

AUDIT COMMITTEE AGENDA



Friday 23 September 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 26 July 2011
4. **ITEMS FOR DISCUSSION/DECISION**
 - 4.1 Approval of 2010/2011 Statement of Accounts – *Chief Finance Officer*
 - 4.2 Treasury Management Outturn 2010/2011 – *Chief Finance Officer*
 - 4.3 Update on Proposed New Local Audit Arrangements – *Chief Finance Officer*
 - 4.4 Internal Audit Plan 2011/12 Update – *Head of Audit and Governance*
5. **ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

26 July 2011

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

Present:

Councillor Christopher Akers-Belcher (In the Chair)

Councillors Gerard Hall, Cath Hill and Arthur Preece

In accordance with Council Procedure Rule 4 (ii) Councillor Ann Marshall was in attendance at substitute for Councillor J W Marshall

Officers: Chris Little, Chief Finance Officer
Noel Adamson, Head of Audit and Governance
Sandra Shears, Head of Finance (Corporate)
Kerry Trenchard, Performance and Strategy Officer
Denise Wimpenny, Democratic Services Team

Audit Commission Representatives:
Diane Harold and Kathy Eddowes

1. Apologies for Absence

Apologies for absence were submitted on behalf of Councillor J W Marshall.

2. Declarations of interest by members

None

3. Confirmation of the minutes of the meeting held on 18 May 2011

Confirmed subject to the removal of Councillor John W Marshall from the Members' present list and the addition of Councillor Ann Marshall as substitute.

4. Audit Commission Report – Audit Progress (*Chief Finance Officer*)

Purpose of report

To inform members of the Audit Committee that arrangements have been made for a representative from Audit Commission to be in attendance at this meeting to present the content of the Audit Commission's Audit Progress Report

Issue(s) for consideration by the Committee

The report reflected progress on the external audit of Hartlepool Borough Council as at July 2011 and included an update on the 2011/12 audit fee. The report also provided details of other matters of interest, highlighting national work undertaken by the Audit Commission.

The Chief Finance Officer highlighted that since the report had been issued further work had been undertaken to address the findings of the Audit Commission, details of which were provided.

The Audit Commission's representative, who was in attendance at the meeting, stated that the Audit Commission had started the audit on the Council's statements at the beginning of July and overall, the audit was progressing in line with the planned delivery programme. The key findings from the work undertaken were outlined in Appendix 1, a summary of which was as follows:-

- 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. The Chief Finance Officer indicated that an electronic copy of the DCLG letter had been received and a signed copy would follow.
- Cash flow statement imbalance:
 - Imbalance on the cash flow statement.

In relation to the findings of the Audit Commission, Members were advised that work was going well in relation to addressing the issues raised, details of which were provided. In accordance with usual practice a further report on the outcome of the audit would be provided to a future meeting of this Committee.

In relation to the annual fee, it was reported that a small rebate of £19,224 would be applied to the 2011/12 audit fee of £240,300 and would be deducted from future monthly instalments. Members were referred to Page 5 of the Audit progress report which provided an update on the future of the Audit Commission's in-house Audit Practice.

A Member sought clarification regarding the reasons for such a significant imbalance on the cash flow statement. The Chief Finance Officer stated that

the Council's bank accounts were reconciled on a daily basis and the production of a cash flow statement had caused significant problems for a number of years. A toolkit produced by the Chartered Institute of Professional Financial Accountants had recently been utilised in an attempt to resolve this issue. It was emphasised that all spending could be accounted for and the balance sheet was accurate. The imbalance on the cash flow statement was as a result of how the information was recorded which had caused difficulties. The Chief Finance Officer went on to provide details of the process involved in producing a cash flow statement to which a Member acknowledged the difficulties involved in this process.

A Member expressed concern regarding the impact of the Audit Commission's fee in view of the current budget constraints facing the Council. The Committee was advised that external audit was a statutory requirement. The fee was the lowest it had ever been and the fee was often challenged by the Chief Finance Officer.

Discussion ensued in relation to the future audit arrangements given the intention to abolish the Audit Commission in its current form. Members were of the view that abolition of the Audit Commission would not result in a reduction in the audit fee and concerns were raised that the wealth of experience of the Audit commission would be lost.

Members were pleased to note that certification of the Council's housing and council tax benefit scheme did not require a qualification letter. The amendments resulted in an increase in benefit subsidy payable to the Council. The Chair expressed his thanks to the team for their hard work in achieving this.

Decision

That the report of the Audit Commission, be noted.

5. Audit Commission Member Information *(Head of Audit and Governance)*

Purpose of report

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.

Issue(s) for consideration by the Committee

The Better Governance Forum had provided briefing papers for Audit Committee Members in public sector bodies, attached at Appendix A, and included background information and questions relevant to the role of Members.

In response to the Chair's request for clarification as to whether the key changes in relation to the need to recognise untaken flexi leave, time off in

lieu and holiday at the year end were included in the current accounts or whether this was a new change, the Chief Finance Officer advised that this was the first year this issue had been included in the accounts.

In relation to key questions to ask relevant to the role of Audit Committee Members in the processes, as detailed in Appendix A, the Chair requested that they be provided as an appendix at future meetings of the Committee as a checklist for Members.

With regard to key question 4 – “Do we have any conditions on grants that are preventing us from using them”, a Member commented on the importance of making the public aware of conditions attached to grant funding

Decision

That the report, be noted.

6. 2010/2011 Statement of Accounts *(Chief Finance Officer)*

Purpose of report

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

Issue(s) for consideration by the Committee

The Chief Finance Officer presented the report which included the key changes in the accounting arrangements and commented on the challenges in producing the accounts by the 30 June deadline.

In previous years Members were required to approve the draft Statement of Accounts prior to audit by the Audit Commission. This requirement had been removed as a result of the introduction of IFRS requirements. However, Members were still required to approve the audited Statement of Accounts before 30 September and a report would be submitted to Committee on 23 September. 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 were provided, a summary of which were outlined in the report. Should it be necessary to amend the accounts during the course of the audit, any major amendments would be reported to Members.

The Chief Finance Officer outlined the basis for preparing the Statement of Accounts, as set out in Section 3 of the report. 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

The final outturn strategy proposal was approved by Cabinet which allocated the available resources to establish specific risk reserves to manage a range of departmental risks and corporate risks, as detailed in Appendix A, a summary of which was set out in the report. The Chief Finance Officer reported that income shortfalls would continue, details of which would be further explored and examined by scrutiny as part of the 2012/13 budget proposals.

The Chief Finance Officer explained that the statutory accounts presented information in a different format to the Council's internal management accounts, although both sets of information were based on the same primary records.

Members were referred to the table set out in section 4.6 of the report which provided a reconciliation of the statutory accounts and the Council's management accounts.

The pre-audit Statement of Accounts were attached to the report, a summary of which was provided, as detailed in the report.

With regard to investments, during 2010/11 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 borrowing.

A detailed analysis of total reserves were outlined, as detailed in the report.

The Chair requested an explanation as to why there had been a significant reduction in the insurance fund. In response, Members were informed £1 million had been transferred out to cover redundancy payments until the Council had received the transitional grant fund to cover such costs.

The Chair requested that his personal thanks be conveyed to the team for their hard work and dedication in producing the statement of accounts. The Chief Finance Officer indicated that this involved support from colleagues in other departments such as engineers and valuers who needed to provide information.

A query was raised as to why there was a continuing shortfall in income in relation to car parking charges to which the Chief Finance Officer acknowledged the income shortfall and outlined the reasons for this continuing trend.

With regard to the schedule of contributions to specific reserves, approved by Cabinet on 6 June 2011, as detailed in Appendix A, the Chair highlighted the benefits of this information, together with outturn figures, being provided to scrutiny as part of the budget process. The Committee supported this view and requested that the information be provided to enable a more robust examination of budget issues as well as improve the Council's audit and

governance arrangements. The Committee highlighted the importance of Member involvement in examining the Council's reserves together with the need to be given sufficient time to do so, as indicated at a meeting of the Council Working Group.

Members identified a number of issues to be considered as part of the budget process which included responsibilities for local authorities as a result of proposed legislative changes to the health sector, public health grant, insurance fund, risk reserves, any budget surplus as a result of the termination of the Business Transformation Board and NDC and museums acquisition reserve.

In response to Members concerns regarding the difficulties faced by the public in understanding the Council's accounts, the Chief Finance Officer advised that pages 4 to 11 of the report identified the key issues.

Decision

- (i) That the report be noted.
- (ii) That the pre-audit accounts would be subject to independent audit by the Audit Commission and any amendments would be reported to the Committee's September meeting.
- (iii) The Committee noted the opportunity to raise questions/seek clarification of information included in the pre-audit Statement of Accounts in the period up to 23 September 2011 when the Audited Statement of Accounts would be presented to this Committee for final approval.
- (iv) That information relating to specific reserves and outturn figures be provided to scrutiny as part of the budget process, as detailed above.

7. Internal Audit Plan 2010/11 Update *(Head of Audit and Governance)*

Purpose of report

To inform members of the progress made to date completing the internal audit plan for 2011/12.

Issue(s) for consideration by the Committee

Members were reminded that Appendix A of the report detailed the pieces of work that had been completed. Internal Audit staff had also been involved with the following working groups:-

Information Governance Group
Procurement Working Group
Performance and Risk Management Group

The Audit Section had received data matches from the Audit Commission in relation to the National Fraud Initiative for 2010/11 and along with the Benefit Fraud Team were currently investigating any anomalies identified.

Appendix B to the report detailed the audits currently ongoing.

In relation to the Housing Options Centre audit, it was suggested that feedback regarding the outcome of the review be provided to the Neighbourhood Services Scrutiny Forum which may assist in their current investigation.

