. WHAT SHOULD AN EMPLOYEE DO IF THEY SUSPECT FRAUD OR CORRUPTION?

- 4.1 Employees may be the first to realise that there is something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances, it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.
- 4.2 The Council's Whistleblowing Policy is intended to encourage and enable staff to raise legitimate concerns within the Council rather than overlooking a problem or blowing the whistle to the media or other external bodies. This policy has been discussed with the relevant Trade Unions and professional organisations and has their support.

- 4.3 A full copy of the Whistleblowing Policy is provided in the staff handbook and can be obtained from your Customer and Workforce Services Section, Trade Union Representative or Chief Solicitor.
- 4.4 In essence, employees should approach the relevant line manager, who, if they find the claim to be substantiated, then in accordance with the Whistleblowing Procedure, the Head of Paid Service, Chief Finance Officer or alternatively the Head of Audit and Governance should be informed. The nature of the complaint will determine the Council's course of action.
- 4.5 Internal Audit can be contacted by phone on 01429 266522 or by writing to the Head of Internal Audit, Level 3, Civic Centre, Victoria Road, Hartlepool.

## **5. WHAT SHOULD A MEMBER OF THE PUBLIC DO IF THEY SUSPECT FRAUD OR CORRUPTION?**

- 5.1 The Council encourages members of the public who suspect fraud and corruption to contact the Chief Executive, Chief Finance Officer, Chief Solicitor or the Head of Audit and Governance in the first instance.
- 5.2 The Internal Audit Section is a unit, which operates independently of all other Council Services, whose work includes reviewing procedures with the following aims:
  - To deter, prevent, detect and investigate fraud and corruption.
  - To see appropriate action taken against those who commit or seek to commit some sort of fraud or corruption.
  - To develop an anti-fraud culture.

The possible courses of action taken by the Council are outlined below.

- 5.3 Internal Audit can be contacted by phone on 01429 266522, or by writing to the Head of Audit and Governance, Level 3, Civic Centre, Victoria Road, Hartlepool.

## **6. HOW WILL HARTLEPOOL BOROUGH COUNCIL DEAL WITH ALLEGATIONS OF FRAUD OR CORRUPTION?**

- 6.1 For issues raised by employees or members of the public, the action taken by the Council will depend on the nature of the concern. The matters raised may be investigated internally or referred to the Police.
- 6.2 Within 10 working days of a concern being received, the Chief Executive or designated officer will write to the complainant:
  - acknowledging that the concern has been received;
  - indicating how it is proposed the matter will be dealt with;
  - giving an estimate of how long it will take to provide a final response;
  - telling them whether any initial enquiries have been made; and
  - telling them whether any further investigations will take place, and if not, why not.

- 6.3 The Council accepts that those people who reported the alleged fraud or corruption need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, they will receive information about the outcomes of any investigation.

## **7. ALTERNATIVE METHODS FOR TAKING A COMPLAINT FORWARD**

- 7.1 If either a member of the public or an employee feels it is right to take the matter outside these processes, the following are possible ways forward:
- elected Members of the Council. If you are unsure how to contact them, call the Council on 01429 266522 for advice.
  - the External Auditors – who are the organisation, appointed to scrutinise the Council's finances and performance. By law, they must be completely independent from the Council.
  - your Trade Union – employees may invite their Trade Union to raise a matter on their behalf.
  - the Police – suspicions of fraud or corruption may be reported directly to the Police.
  - the Local Government Ombudsman – this is an independent body set up by the Government to deal with complaints against Authority's in the United Kingdom.
  - the Standards Board for England where a breach of the Member's Code of Conduct is involved.

**Appendix 2****HARTLEPOOL BOROUGH COUNCIL****"CORPORATE WHISTLE BLOWING" PROCEDURE****1. Introduction**

Hartlepool Borough Council is committed to ensuring that all its activities are lawful and that the highest possible standards are observed. A number of rules, regulations and procedures exist which are intended to promote high standards and to investigate and rectify any shortcomings.

Employees are often the first to realise when something is wrong within a Council but may not always voice their concerns. This might be because they fear reprisals or harassment or because they think speaking up is disloyal to colleagues.