Decision

That the contents of the report be noted.

8. Risk Management Strategy *(Head of Audit and Governance)*

Purpose of report

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 provided members of the Audit Committee the Better Governance Forum publication that aids Audit Committee members in their role in respect of risk management.

Issue(s) for consideration by the Committee

The report provided background information to the Council's responsibility to put in place arrangements for managing risks and maintaining a sound system of internal control.

The Head of Audit and Governance referred members to the guidance produced by the Better Governance Forum to assist Members of Audit Committees in their role in relation to risk management, an extract of which was set out in the report.

Attached at appendix A was the new Risk Management Framework, proposals of which were set out in the report. The aim of the restructuring process was to switch the focus from reporting on risks to more actively doing something about the risks of most concern. The new system required less monitoring and reporting than the existing Risk Management Strategy to once every 12 months during the service planning process for most risks rather than quarterly. Details of the consultation and approval process in relation to the strategy were included in the report.

A Member commented on the challenges ahead in terms of the risks involved in developing partnerships/shared arrangements.

The Chair reported on the need to consider the audit and governance implications of the proposed changes to the Standards Board Regime and

requested that a report be submitted to a future meeting of this Committee in relation to this issue. The Head of Audit and Governance advised that any impact from such changes would be included in the report.

Discussion ensued on the role and remit of the Committee and it was suggested that the constitutional make-up be reviewed to reflect the breadth of work involved.

Decision

That the report, be noted.

9. Role of the Head of Internal Audit in Local Government *(Chief Finance Officer)*

Purpose of report

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.

Issue(s) for consideration by the Committee

The Chief Finance Officer referred to the background to the statement issued by CIPFA, as set out in the report together with the key principles in delivering the authority’s strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and managing of existing risks, commenting on responses to emerging risks and proposed developments. The review of the statement was undertaken annually in line with best practice. Appendix A to the report detailed how the Council ensured that the requirements of the statement were met.

Decision

- (i) That review of the CIPFA Statement – “The role of the Head of Internal Audit in Local Government”, be noted.
- (ii) That the Council’s compliance with the requirements of the CIPFA statement, as outlined in Appendix A, be noted.

10 Draft Anti Fraud and Corruption Strategy *(Head of Audit and Governance)*

Purpose of report

The purpose of the report was to enable members of the Audit Committee to consider and endorse the Anti-Fraud and Corruption Strategy. The report also provided members of the Audit Committee the Better Governance Forum publication that aids Audit Committee members in their role in respect of counter fraud arrangements.

Issue(s) for consideration by the Committee

The report provided background information to the Council's responsibility to ensure robust and relevant procedures and processes were in place in respect of the detection and deterrence of fraud and corruption.

The Head of Audit and Governance referred members to the guidance produced by the Better Governance Forum to assist Members of Audit Committees in their role in relation to assessing and reviewing counter fraud arrangements, an extract of which was set out in the report.

The report included a checklist which could be used by those responsible for governance

The Anti-Fraud and Corruption Strategy, attached at Appendix A, had been updated in line with CIPFA guidance and was broken down into sections that covered a number of objectives, as detailed in the report.

A Member referred to an incident of alleged corruption in another local authority and sought assurances that adequate arrangements were in place to prevent incidents of this type occurring in Hartlepool. In response, the Head of Audit and Governance stated that the information provided today provided assurances that robust procedures were in place to prevent scenarios of this type.

Reference was made to governance responsibilities and an issue that was discussed at a recent Scrutiny Co-ordinating Committee meeting regarding the introduction of penalty charges for failure to report any changes in circumstances. It was confirmed that the proposed penalty charges would only apply to non-benefit households and concerns were expressed that the same principle did not apply to benefit households. The Chief Finance Officer agreed to investigate the issues raised and provide feedback to the next meeting.

Decision

- (i) That the Anti-Fraud and Corruption Strategy, be endorsed.
- (ii) That an update be provided at the next meeting in response to the concerns of Members relating to the proposed penalty charges, as outlined above.

The meeting concluded at 10:45 am.

CHAIR

AUDIT COMMITTEE

23 September, 2011



Report of: Chief Finance Officer

Subject: APPROVAL OF 2010/2011 STATEMENT OF ACCOUNTS

1. PURPOSE OF REPORT

1.1 The purposes of this report are to: -

- i) present the Audit Commission's Annual Governance Report; and,
- ii) enable Members to approve the final 2010/2011 Statement of Accounts.

2. BACKGROUND

- 2.1 This Committee were presented with the draft accounts on 26th July 2011. The July 2011 report indicated that closure of the accounts had been particularly challenging this year owing to the implementation of International Financial Reporting Standards (IFRS).
- 2.2 The July report indicated that the draft Statement of Accounts would be subject to review by the Audit Commission. The Audit Committee would then need to approve the final accounts by 30th September, 2011.
- 2.3 The July reported reminded Members that as the timescale for completing the audit process by the end of September is tight that if they had any questions on the draft Statement of Accounts they should raise these issues during July and August. This would enable any issues to be addressed before the September meeting of the Audit Committee. For Members' information no issues have been brought to my attention by Members of the Committee.
- 2.4 The July report also advised Members that the Statement of Accounts reflects the provisional 2010/2011 Outturn Strategy approved by Council in February, 2011 and the final 2010/2011 Outturn Strategy approved by Cabinet in May, 2011. This strategy allocated one-off benefits to manage one-off risks.

3. ANNUAL GOVERNANCE REPORT

- 3.1 The principle purpose of the Annual Governance Report is:
- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the Auditor and those charged with governance;
 - to share information to assist both the Auditor and those charged with Governance to fulfil their respective responsibilities; and,
 - to highlight opportunities for improvements to the Authority's financial statements/processes.
- 3.2 The Annual Governance report is attached at **Appendix A**. This document is self explanatory and Members are asked to consider this document before approving the Statement of Accounts. The Auditor will attend your meeting to present this report and to answer any questions from Members.
- 3.3 Key positive issues reported in the Annual Governance Report include:
- i) the audit opinion on the financial statements which is an unqualified opinion on the accounts (subject to clearance of residual work)
 - ii) an unqualified conclusion stating ' the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in the use of resources'.
- 3.4 The Annual Governance Report identifies accounting misstatements which required amendments to the accounts. These mostly arose from the implementation of International Financial Reporting Standards (IFRS). Whilst significant in accounting terms these errors did not affect the overall level of the Council's Earmarked Reserves and General Fund Balances, which demonstrates the Council's financial management arrangements are identifying the key financial issues facing the Council.
- 3.5 The Annual Governance Report makes five recommendations detailed in Appendix 5 of the Annual Governance Report. These recommendations are accepted and will be implemented.
- 3.6 The Annual Governance Report refers to an additional audit fee arising from extra work required on the audit in relation to tracking and checking adjustments to the draft financial statements and further work on the cash flow statement. These issues have been discussed with the Auditor and I agree that additional work has been undertaken and the additional fee of £4,783 is appropriate. This position reflects the complexities of implementing IFRS and capacity issues within the finance team from a vacant accountant post, when the statements

were prepared. This amount equates to 1.8% of the overall audit fee for 2010/11 of £267,000, which was £76,000 less than budget. The additional fee for 2010/11 will be paid in the current year and will reduce the underspend on this budget to £85,000.

4. FINAL 2010/11 STATEMENT OF ACCOUNTS

- 4.1 During the audit a number of issues were identified by the Auditor and I have agreed to amend the Accounts to reflect the issues detailed in Appendix 2 of the Annual Governance Report
- 4.2 The Auditor also identified a number of other proposed changes which I am recommending are not implemented as these issues are not material and therefore do not impact on the position reported in the Accounts, or the level of Earmarked Reserves or General Fund Balances.
- 4.3 These issues and the reason I am proposing they are not implemented are detailed at **Appendix B**. The details shown in Appendix B have been discussed with the external auditors and they will issue an unqualified opinion on the basis of the information provided in Appendix B and inclusion of these issues in the Letter of Representation. Members need to formally consider these issues and my recommendation that these issues do not need to be amended.

5. CONCLUSION

- 5.1 The Audit of the 2010/11 Accounts is now complete and there has been no change in the reported level of Earmarked Reserves or General Fund Balances.
- 5.2 The Audit review has identified some accounting misstatements which have been actioned in the revised Statement of Accounts presented for your approval.
- 5.3 The Auditors Annual Governance Report details the specific issues which the Committee need to consider before approving the Statement of Accounts. These issues are detailed in the recommendations to this report.

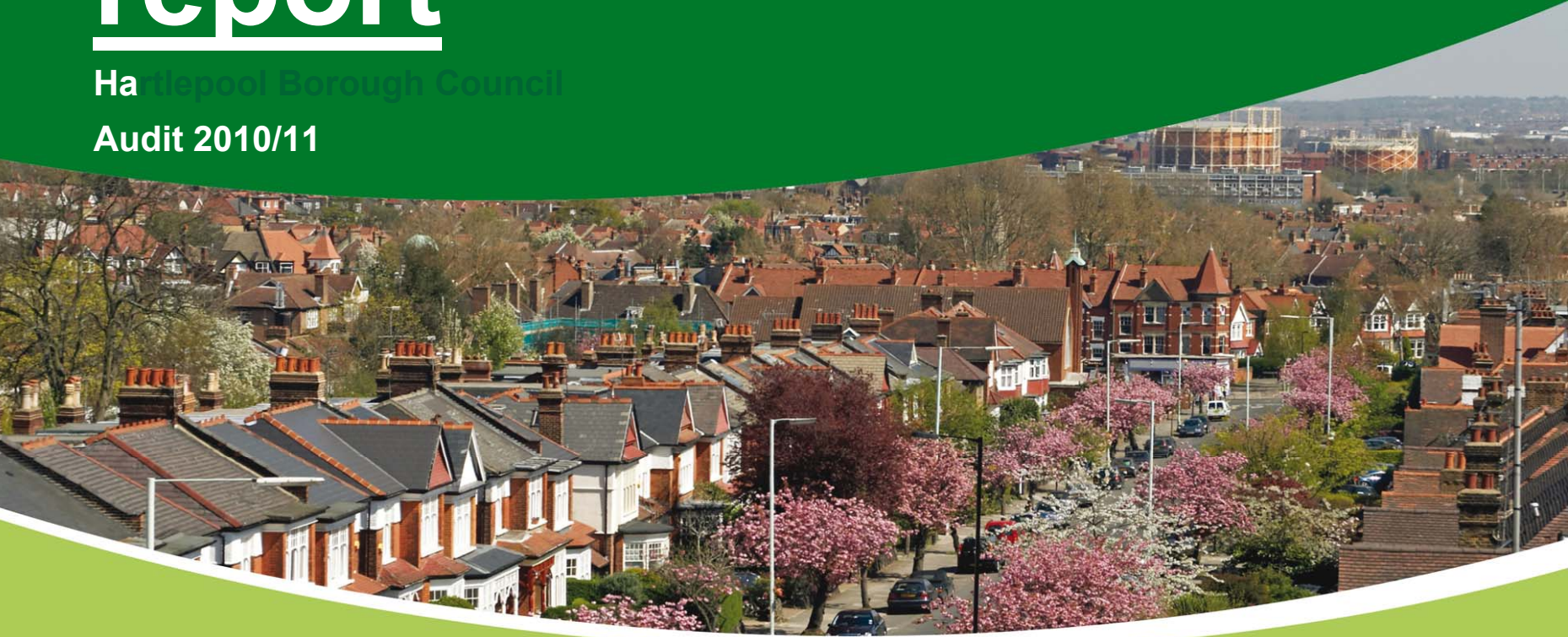
6. RECOMMENDATIONS

6.1 It is recommended that Members: -

- i) Consider the matters raised in the Audit Commission's Annual Governance Report detailed in Appendix A;
- ii) Note the adjustments to the financial statements set out in Appendix 2 of the Audit Commissions Annual Governance Statement
- iii) Approve the reasons I have detailed in Appendix B to this document for not amending the Statement of Accounts to reflect the unadjusted misstatements in the accounts;
- iv) Note that the Chairman will sign the Letter of Representation attached at **Appendix C**;
- v) Instruct the Chief Finance Officer to implement the action plan detailed at Appendix 5 of the Annual Governance Report;
- vi) Approve the final 2010/11 Statement of Accounts attached at **Appendix D**.

Annual governance report

Hartlepool Borough Council
Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit, which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	Yes
Proper arrangements to secure value for money	Yes

Audit opinion and financial statements

My audit work is substantially complete and I expect to issue an unqualified opinion on the financial statements by the 30 September 2011, subject to satisfactory clearance of residual issues.

There were a large number of errors, some significant, but there was no impact on the General Fund balance.

There have been a large number of amendments to disclosures in the statements, many arising from implementation of International Financial Reporting Standards (IFRS) in 2010/11.

Value for money

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

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence: I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. There are two relationships I need to disclose to you.

- There is one member of staff on my team who has a close relative who also works for one of the Council's schools in a non-finance position. I have put in place appropriate safeguards.
- A further member of the Audit Commission, based in the North East has declared a close personal relationship with a member at the Council. I have put in place appropriate safeguards by not using this member of staff on this audit.

There were no other relationships resulting in a threat to independence, objectivity and integrity that I need to disclose to you. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
 - note the adjustments to the financial statements set out in this report (Appendix 2);
 - agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion (Appendix 1); and
 - agree your response to the proposed action plan (Appendix 5).
-

Audit fees

The audit fee of £267,000 reported to you in my audit plan was based on the risks identified at the time. There has been a significant level of errors and inconsistencies in the financial statements presented for audit. This has involved additional time to audit the financial statements and review the corrected statements. Whilst my team has made every effort to carry out the audit work within the proposed fee, I am currently reviewing whether an additional audit fee is necessary as a result of the additional time needed. I will review this position after completion of all work and will discuss any increase with the Chief Finance Officer and report this to the September Audit Committee.

Financial statements

I plan to issue an unqualified opinion on the financial statements.

Opinion on the financial statements

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

Errors in the financial statements

There have been some material errors and a large number of errors and amendments to disclosures. These have not, however, resulted in any change to the General Fund balance for the year. Appendix 2 sets out adjusted misstatements, with the main amendments shown below. Adjusted misstatements have resulted in a net increase of £3.821 million to gross expenditure. The main adjustments are:

- Capital Grants Receipts in Advance shown as a long-term liability, which should have been split between current and long-term, resulting in a material amendment of £15.682 million to increase short-term liabilities and reduce long-term liabilities correspondingly; and
- incorrect inclusion of £3.812 million of Building Schools for the Future (BSF) capital expenditure in respect of Dyke House (Foundation School) on the Council's balance sheet when should have been 'off balance-sheet'.
- material amendment due to incorrect classification of £17.753 million (£16.368 million 2009/10) of 'downward revaluations' as 'impairments'. This impacted on the presentation within the Property, Plant and Equipment main disclosure table for several line headings (Note 15), with no overall impact. There was a corresponding material impact on Unusable Reserves presentation (Capital Adjustment Account).

I have commented on the underlying issues arising from the number of errors in the later section 'quality of the financial statements'.

Unadjusted misstatements

Appendix 3 sets out errors and uncertainties that I have identified that management have decided not to adjust, including various under and overstatements of Property, Plant and Equipment. If adjusted, these would result in an increase of approximately £563,000 to net expenditure, which I have concluded is not material.

Financial statements

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

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

Key audit risk and our findings

Key audit risk	Finding
1. Implementation of International Financial Reporting Standards (IFRS).	<p>The Council produced the draft statements by the deadline of 30 June, and I was provided with supporting working papers by 4 July. The Council carried out early work on restating the statements for IFRS which my team reviewed. However, as reported to the Audit Committee, there was slippage in the restatement programme, which then had an impact on the closedown period for the 2010/11 statements.</p> <p>There were a number of amendments to disclosures to comply with IFRS requirements.</p>
2. Calculation of the Infrastructure depreciation accounting estimate	<p>We reviewed and gained appropriate assurance from the work carried out by the Council. This resulted in an increase of £1.65 million to Infrastructure depreciation for years before 1 April 2010. Note 15 sets out this accounting estimate change, as required.</p>
3. Cash flow imbalance for 2009/10 and 2010/11	<p>As highlighted in the July Progress Report, the 2010/11 cash flow statement contained an imbalance of £1.5 million. Following more work, the Council revised the 2010/11 imbalance to £203,000.</p> <p>Audit work identified similar errors in the 2009/10 (as restated for IFRS) cash flow statement. Following more work, the Council revised the 2009/10 imbalance to £259,000.</p> <p>The Council should take action to resolve this historical issue before next year's audit.</p>

Key audit risk	Finding
4. Controls over journals (within the main accounting system)	<p>As highlighted in my July Progress Report, the Council's controls over journals do not require a second person to review and authorise all journals.</p> <p>The Chief Finance Officer put in place a new control during 2010/11; being a periodic review of journals. I gained appropriate assurance from my audit work, including testing of this new 'periodic journal review' control the Council put in place.</p> <p>The Council plans to further improve controls over journals by:</p> <ul style="list-style-type: none"> ■ improving journal narrative; and ■ using a single code for all 'adjustment' journals.

Recommendation
R1 Improve journal controls which are a key control over the transactions in the main accounting system.

Financial statements

Significant weaknesses in internal control

My audit work on the preparation of the financial statements has not identified any significant weaknesses in internal control. It should be noted that I am not expressing an opinion on the overall effectiveness of internal control.

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings
1. Accounting policy of not depreciating Property, Plant and Equipment in either the year of acquisition (except for enhancements) or year of disposal	<p>I considered the impact of the policy adopted by the Council on the 2010/11 financial statements. The estimated overstatement of asset values by not depreciating assets acquired or disposed of in 2010/11 was £0.600 million and would not have been material.</p> <p>The Council is considering changing its policy so it depreciates in the year of acquisition and disposal. Implementing the new asset register in 2011/12 may require this change.</p>
2. Quality of financial reporting	<p>There was a significant level of minor changes required to the statement of accounts:</p> <ul style="list-style-type: none">■ corrections and clarification of accounting policies;■ out-of-date references in both the Statement of Accounting Policies and the Glossary, amended to reflect the change to International Financial Reporting Standards (IFRS);■ many £1,000, £2,000 and £3,000 'rounding' differences;■ inconsistency of use of brackets to show income and expenditure, and inconsistent or omitted brackets in line headings meaning lack of clarity about whether they show a gain or loss, surplus or deficit;■ some disclosure tables included 'nil' lines, not required.
3. Fixed asset register 'data cleansing' before moving to the new	<p>There were several minor errors relating to the fixed asset register identified during the audit. These included:</p>

Issue	Findings
register in 2011/12	<ul style="list-style-type: none"> ■ missing reference numbers; ■ missing valuation dates; and ■ incorrect formulae (trivial impact). <p>The integrity of data within the asset register is important to the Council's management of assets and accounting for them. It is important the current data cleansing exercise is robust and fully completed. We will review migration of data to the new register as part our 2011/12 audit, placing reliance on Internal Audit work where appropriate.</p>
4. Imbalance in the cash flow statement	<p>For a number of years, the Council's accounts have shown an imbalance on the cash flow statement. As noted earlier in this report, the draft accounts presented for audit included an imbalance of £1.5 million, reduced to £203,000 following changes agreed following during the audit.</p>

Recommendation
R2 The Council needs to allow for time in the closure programme to carry out a more robust quality assurance review of the financial statements prior to presenting them for audit.
R3 The Council needs to review and resolve cash flow statement imbalances.
R4 The Council should ensure it carries out a thorough 'data cleansing' exercise of the current fixed asset register as part of migration to the new register.