This procedure provides a way in which concerns about malpractice or wrongdoing may be raised and investigated when other procedures are not sufficient or are inappropriate. It is intended to encourage employees to raise serious concerns and to protect them from any form of reprisal.

All employees of the Council may use this procedure. This includes permanent and temporary staff. It also covers agency personnel and staff seconded to a third party. Any concerns relating to the third party, if relevant to the individual's secondment, can also be raised under this procedure.

Contractors working for the Council may also use the provisions of these procedures to make the Council aware of any concerns that the Contractor's staff may have with regard to any contractual or other arrangement with the Borough Council.

**2. Existing Procedures**

The grievance procedure exists for employees to raise complaints about their employment. Copies of this are available in all departments and from the Personnel Division. The Employee Support Policy provides a special procedure for those wishing to make a complaint about harassment, victimisation or discrimination. Copies of this are available in all departments or can be obtained from the Employee Support Officer. This procedure does not replace *the* complaints procedure.

**3. Aims of the Whistle Blowing Policy**

- Encourage employees to feel confident in raising serious and to question and act upon their concerns.

- Provide ways for employees to raise those concerns and get feedback on any action as a result.
- Ensure that employees get a response to their concerns and that they are aware of how to pursue them if they know what to do if they are not satisfied with any actions.
- Reassure employees that if they raise any concerns in good faith and reasonably believe them to be true, they will be protected from possible reprisals or victimisation.

#### **4. What is Malpractice or Wrongdoing?**

Employees are encouraged, and expected, to report malpractice or wrongdoing and could in certain circumstances be subject to disciplinary action if they know of this and do not report it. Malpractice or wrongdoing might include any of the following. This is not a comprehensive list but gives examples of the sorts of things which could be raised, under the procedures listed in section 2, where appropriate, or under this procedure:-

- a) Unlawful acts or omissions, acts which are criminal or in breach of civil law or statutory duty.
- b) failure to comply with appropriate professional or other established standards;
- c) corruption or fraud;
- d) actions which are likely to cause physical danger to any person;
- e) failure to take reasonable steps to report and rectify any situation which is likely to cause a significant avoidable cost, or loss of income, to the Council or would otherwise seriously prejudice the Council;
- f) failure to draw relevant matters to the attention of Councillors or superior officers, or failure to comment appropriately on matters within an employee's responsibilities which might significantly affect an action or decision of, or on behalf of, the Council.
- g) abuse of power, or the use of the Council's powers and authority for any unauthorised or ulterior purpose;
- h) unfair discrimination in the Council's employment or services;
- i) other unethical conduct

#### **5. How do I Raise a Concern?**

If an employee has a concern then he/she should raise it with someone as soon as possible. If there are reasons why he/she cannot raise it with his/her manager, or through the procedures listed in section 2, then the following procedure should be followed.

5.1 Raise the matter with

- The Council's Monitoring Officer  
Mr P J Devlin- Chief Solicitor
- or in the absence of the Council's Monitoring Officer, with the Deputy Monitoring Officer Ms A Carman – Legal Services Manager / Solicitor.

5.2 Letters to the Chief Solicitor will not be opened by anyone else if marked Personal & Confidential. The Chief Solicitor can be contacted on tel: 266522 ext. 3003.

5.3 Whilst concerns may be raised verbally it is helpful to have details in writing.

5.4 When a matter is raised with the Chief Solicitor he/she will arrange for one of the following to take place:-

- his/her own investigations
- investigation by another officer or Internal Audit as appropriate
- referral to the Police
- referral to the external Auditor
- referral for independent enquiry
- referral for consideration under another procedure (disciplinary, grievance, etc)
- no action

5.5 The decision will be based upon the information provided, and an interview with the employee raising the concern (off site if necessary) if appropriate. In respect of a written report, or a verbal report which the Chief Solicitor has agreed to accept, the Chief Solicitor will advise the employee in writing within 10 days of what is to happen giving an estimate of the time any investigation is expected to take. The Chief Solicitor will report as necessary to Council Members.

Some concerns may be resolved by agreed action without any need for investigation.

If urgent action is required this will be taken before any investigation is conducted.