Financial statements

Significant difficulties encountered during the audit

This has been a difficult year with the transition to International Financial Reporting Standards. As highlighted earlier in the report, there have been a large number of errors which have increased the time taken to audit the financial statements which may impact on the audit fee. The Chief Finance Officer and his team have been helpful, responding promptly to the queries raised during the audit and I would like to thank him and his team for their cooperation.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. This is set out in a separate letter.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<p>The Council has a good understanding of the current economic climate and has developed a robust Medium Term Financial Strategy (MTFS). A corporate transformation programme supports this, aimed at allowing the Council to deliver the significant savings required and position itself well for future challenges.</p> <p>The Council has a good track record of managing within its budget. Cabinet receives regular quarterly finance and performance reports, which are clearly presented and facilitate effective scrutiny. There remains some scope for further development of reporting, given the risks arising from the current financial climate, which the Chief Finance Officer is already considering.</p> <p>The Council is monitoring its progress in delivering the required efficiencies and savings</p>

Criterion	Findings
	<p>against specific milestones. This is key as clarity and promptness of financial reporting, aligned to monitoring the delivery of required savings is increasingly important given the financial pressures facing councils.</p> <p>Overall, the Council has managed the significant financial challenges it has faced well, managing within budget and successfully delivering planned savings and efficiencies.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council's overarching revised transformation programme, building upon the previous Business Transformation Programme, encapsulates how it will deliver the required savings and cuts. It plans to do this by a combination of:</p> <ul style="list-style-type: none"> ■ continuing a programme of review and change which encapsulates the Business Transformation service reviews with a series of planned reductions ■ a series of projects which enable the Authority to either take opportunities to deliver potentially significant savings (while protecting front-line services) or provide for greater service resilience; and ■ looking longer term and considering options for the medium and long term. <p>Efficiency savings achieved in 2010/11 totalled just over £4 million, on top of addressing the gap left by in-year grant cuts totalling £3.6 million. For 2011/12, the Council has made good progress so far in taking action to achieve the required savings of some £10 million. This has been by a combination of efficiencies from its Business Transformation Programme and other service reviews.</p> <p>The Council has estimated that it needs to make more permanent cuts of about £14 million before the start of 2014/15, including £6.6 million for 2012/13 to balance its budget. There has been good progress so far on plans for achieving these savings.</p> <p>In the context of considering efficiencies, the Council is aware that its costs are high in some areas. Our review of the Audit Commission's national Value for Money Profiles, which compare costs by service for similar councils suggests the Council is higher cost than most for most service areas. Caution should always be used when interpreting cost comparisons, which do not consider different sources of funding and levels of deprivation. However it is</p>

Criterion	Findings
	<p>clear there is scope for considering cost reductions and delivery of services. The Council is addressing this by service reviews and wider considerations of how the Council works.</p> <p>Building on the previous Business Transformation Programme, the Council is developing a programme of service reviews and wider-reaching changes to achieve the savings required for 2012/13 onwards. Key to achieving the planned savings has been the robust process for reducing budgets following implementation of service review recommendations.</p> <p>The Council is keeping a balance between developing targets and plans in enough detail so they are realistic and achievable, while also more widely considering future service delivery.</p> <p>Looking forward, the Council is considering alternative service delivery models which will present both risks and opportunities. The Council is taking difficult decisions to safeguard its future financial strength and capacity to deliver services. As well as continuing to analyse costs, in particular for any high cost areas, close monitoring of progress in achieving the planned savings for 2011/12 onwards is important.</p>

As part of our work, we have reviewed the Gifts and Hospitality registers for both members and officers and considered disclosures made against the Council's policies. We have made two minor recommendations which we have included in a separate letter we have written to the Chief Solicitor. These are:

- prompt publication of the online Gifts and Hospitality register. The 2010/11 register was not published on the Council's website, in line with the Council's agreed approach until we raised this; and
- expanding the policy on Gifts and Hospitality for members to more clearly specify the policy on hospitality.

Appendix 1 – Draft audit report

Opinion on the Authority accounting statements

I have audited the accounting statements of Hartlepool Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hartlepool Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of 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. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Hartlepool Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Authority's responsibilities

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

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, *Hartlepool Borough Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Hartlepool Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Lynne Snowball
Officer of the Audit Commission

2nd Floor
Nickalls House
Metro Centre
Gateshead, Tyne & Wear
NE11 9NH
23 September 2011

Appendix 2 – Adjustments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement (CIES)		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
CIES sub-totals for surplus on provision of services incorrectly reported for gross expenditure and income.	Gross expenditure and income totals increased (no net impact).	-	-	-	-
Capital Grants Receipts in Advance (CG RIA) shown as a long-term liability when most were short- term.	Capital grants received in advance reclassified.			15,682 CG RIA short-term	15,682 CG RIA long-term
Capital expenditure on Dyke House School was added to Property Plant and Equipment (PPE) on the balance sheet. This was incorrect as this is a foundation school and not recognised on the Council's balance sheet.	The expenditure was transferred to the category Revenue Expenditure Funded from Capital Under Statute (REFCUS (with no net impact as funded from grant)).	3,812 Education and Children's Services (REFCUS)			3,812 PPE

As well as the numerical errors within the primary statements highlighted above, there were a large number of amendments to disclosure notes. Only the most significant ones have been summarised below.

Amendments to disclosure notes	
Disclosure	Amendment
Cash flow statement	Amendments have been made to the cash flow statement for both 2010/11 and 2009/10. All lines on the face of the cash flow statement have changed as a result for both years, along with many of the figures in the supporting disclosure notes. The revised remaining imbalances are £203,000 and £259,000 for 2010/11 and 2009/10 respectively.
Collection Fund Note 2	Amendment of £128,000 to Note 2 (no impact on main statement) to reflect a late adjustment to the Collection Fund.
Note 2 Accounting Standards issued but not yet adopted	Expansion and enhancement of disclosures to meet fully the requirement to disclose the impact of adopting Financial Reporting Standard 30, Heritage Assets in 2011/12. This is linked to the understatement of Museum Exhibits which I have referred to in the appendix showing unadjusted errors.
Note 7 Transfers to/(from) Earmarked Reserves	Amendments to presentation of note to give more consistency with the primary statements and also Note 29 Usable Reserves.
Note 14 Termination Benefits	Minor amendment to wording and addition of comparatives for number of employees. Amendment for omission of £229,000 of termination benefits (2009/10 £477,000).
Note 15 Property Plant and Equipment (PPE): main table	Material amendment due to incorrect classification of £17.753 million (£16.368 million 2009/10) of 'downward revaluations' as 'impairments'. Impact on presentation within table only for a number of line headings: no overall impact. Corresponding impact on Unusable Reserves referred to later in this table.
Note 15 PPE: Fair Value table	Several amendments to table to correct disclosures. Line 'valued at historical cost Other Land and Building' revised from £1.743 million to nil. Lines for 'Other Land and Buildings' correspondingly amended for years 2008/09, 2009/10 and 2010/11.
Note 15 PPE: Capital Commitments	Amendment to disclosure of capital programme of £30.671 million which differed by £2.137 million to the Explanatory Foreword. Minor amendment to narrative to clarify it refers to the entire capital programme, not just significant capital

Amendments to disclosure notes

	commitments. Also a minor amendment of £386,000 to the disclosed significant commitments.
Note 15 PPE: Other amendments	Narrative disclosure of value of Revenue Expenditure Funded from Capital under Statute (and the value funded by grants and contributions) of £10.165 million.
Note 16 Investment Property	Addition of shopping centre income of £735,000 (with corresponding adjustment to Note 10 where it was already shown).
Note 21 Debtors	Two amendments of £718,000 and £145,000 for Council Tax and NNDR debtors to lines within this note.
Note 26 Provisions	Minor amendment within line headings to show £100,000 which was 'reversed unused' but incorrectly disclosed. No net impact. Expansion of narrative to meeting accounting standards requirements.
Note 28 Grant Income	Minor amendment of £286,000 between lines for 2010/11.
Note 30 Unusable Reserves	Amendments to lines within Capital Adjustment Account and Revaluation Reserve, mainly because of the material amendment to Note 15 for incorrect classification of 'downward revaluations' as 'impairment'. These were amendments to each year (2008/09, 2009/10 and 2010/11) however no net impact upon the balances.
Note 31 Related Party Transactions	Three main amendments: <ul style="list-style-type: none"> ■ expansion of disclosure in respect of Members' related party transactions; ■ amendment to disclosure of income from Service Level Agreement with Cleveland Fire Authority; and ■ expansion and clarification of value arising from Housing Hartlepool's management of the council houses.
Note 32 Trading Operations	A few amendments including overstatement of Vehicle Maintenance income and expenditure by £963,000 (with similar error identified in 2009/10) and addition of narrative to meet disclosure requirements.
Note 35 Operating Leases	Formulae error resulting in understatement of £0.382 million from the table showing future minimum lease payments.
Note 36 Finance leases	Minor amendment of £0.065 million to disclosures (with corresponding impact upon Note 15).
Note 46 Defined Benefit Pension Scheme	Various amendments including understatement of present value of scheme liabilities by £964,000 due to formulae error (no impact on statements). Also incorrect disclosure in narrative of cumulative actuarial gains and losses (disclosed as gain of £41.884 million instead of £35.258 million, with a similar amendment to the 2009/10 disclosure). Amendment to entire note to correct the above inconsistencies, in particular brackets and presentation of subtotals, giving a clearer

Amendments to disclosure notes

[link to the primary statements.](#)

There have also been a number of amendments to disclosure notes to correct inconsistencies, enhance narrative and comply with accounting standards. There was one minor amendment to the Explanatory Foreword in respect of Council Tax bandings disclosed.

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, [including uncorrected misstatements from earlier years,] but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
The Council does not apply depreciation in either the year of acquisition (except for enhancements) and year of disposal, impacting on the accuracy of the asset value.	Impact of approach estimated at £586,000.	586			586

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Sub stations have not been valued consistently on the Balance Sheet	Property values understated (estimated value)			Property Plant & Equipment (PPE) 300	Unusable Reserves 300
Dyke House Foundation school balances were excluded from the Council's accounts, as the Council does not have this information and does not consider it material	Estimated adjustment		Education and Children's 293	Various including Cash 293	
Brinkburn swimming pool impairment	Value of asset (Property, Plant and Equipment) overstated (estimate)	252	Net cost of services	252	
				PPE Operational assets	
Omission of some museum exhibits	Understatement of museum exhibits (estimate)			PPE (Community Assets) 102	Unusable Reserves 102
Omission of Library Collection from Community Assets category	Understatement of Library Collection			PPE (Community Assets) 115	Unusable Reserves 115
Asset classified as Operational instead of Investment property	Reclassification of property			Investment Properties 135	PPE Other Land & Building 135
Overstatement of asset due to double-counting of heating system component	Reduce asset value	Education 98			98 Other Land and Building

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Accumulated absences accrual: incorrect treatment of flexitime balances and calculation errors	Adjustment to the estimate: net impact of £212, 000 (cumulative impact)	Gross income 115	Gross expenditure 328	Debtors 212	Creditors 212
Misclassification between Property, Plant and Equipment (PPE) categories	Impact upon Note 15 disclosure note only			PPE (Infrastructure) 82	PPE (Other Land and Building) 82
2009/10 misclassification error within net cost of services	Misclassification between lines within net cost of services	Court Services 194	Corporate and Democratic Core 194		

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

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

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a

misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as 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 buying 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 displaying 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.

If I find the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 Action Plan

Comment [A1]: Note to Publishing Team: please would you add the last page of the template back in and delete this note.
Also formatting of the Appendix heading which I couldn't get right.
Thank you

Recommendations

Recommendation 1

Improve journal controls which are a key control over the transactions in the main accounting system.

Responsibility	Chief Finance Officer
-----------------------	-----------------------

Priority	Medium
-----------------	--------

Date	On-going
-------------	----------

Comments	Actions already implemented
-----------------	-----------------------------

Recommendation 2

The Council needs to allow for time in the closure programme to carry out a more robust quality assurance review of the financial statements prior to presenting them for audit.

Responsibility	Chief Finance Officer / Head of Finance - Corporate
-----------------------	---

Priority	Medium
-----------------	--------

Date	June 2012
-------------	-----------

Comments	Agreed and recruitment to a vacant accountant post in June 2011 reinstates capacity.
-----------------	--

Recommendation 3

The Council needs to review and resolve cash flow statement imbalances.

Responsibility	Chief Finance Officer
-----------------------	-----------------------

Recommendations

Priority	Medium
-----------------	--------

Date	June 2012
-------------	-----------

Comments	Agreed
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Recommendation 4

The Council should ensure it carries out a thorough 'data cleansing' exercise of the current fixed asset register as part of migration to the new register.

Responsibility	Chief Finance Officer
-----------------------	-----------------------

Priority	Medium
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Date	On-going and prior to final migration to the new register
-------------	---

Comments	Agreed and included in implementation plan
-----------------	--

Proposed changes not amended as detailed in Appendix 3 of the Annual Governance Report		
	Issue not Amended	Reasons for not Amending
1.	The Council does not apply depreciation in either the year of acquisition (except enhancements) and year of disposal impacting on the accuracy of the asset value.	The estimate of the impact is an understatement in depreciation of £0.586m. As this amount is not significant in relation to the overall value of Property, Plant and equipment of £250.151m and does not impact on the Councils cash position the accounts have not been amended
2.	Sub stations have not been valued consistently on the Balance Sheet.	As part of the Councils 5 year rolling programme Sub Stations will be revalued in 2011/12. Action will be taken to ensure that all sub stations are valued consistently. As this amount is not significant in relation to the overall value of Property, Plant and equipment of £250.151m and does not impact on the Councils cash position the accounts have not been amended
3.	Dyke House Foundation school balances were exclude from the Council's accounts, as the Council does not have this information and does not consider it material.	Dyke House School is a foundation school who do not buy back Council financial services. There is no guidance as to whether Foundation School balances should be included in an Authority's statutory accounts. As inclusion of the school balances would not change the Council's financial position the accounts have not been amended.
4.	Brinkburn Swimming Pool impairment.	The omission of impairing Brinkburn Swimming Pool means that Property, Plant and Equipment valued at £250.151m on the Balance Sheet is £0.252m overstated. The difference is not significant.
5.	Omission of some museum exhibits and library collection from Community Assets category.	The Council's heritage assets are held on the Councils Balance Sheet at £8.767m using an insurance valuation carried out by professional valuers. The £0.217m is an estimate by council officers of the value of items omitted. These items are still covered by the Councils insurance cover. The Council are currently undertaking a review of the whole collection and obtaining a new insurance valuation which will be

		recorded in the 2011/12 Balance Sheet. As this does not impact on the Council's cash position or balances the accounts have not been amended.
6.	Asset classified as Operational instead of Investment Property	The issue does not affect the overall value of Long Term Assets. As this does not impact on the Council's cash position or balances the accounts have not been amended.
7.	Overstatement of asset owing to double-counting of heating system.	An amount of £0.098m was included in Property, Plant and Equipment twice. As this amount is not significant in relation to the overall value of Property, Plant and equipment of £250.151m the accounts have not been amended.
8.	Accumulated absences accrual: estimation and calculation errors.	Individual employee holiday entitlement run for a 12 month period based on their birth month. Actual holidays are managed on this basis. In accordance with IFRS requirements holiday entitlement is calculated on a financial year basis. As a result at 31 st March individual employees may have taken more/less of their IFRS calculated entitlement (but not their annual leave entitlement based on birth month) and a value is placed on this. There was £0.212m included as a creditor instead of a debtor. This would not change the Net Assets of the Council. The accounts have not been amended as it does not impact on the Councils cash position or balances.
9.	Misclassification between Property, Plant and equipment (PPE) categories	In total the amount shown on the face of the Balance Sheet is correct. This will be amended during 2011/12.
10..	2009/10 misclassification error within net cost of services	The total amount shown in Net Cost of Services is correct. As this does not impact on the Council's cash position or balances the accounts have not been amended.

Chief Executive's Department
Civic Centre
Hartlepool
TS24 8AY

Tel: 01429 523173
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Our Ref: CL/CL
Your Ref:



Contact Officer/Email: chris.little@hartlepool.gov.uk

8 September 2011

Lynne Snowball
District Auditor
Audit Commission
2nd Floor, Nickalls House
Metro Centre
Gateshead
Tyne and Wear
NE11 9NH

Dear Lynne

Hartlepool Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements (including prior year uncorrected misstatements) summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are attached at Appendix 1.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

There are no known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Hartlepool Borough Council

Chris Little

Chief Finance Officer

Date: 23rd September, 2011

I confirm that this letter has been discussed and agreed by the Audit Committee on 23rd September 2011.

Chair of the Audit Committee

Date: 23rd September, 2011

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 31st 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 councils. 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.

Hartlepool Borough Council - Annual Accounts 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 were 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 £4.279m – which equates to 2.5% of the 2010/11 General Fund budget of £170.006m.

The Council allocated the £4.279m 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.

Hartlepool Borough Council - Annual Accounts 2010/11

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)
Total Departmental Expenditure	95,327	91,812	(3,515)
Non Departmental Expenditure	12,962	12,198	(764)
Dedicated Schools Grant Related Expenditure	61,717	61,717	0
Expenditure	170,006	165,727	(4,279)
Contributions to Reserves			
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
Total Contributions to Reserves	0	3,885	3,885
Total Expenditure	170,006	169,612	(394)
Net Contribution to General Fund Balance			394

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

	£000	%
<u>Grant Funding</u>		
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%
Total Grant Funding	128,577	76%
<u>Other Funding</u>		
Council tax (HBC Charge on Collection Fund)	39,655	23%
Use of Reserves	1,774	1%
Total Other Funding	41,429	24%
Total Funding	170,006	100%

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).

Hartlepool Borough Council - Annual Accounts 2010/11

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 31st 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 started 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 expenditure totalling £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.

	£000	%
<u>Expenditure</u>		
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%
Total Expenditure	33,483	100%
<u>Capital Financing</u>		
Other	22,266	66%
Borrowing	9,708	29%
Capital Receipts	1,509	5%
Total Capital Financing	33,483	100%

Hartlepool Borough Council - Annual Accounts 2010/11

As at 31st March, 2011, the Council had rephased capital expenditure totalling £30.671m into 2011/2012. This can be funded from the following resources, which have also been 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.

<u>Capital Financing</u>	<u>£000</u>
Government Grants	21,411
Borrowing	6,792
Capital Funding Reserves	2,468
	<u>30,671</u>

Capital Receipts

The Council received £0.620m 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 31st 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 IAS 19 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 (General Accepted Accounting Practice). 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 £86.971m 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 Council'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".