## 6. **Support and Safeguards**

It can be difficult for employees to raise concerns and Hartlepool Borough Council aims to support those who do so and to take steps to ensure that they are not victimised or harassed. The Chief Solicitor may take appropriate action to protect those raising concerns in good faith. An employee who raises concerns in good faith will not be penalised by the Council, eg. in relation to general treatment or to any job or promotion application, or any

request for a reference.

This procedure does not override or affect an employee's rights to protection under the provisions of the Employment Rights Act 1996 inserted by the Public Interest Disclosure Act 1998. The Act protects employees against detriment as a result of making a "protected disclosure" and specifies a range of matters, which may be the subject of a protected disclosure. Namely;

- a) that a criminal offence has been committed, is being committed or is likely to be committed,
- b) that a person has failed, is failing or is likely to fail to comply with any legal obligation to which he is subject,
- c) that a miscarriage of justice has occurred, is occurring or is likely to occur,
- d) that the health or safety of any individual has been, is being or is likely to be endangered,
- e) that the environment has been, is being or is likely to be damaged, or
- f) that information tending to show any matter falling within any one of the preceding paragraphs has been, is being or is likely to be deliberately concealed.

Some of the malpractice referred to in this procedure, e.g. commission of a criminal offence, would also be the subject of the statutory protection afforded by the Act; others, e.g. the provision of misinformation to the Council or causing financial loss to the Council, would not be subject to statutory protection. The Council believes that its employees are entitled to the additional protection afforded by the procedure.

## **6.1 Victimisation**

Disciplinary action will be taken against anyone victimising or harassing an employee because he/she has raised concerns.

## **6.2 Anonymous Allegations**

Anonymous allegations are necessarily difficult to investigate and, for that reason, cannot always be given the same consideration as attributed allegations. In considering whether any action is to be taken the seriousness and credibility of the allegations will be taken into account as will the feasibility of investigating them and the reason(s) for anonymity being requested.

## **6.3 Confidentiality**

It is much easier to investigate concerns when those raising them are willing for their names to be disclosed if necessary in the investigation. However if employees specifically ask for their names not to be disclosed then this will be



respected subject only to any requirement to disclose having the force of law. This may, in some situations impede the investigation. If the only evidence of wrongdoing or malpractice is that of the complainant as an eyewitness of the complainant then he/she will usually need to be prepared to make a statement.

## **7. Links to Other Procedures**

### **7.1 Disciplinary Action**

Employees who are subject to disciplinary action and who raise concerns under this procedure should note that the disciplinary action will not necessarily be halted or delayed as a result. However in some circumstances this may be appropriate or necessary.

### **7.2 Unproven Allegations**

If an employee makes an allegation in good faith and this is not confirmed in the investigation no action will be taken against him/her. The Council will also try to minimise any negative effects of an allegation being investigated and not confirmed.

### **7.3 Deliberately False Allegations**

The Council will take disciplinary action against any employee deliberately making allegations they know to be false or unfounded, whether frivolously or maliciously. Action will also be taken against any employee inventing or otherwise falsifying facts in order to make a complaint.

### **7.4 Other Procedures**

If a matter is raised under the Whistle-Blowing procedure which could more appropriately be dealt with under another procedure the Chief Solicitor will consult the appropriate senior officer who would operate the other procedure and, if this is agreed, refer the matter on, advising the complainant accordingly.

## **8. Taking Concerns/Complaints Further**

8.1 If employees are not able to have their concerns addressed satisfactorily through this or the Council procedures then they may need to consider taking matters outside the authority and consulting one of the following:-

- the Audit Commission
- the Police
- the Local Government Ombudsman
- the Standards Committee (for issues regarding a councillors conduct)
- the relevant professional bodies or regulatory organisations
- Public Concern at Work
- The employees Trade Union

- The Citizens Advice Bureau
- The Information Commissioner
- The Health and Safety Executive

***Adult and Community Services employees are encouraged to refer matters of concern to the Commission for Social Care Inspection since such referral is encouraged nationally.***

***Details of how to contact the above is attached at Appendix 1***

***Note:***

***Public Concern at Work is the Whistle Blowing charity. The organisation has four primary activities;***

- ***to offer free, confidential advice to people concerned about crime, danger or wrong doing at work.***
- ***to help organisations deliver and demonstrate good governance.***
- ***inform public policy and***
- ***promote individual responsibility, organisational accountability and the public interest.***

***Note:***

***In conjunction with Public Concern at Work, British Standards (BSI) has published a Code of Practice on Whistle Blowing arrangements under the classification PAS 1998/2008. Copies of the code can be downloaded from [www.bsigroup.com/PAS1998](http://www.bsigroup.com/PAS1998)***

- 8.2 The Chief Personnel Officer, the Employee Support Officer or the Monitoring Officer can give advice on raising concerns externally, as can the trades unions and professional associations.
- 8.3 Employees who raise concerns outside the Council should ensure that confidential information is not disclosed inappropriately. The Chief Solicitor or Chief Personnel Officer can advise on this.
- 8.4 The Public Interest Disclosure Act 1998 also provides for protection under the Act to be extended to disclosure to a 'prescribed person' identified by the Secretary of State in regulations made under the Act. For matters relating to the proper conduct of public business, value for money, fraud and corruption in local government bodies, the 'prescribed person' is the Audit Commission for England and Wales.

## **9. Records of Complaints**

The Chief Solicitor who is the Monitoring Officer will be responsible for maintaining records of concern raised and of outcomes. Records will be kept in a form, which does not compromise confidentiality.

**10. Trades Unions**

This procedure has been agreed with the Hartlepool Joint Trade Union Committee and Trades Union representatives as indicated may give advice on the use of this or other procedures to raise concerns. Employees raising concerns may invite their Trades Union representative, or a colleague, to be present during any meetings or interviews.

## Appendix 1

**Contact details for outside organisations as outlined  
in Paragraph 7.1 of the Whistle Blowing Procedure**

<b>Name of Organisation</b>	<b>Address</b>	<b>Telephone Number</b>	<b>E-mail Address</b>
Audit Commission	Audit Commission 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ	0844 798 1212 0207 828 1212	Complaints@audit- commission.gov.uk
Police – Cleveland Constabulary	P.O. Box 70 Ladgate Lane Middlesbrough TS8 9EH	(01642) 326326	enquiries@cleveland. pnn.police.uk
Local Government Ombudsman	Local Government Ombudsman PO BOX 4771 Coventry CV4 OEA	01904 380200	advice@lgo.org.uk
Chair of Standards Committee	Hartlepool Borough Council Civic Centre Victoria Road Hartlepool TS24 8AY	01429 523003	
Public Concern at Work	Suite 301 16 Baldwins Gardens London EC1N 7RJ	020 7404 6609	whistle@pcaw.co.uk
Commission for Social Care Inspection	33 Greycoat Street London SW1P 2QF	0845 015 0120	enquiries@csci.gsi. gov.uk
Relevant Professional bodies or regulatory organisations	Enquire for further information at Civic Centre Hartlepool	01429 523003	portal.master@ hartlepool.gov.uk

### **Appendix 3**

#### **PROSECUTION POLICY**

Hartlepool Borough Council is committed to preventing fraud and corruption and has developed an 'Anti-Fraud and Corruption Strategy' in order to minimise its occurrence.

The Council will constantly monitor its systems and amend procedures as required.

This procedure does not supersede other internal disciplinary codes implemented by the Council and internal offenders (e.g. Council employees or Members) will be liable to general disciplinary procedures as well as prosecution.

#### **General**

The Council's policy on fraud is to:

- deter it in the first instance;
- detect it quickly;
- investigate it efficiently; and
- prosecute offenders when appropriate.

In most cases, the Chief Executive in consultation with the Monitoring Officer/Chief Finance Officer or the Head of Audit and Governance, will be involved in deciding if reporting the matter to the Police is appropriate. In exceptional circumstances the Monitoring Officer/Chief Finance Officer or the Head of Audit and Governance may refer matters to the Police direct without prior consultation with the Chief Executive.

In deciding whether a fraud should be reported to the police the following factors will be taken into account.

- the extent of the fraud/corruption in financial terms;
- the sufficiency and appropriateness of evidence;
- whether the public interest will be served.

In general, all cases, where there is evidence of a criminal act, will be reported to the Police.