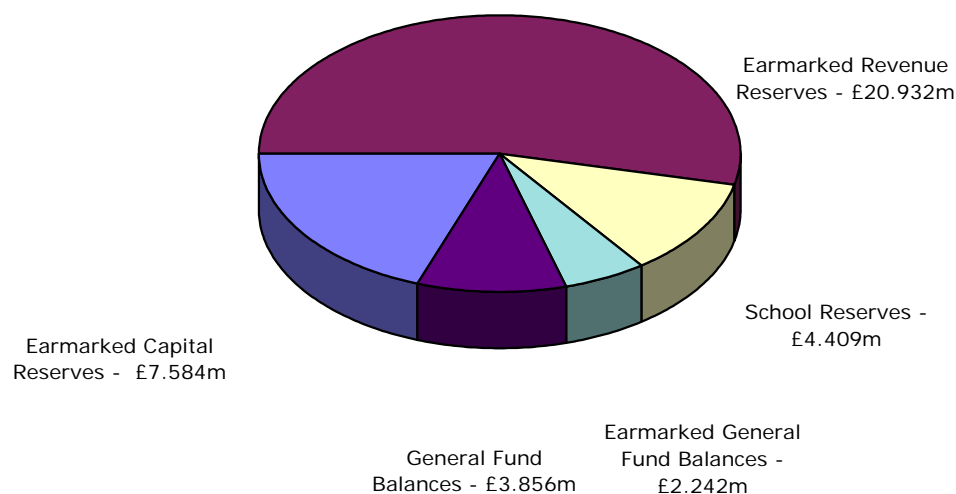
Hartlepool Borough Council - Annual Accounts 2010/11

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 £26.948m which comprises of expenditure on fixed assets of £23.538m, downward revaluations of existing assets of £15.194m, less depreciation, impairments and disposals of £35.292m.
- Short Term Debtors – as at 31st March, 2011, are £17.801m (£17.228m at 31st 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 31st March, 2011 (£36.417m at 31st 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 31st March, 2011, were £6.906m (£18.942m at 31st March, 2010). The decrease is mainly owing to cash flow changes and the Council's decision not to undertake new borrowing until the financial markets become less volatile.
- Earmarked Reserves and General Fund Balances – as at 31st March 2011, are £39.023m (£34.466m at 31st 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 rephased 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 31st 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 rephased 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 Fenced 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.

Hartlepool Borough Council - Annual Accounts 2010/11

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 £1,670.51 for Band D properties, excluding parish precepts where these applied. This comprised £1,418.70 for the Council's own services, £187.84 for the Cleveland Police Authority and £63.97 for the Cleveland Fire Authority. Each Authority determined its own tax and made a precept on the Collection Fund.

The tax for the Council's services was determined on the basis of an equated number of 27,781 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.

	£000	%
Expenditure		
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%
	69,803	100%
Income		
Council Tax	46,797	67%
NNDR from Rate Payers	22,810	33%
	69,607	100%
Net Deficit / (Surplus) in Year	196	

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 : 23rd September, 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 31st March 2011

Chris Little
Chief Finance Officer
Date: 23 September 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 Council'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	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 31 March 2009	4,575	11,586	18,636	1,533	1,005	37,335	153,393	190,728
<u>Movement in reserves during 2009/10</u>								
Surplus or (deficit) on provision of services	(19,898)	-	-	-	-	(19,898)	-	(19,898)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	(54,536)	(54,536)
Total Comprehensive Income and Expenditure	(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)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	(1,886)	-	-	(642)	(343)	(2,871)	(71,563)	(74,434)
Transfers to/(from) Earmarked Reserves	773	(5,077)	4,304	-	-	-	-	-
Increase/(Decrease) in Year	(1,113)	(5,077)	4,304	(642)	(343)	(2,871)	(71,563)	(74,434)
Balance at 31 March 2010 carried forward	3,462	6,509	22,940	891	662	34,464	81,830	116,294
<u>Movement in reserves during 2010/11</u>								
Surplus or (deficit) on provision of services	2,901	-	-	-	-	2,901	-	2,901
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	40,236	40,236
Total Comprehensive Income and Expenditure	2,901	-	-	-	-	2,901	40,236	43,137
Adjustments between accounting basis & funding basis under regulations (note 6)	235	-	-	(891)	2,313	1,657	(1,657)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	3,136	-	-	(891)	2,313	4,558	38,579	43,137
Transfers to/from Earmarked Reserves	(2,742)	142	2,600	-	-	-	-	-
Increase/(Decrease) in Year	394	142	2,600	(891)	2,313	4,558	38,579	43,137
Balance at 31 March 2011 carried forward	3,856	6,651	25,540	-	2,975	39,022	120,409	159,431

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

Comprehensive Income and Expenditure Statement for the year ended 31 March 2011

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	Expenditure	Income	Net	Note
Continuing operations:						
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	133,212	97,688	35,524
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	286,974	196,241	90,733
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	-	121,379	(121,379) 11
311,743	291,845	19,898	(Surplus) or Deficit on Provision of Services	317,596	320,497	(2,901) 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		(43,135)	

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 IAS 19 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	250,151	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	Long Term Assets	266,113	
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	Current Assets	43,709	
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
4,883	9,982	Capital Grants Receipts in Advance	15,682	28
62,388	61,461	Current Liabilities	47,717	
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
634	1,837	Capital Grants Receipts in Advance	2,451	28
103,857	171,683	Long Term Liabilities	102,674	
190,728	116,296	Net Assets:	159,431	
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	120,409	30
190,728	116,296	Total Reserves:	159,431	

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 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.

Restated 2009/10 £000s		2010/11 £000s	Note
19,898	Net (surplus) or deficit on the provision of services	(2,901)	
(34,514)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(36,824)	40
21,597	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	42,018	41
6,981	Net cash outflow from operating activities	2,293	
(11,643)	Investing activities	(23,724)	43
6,546	Financing activities	16,432	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)	Cash and cash equivalents at the end of the reporting period	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 general 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.

General revenue debtors and creditors of less than £1,000 have only been accrued at the discretion of individual departments. All amounts in excess of £1,000 have been accrued.

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 non-current 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 whilst working 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. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date, are recognised in the CIES under the section 'Other Comprehensive Expenditure

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 Capital grants Receipts in Advance. 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 a 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 non-current 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

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

The asset valuations have been prepared using the following assumptions:

- a) The Council has good marketable title, free from any onerous or restrictive covenants.
- b) There are no hazardous substances or latent defects in the properties and there is no contamination present.
- c) Details of tenure, planning consents and other relevant information are assumed to be correct.
- d) That properties and their value are unaffected by any matters that would be revealed by a local search, replies to usual enquiries or by any statutory notice.
- e) It is assumed that the present use is lawful and that there are no adverse conditions attached. It is further assumed that there are no adverse planning proposals in existence that may affect the property in the future.
- f) No allowance has been made for any taxation, acquisition, realisation or disposal costs or other expenses.
- g) No soil surveys have been carried out or services tested.

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. As allowable under the Code depreciated historical cost is used as a proxy for some non-property assets that have short useful lives and/or low values.

Statement of Accounting Policies

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 revaluation account, except to the extent that it reverses a revaluation loss on the same asset previously recognised in the Income and Expenditure account, when the revaluation gain is recognised in the Income and Expenditure account.

Where an item of Property, Plant or Equipment 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.

Statement of Accounting Policies

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.

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). Depreciation has been charged using the straight line method on the closing balances over the assets estimated useful life.

The useful lives of assets are estimated on a realistic basis and are reviewed regularly and, where necessary, revised. Where the useful life of an item of Property, Plant or Equipment is revised, the carrying amount of the item is depreciated over the revised remaining useful life. Depreciation is not charged in the year of acquisition but is charged in the year of enhancement.

Depreciation is calculated on the following bases:

- dwellings – 40 years.
- other buildings – 25 to 40 years.

Statement of Accounting Policies

- vehicles, plant and equipment – 3 to 15 years.
- infrastructure – 15 to 100 years.

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, or has a significantly different useful life, the components are recognised separately and depreciated based on the components useful economic life. Council dwellings are not componentised as components are not considered material.

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 Property, Plant and Equipment 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.

Statement of Accounting Policies

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.

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.

Statement of Accounting Policies

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments and are disclosed in Note 47 Contingent Liabilities.

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.

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.

Statement of Accounting Policies

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.

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

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

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

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 a 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. This requirement is reflected within the accounting policies, the financial statements show cash and cash equivalents where deposits with financial institutions are repayable without penalty on notice of not more than 24 hours.

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, further detail is shown 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.

The Code requires that heritage assets are measured at valuation in the 2011/12 financial statements (including the 2010/11 comparative information). The Council's asset register currently recognises some of these types of asset as Community Assets with a value at 31st March, 2011 of £8.767m. These will be re-classified and revalued based on the latest insurance values during 2011/12. Increases in valuation will be recognised as revaluation gains in the revaluation reserve and losses will be charged to the comprehensive income and expenditure statement.

It is anticipated that the heritage assets held by the Council will have indeterminate lives and a high residual value; hence it will be inappropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the heritage assets.

Public art is used by the Council to create and revitalise public spaces, to improve the environment and to enhance new developments. It is also an important and creative community development tool and is used to engage local people in shaping and defining the community.

Within the Borough of Hartlepool there are a number of items of public art, such as statues, monuments and structural art on public roundabouts. The Council is unlikely to be able to recognise these works of art in future financial statements as it is of the view that obtaining valuations for the vast majority of these works of art would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements - this exemption is permitted by the 2011/12 Code.

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:

Hartlepool Borough Council - Annual Accounts 2010/11

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 a 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).
Arrears	At 31 March 2011, the Council had a balance of £8.168m on general and trade debtors. A review of these balances suggested that an impairment of doubtful debts of £1.670m was appropriate. However in the current climate it is not certain that such an allowance would be sufficient.	If collections rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £1.670m to set aside as an allowance.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

Note 5: Events after the Balance Sheet Date

The Statement of Accounts amended at audit was authorised for issue by the Chief Finance Officer on 23rd September 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

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2010/11	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
Adjustments primarily involving the Capital Adjustment Account:						
<i>Reversal of items debited or credited to the Comprehensive Income & 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	11,491	-	-	-	-	11,491
Revenue expenditure funded from capital under statute	(1,439)	-	-	-	-	(1,439)
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 & Expenditure Statement</i>						
Provision for the financing of capital investment (MRP)	4,642	-	-	-	-	4,642
Adjustments primarily involving the Capital Grants Unapplied Account:						
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
Adjustments primarily involving the Capital Receipts Reserve:						
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 to finance the payments to the Government capital receipts pool	(2)	-	-	2	-	-
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income & Expenditure Statement	-	-	-	(2)	-	(2)
Adjustments primarily involving the Unequal Pay Back Pay Account						
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)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	17,230	-	-	-	-	17,230
Employer's pension contributions and direct payments to pensioners payable in year	10,642	-	-	-	-	10,642
Adjustments Primarily involving the Collection Fund Adjustment Account:						
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					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
Adjustments primarily involving the Accumulated Absences						
Adjustment Account:						
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
Total Adjustments	(235)	-	-	891	(2,314)	(1,658)

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
Adjustments primarily involving the Capital Adjustment Account:						
<i>Reversal of items debited or credited to the Comprehensive Income & 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 & Expenditure Statement</i>						
Provision for the financing of capital investment (MRP)	4,153	-	-	-	-	4,153
Adjustments primarily involving the Capital Grants Unapplied Account:						
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
Adjustments primarily involving the Capital Receipts Reserve:						
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 to finance the payments to the Government capital receipts pool	2	-	-	(2)	-	-
Adjustments primarily involving the Pensions Reserve:						
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
Adjustments Primarily involving the Collection Fund Adjustment Account:						
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
Adjustments primarily involving the Accumulated Absences Adjustment Account:						
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)
Total Adjustments	(18,013)	-	-	642	343	(17,028)

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	Transfers Out 2009/10	Transfers In 2009/10	Restated Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011	Note
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Unearmarked General Fund Balance								
General Fund Balance	4,575	(1,113)	-	3,462	-	394	3,856	a
	4,575	(1,113)	-	3,462	-	394	3,856	
Earmarked General Fund Reserves								
Strategic Change Reserve	984	(203)	-	781	(49)	-	732	b
Budget Support Fund	6,653	(4,630)	63	2,086	(1,444)	794	1,437	c
Energy Saving Fund	14	-	15	29	(28)	-	1	d
Strategic Procurement Review	50	-	-	50	-	-	50	e
LPSA Reward	26	(11)	-	15	(15)	18	18	f
Cabinet Projects	4	-	-	4	-	-	4	g
	7,731	(4,844)	78	2,965	(1,536)	813	2,242	
School Balances								
Balances held by schools under a scheme of delegation	3,854	(3,883)	3,572	3,543	(3,560)	4,427	4,409	h
	3,854	(3,883)	3,572	3,543	(3,560)	4,427	4,409	
Earmarked Capital Reserves								
Capital Funding Reserve	1,102	(545)	2,476	3,033	(689)	2,225	4,569	i
Maritime Avenue Remedial Works	81	(47)	3	37	-	1	38	j
Capital Grants Unapplied	1,005	(686)	344	663	(2,067)	4,381	2,976	k
Capital Receipts Reserve	1,533	(642)	-	891	(891)	-	0	l
	3,721	(1,920)	2,823	4,624	(3,647)	6,607	7,584	
Earmarked Revenue Reserves								
School Rates	138	(78)	6	66	-	8	74	m
Other Fund School Balances	114	(41)	26	99	(47)	103	155	n
Brierton/Dyke House BSF Costs	-	-	300	300	-	-	300	o
Building Schools for the Future	1,149	(975)	587	761	(808)	442	396	p
Strategic Change & Ring Fenced Grants Reserves	8,711	(5,667)	7,785	10,829	(4,491)	5,651	11,989	q
Strategic Risk Reserve	-	(200)	2,510	2,310	(132)	1,074	3,252	r
Insurance Fund	5,112	(2,938)	1,859	4,033	(1,992)	1,140	3,181	s
Lotteries Reserve	413	(17)	17	413	(12)	16	417	t
Museums Acquisition	65	(5)	3	63	-	3	66	u
Business Transformation	474	(130)	-	344	(91)	8	261	v
NDC Fund	729	(74)	-	655	(610)	-	45	w
Business Transformation One off Costs	-	(1,863)	1,863	-	-	-	-	
Termination Costs	524	(524)	-	-	-	-	-	
Broadband Implementation	24	(24)	-	-	-	-	-	
Carbon Reduction Commitment	-	-	-	-	-	196	196	x
Incinerator Reserve	-	-	-	-	-	600	600	y
	17,453	(12,536)	14,956	19,873	(8,182)	9,241	20,932	
Total Reserves	37,334	(24,296)	21,429	34,467	(16,925)	21,481	39,024	

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 Council'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 Council'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)	(96,118)
Government grants	(32,009)	(57,715)	(4,854)	(14,446)	(109,024)
Total Income	(62,974)	(68,262)	(45,143)	(28,763)	(205,142)
Employee expenses	54,190	10,119	24,169	3,332	91,810
Other operating expenses	121,738	58,077	37,338	21,321	238,474
Support Service Recharges	10,130	5,811	11,404	407	27,752
Total Expenditure	186,058	74,007	72,911	25,060	358,036
Net Expenditure	123,084	5,745	27,768	(3,703)	152,894

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)	(102,917)
Government grants	(27,251)	(55,026)	(2,924)	(13,106)	(98,307)
Total Income	(59,279)	(66,165)	(42,717)	(33,063)	(201,224)
Employee expenses	55,799	10,415	24,525	5,277	96,016
Other operating expenses	112,239	55,780	35,759	20,132	223,910
Support Service Recharges	11,484	5,848	11,861	204	29,398
Total Expenditure	179,523	72,043	72,145	25,613	349,324
Net Expenditure	120,243	5,878	29,428	(7,449)	148,100

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	10,876
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)
Surplus or Deficit on the Provision of Services	19,898	(2,901)

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	Not included in I&E	Net Cost of Services	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£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)	(15,854)	-	(124,878)	(113,239)	(238,117)
Total Income	(205,142)	(16,305)	15,134	(206,313)	(152,894)	(359,207)
Employee expenses	91,810	(18,119)	(10,642)	63,049	-	63,049
Other operating expenses	238,474	(3,202)	(18,269)	217,003	-	217,003
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
Total Expenditure	358,036	27,181	(28,911)	356,306	-	356,306
Surplus or deficit on the provision of services	152,894	10,876	(13,777)	149,993	(152,894)	(2,901)

2009/10 Comparative figures	Directorate Analysis	Technical accounting adjustments not reported in Management Accounts	Not included in I&E	Net Cost of Services	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£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)
Total Income	(201,224)	(11,105)	22,982	(189,347)	(148,100)	(337,447)
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
Total Expenditure	349,324	39,853	(31,832)	357,345	-	357,345
Surplus or deficit on the provision of services	148,100	28,748	(8,850)	167,998	(148,100)	19,898

In the technical accounting adjustments not reported in management accounts amounts include depreciation, impairment and IAS 19 pension adjustments. The management accounts concentrate on managing cash expenditure. These technical adjustments do not have an impact on the Council's bottom line.

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>24,688</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)	
(1,003)	Net (Gain) / Loss on Investment Properties	(910)	16
374	Changes in fair values of investment properties	(285)	16
<u>4,942</u>		<u>3,057</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	15,872	
<u>110,675</u>		<u>121,379</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
Totals 2010/2011	276,809.20	146,005.17	1,273.63	-	213.14	2,800.00	935.00	1,327.67	13,169.24	442,533.05
Totals for 2009/10	274,828.59	147,312.30	1,877.52	-	1,449.63	2,385.00	889.00	1,607.16	12,889.12	443,238.32

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	-	-	1,810.02	04/06/10-31/03/11
Atkinson R	1,810.02	-	71.50	1,881.52	04/06/10-31/03/11
Brash J	383.94	-	-	383.94	01/04/10-04/06/11
Flintoff R	2,193.96	-	-	2,193.96	01/04/10-31/03/11
Lilley A E	383.94	-	24.05	407.99	01/04/10-04/06/11
Payne R	2,193.96	3,620.13	190.80	6,004.89	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

COUNCILLORS' ALLOWANCES & EXPENSES – ADDITIONAL DISCLOSURE

Note 12 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 (SRAs) 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, SRAs 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 (SRAs) 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.

Note 13 - Officers' 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 3,535 (3,826 09/10) full-time equivalent employees, including schools, 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
Chief Executive Paul Walker	168,795	-	963	169,758	27,176	196,934	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 £	
Chief Executive Paul Walker	157,205	144	906	158,255	25,310	183,565	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, six months' pay at £168,000 pa and £3,295 of pay arrears relating to 2009/10.

Note 13 - Officers' 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 830 full-time equivalent employees (excluding schools) 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 800 full-time equivalent 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	-	123,880	19,790	143,670	b
Director of Regeneration & Neighbourhoods	122,917	963	-	123,880	19,790	143,670	b
Chief Finance Officer	69,408	963	-	70,371	11,175	81,546	c
Chief Solicitor	86,524	963	-	87,487	12,733	100,220	d
Assistant Chief Executive	81,062	963	-	82,025	13,051	95,076	e
Chief Customer & Workforce Services Officer	79,486	963	-	80,449	12,797	93,246	f
	562,314	5,778	-	568,092	89,336	657,428	

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

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 - Officers' 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 2011, 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 159 employees (128 employees in 2009/10) either took voluntary redundancy or were made compulsorily redundant. The 2010/11 costs of this involved payments of £1.5m (£1.5m 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. These payments incorporate schools and further details are provided in Note 45.

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 (26 2009/10) 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
Cost or Valuation								
Restated at 1 April 2010	116	195,675	15,614	90,325	17,200	469	5,358	324,757
Additions	-	1,165	2,602	1,900	-	1,773	16,089	23,529
Donations	-	-	9	-	-	-	-	9
Revaluation Increases/(decreases) recognised in the Revaluation	-	(1,491)	-	-	-	15	-	(1,476)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(3,656)	(8,606)	(11)	-	-	(1,445)	-	(13,718)
Derecognition-Disposals	-	(26,250)	(1,228)	-	-	(10)	-	(27,488)
Reclassified to/from Held for Sale	-	(25)	-	-	-	(27)	(308)	(360)
Other Reclassifications	7,981	3,377	800	1,849	-	703	(14,710)	-
At 31 March 2011	4,441	163,845	17,786	94,074	17,200	1,478	6,429	305,253

Accumulated Depreciation and Impairment

Restated at 1 April 2010	(5)	(11,703)	(7,751)	(28,189)	-	(8)	-	(47,656)
Depreciation Charge	(2)	(2,811)	(2,066)	(4,604)	-	-	-	(9,483)
Depreciation written out to the Revaluation Reserve	-	(449)	-	-	-	-	-	(449)
Depreciation derecognition - disposals	-	1,775	713	-	-	-	-	2,488
At 31 March 2011	(7)	(13,188)	(9,104)	(32,793)	-	(8)	-	(55,100)

Net Book Value

At 31 March 2011	4,434	150,657	8,682	61,281	17,200	1,470	6,429	250,153
Restated at 31 March 2010	111	183,972	7,863	62,136	17,200	461	5,358	277,101

Nature of Asset Holding

Owned	4,434	150,657	8,210	61,281	17,200	1,470	6,429	249,681
Finance Lease	-	-	472	-	-	-	-	472
Total	4,434	150,657	8,682	61,281	17,200	1,470	6,429	250,153

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
Cost or Valuation								
At 1 April 2009	116	191,612	12,660	88,655	17,226	149	6,896	317,314
Additions	-	2,168	2,807	1,670	193	4,454	6,389	17,681
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	-	8,705	-	-	-	-	-	8,705
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on provision of services	-	(13,407)	-	(3)	(117)	(4,134)	-	(17,661)
Derecognition-Disposals	-	(430)	-	-	-	-	-	(430)
Other Reclassifications	-	7,027	147	3	(102)	-	(7,927)	(852)
At 31 March 2010	116	195,675	15,614	90,325	17,200	469	5,358	324,757
Accumulated Depreciation and Impairment								
At 1 April 2009	(3)	(7,651)	(5,692)	(25,645)	-	-	-	(38,991)
Depreciation Charge	(2)	(3,407)	(2,059)	(2,544)	-	(8)	-	(8,020)
Depreciation written out to the Revaluation Reserve	-	(645)	-	-	-	-	-	(645)
At 31 March 2010	(5)	(11,703)	(7,751)	(28,189)	-	(8)	-	(47,656)
Net Book Value								
At 31 March 2010	111	183,972	7,863	62,136	17,200	461	5,358	277,101
At 31 March 2009	113	183,961	6,968	63,010	17,226	149	6,896	278,323
Nature of Asset Holding								
Owned	111	183,972	7,455	62,136	17,200	461	5,358	276,693
Finance Lease	-	-	408	-	-	-	-	408
Total	111	183,972	7,863	62,136	17,200	461	5,358	277,101

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 previous years of £1.650m. This has been reflected in the 2010/2011 accounts. Actual depreciation charges relating to 2010/2011 total £2.954m.

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

Capital Commitments

As at 31st March, 2011, the Council had rephased capital expenditure totalling £30.671m into 2011/2012, of which £28.203m will be funded from specific resources (grant and specific borrowing allocations) receivable by the Council. The remaining programme will be funded from the Council's own resources. The comparable rephased capital expenditure at 31 March 2010 was £23.248m. The Council has entered into a number of contracts for which capital monies are committed.

The major commitments are:

Scheme	Budget £000s	Spend to date £000s	Commitment £000s
Primary Capital Programme - Rossmere School Remodelling	1,393	675	718
Primary Capital Programme - Jesmond School New Build	7,131	4,760	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

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 £1.100m 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 (£6.429m). 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
Valued at Historical Cost	-	-	8,682	-	8,682
Valued at fair value as at:					
<u>Current Year</u>					
2010/2011	4,325	57,490	-	787	62,602
2009/2010	34	40,547	-	-	40,581
2008/2009	75	50,197	-	683	50,955
2007/2008	-	2,421	-	-	2,421
2006/2007	-	-	-	-	-
Total	4,434	150,655	8,682	1,470	165,241

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. See Note 2 for further information.

Custodian Authority Assets

The Balance Sheet excludes assets held by the Council in its capacity as Custodian Authority. These assets were last revalued in 2009/10 at £0.015m. 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.

Revenue Expenditure Funded from Capital Under Statute

The net cost of Revenue Expenditure Funded from Capital Under Statute is charged to the Comprehensive Income and Expenditure Account. An amount of £10.165m (£8.067m in 2009/2010) has been charged to Services. These amounts were fully financed from capital resources, which in the case of borrowings and capital receipts have been shown as a reconciling item within Note 6 (Adjustments between Accounting Basis and Funding Basis under Regulations) £1.439m (£1.571m in 2009/2010), and in the case of capital grants £8.726m (£6.496m in 2009/2010) credited directly to the relevant activity within Net Cost of Services.

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
(1,143)	Rental income from investment property	(1,007)
140	Direct operating expenses arising from investment property	97
<u>(1,003)</u>	Net (gain)/loss	<u>(910)</u>

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 Council 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:

The Council leases a number of properties where it also acts as a lessor. These properties are classed as investment properties.

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	-
<u>14,976</u>	Balance at the end of the year	<u>15,285</u>

Note 17: Revaluation Decreases / Impairment Losses

During 2010/2011, the Council has recognised net revaluation decreases of £13.848m in the Comprehensive Income and Expenditure Statement (compared to £2.961m in 2009/2010). There have been no impairments in 2010/2011. The significant revaluation losses 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 a revaluation loss has been recognised.

A further £1.444m downward revaluation 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 a revaluation decrease has been recognised.

Revaluation decreases of £8.607m have been made against operational assets. These recognise the consumption of a number of assets to date at a level greater than depreciation. In particular a £4.162m revaluation decrease 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		418

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		259

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	Balance at 31 March	778

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	1,400	1,497
2,094	4,365	General and Other Debtors	5,382	1,143	4,239
1,420	1,419	HM Revenue and Customs	1,700	-	1,700
12,655	3,695	Government Departments	5,963	718	5,245
449	660	Other Local Authorities	1,826	-	1,826
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		21,589	3,788	17,801

Debtors increased in the year by £0.573m, this movement relates to the increase in monies owed by Government departments and a reductions in payments in advance.

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.

The balance at the 31st March, 2011 is £147,000.

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.

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

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	Balance outstanding at year-end	470

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		22,674

Short term creditors fell by £7.220m in 2010/11 the key reductions relate to a fall in Capital accruals, pension accruals and a NNDR creditor. Accumulated Absences reduced as employees did not carry forward as much leave as in previous years. In addition HM Revenue and Customs balances in 2009/10 were included in General creditors, this has not been amended in the note because it does not meet the criteria for a prior period adjustment.

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
Balance at 31st March 2010	173	728	1,742	-	2,643
Additional provisions made in 2010/11	-	-	744	77	821
Amounts used in 2010/11	(173)	(495)	(241)	-	(909)
Unused amounts reversed in 2010/11	-	(100)	-	-	(100)
Balance at 31st March 2011	-	133	2,245	77	2,455

Note 26: Provisions - Long term Liabilities

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

Equal Pay - this provision was earmarked to meet the Council's liabilities in relation to Equal Pay. The provision has been fully utilised 2010/11.

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. The provision is based on a prudent estimate of the likely costs. However, the timing of these payments is uncertain.

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. The Council also has a Contingent Liability for this risk.

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. This exercise is due for completion in 2011/12.

Land Charges - this provision has been created to cover refunds of land charges following the revocation of personal search fees on the local land charge register. The Council expects to spend this provision in 2011/12.

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	Note
1,207	929	Finance lease liability	801	36
20	12	Deferred capital receipt	-	
54,703	121,612	Net Pensions liability	51,856	46
55,930	122,553		52,657	

Note 28: Grant Income

The Council 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
Credited to Taxation and Non Specific Grant Income			
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
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	Total	121,379
Credited to Services			
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	13,069
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	5,943
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	3,281
2,586	2,531	Department of Health Grants	797
6,314	6,625	Other Grants	7,412
145,261	153,253	Total	161,313

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The Council 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 if the conditions are not met.

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	Total	18,133

The capital grants receipts in advance shown above are shown in the balance sheet as :

2008/09 £000s	2009/10 £000s		2010/11 £000s
4,883	9,982	Current Liabilities	15,682
634	1,837	Long Term Liabilities	2,451
5,517	11,819	Total	18,133

Note 29: Usable Reserves

Movements in the Council'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
	<u>Unearmarked General Fund Balance</u>		
3,462	General Fund Balance	3,856	a
<u>3,462</u>		<u>3,856</u>	
	<u>Earmarked General Fund Reserves</u>		
781	Strategic Change Reserve	732	b
2,086	Budget Support Fund	1,437	c
29	Energy Saving Fund	1	d
50	Strategic Procurement Review	50	e
15	LPSA Reward	18	f
4	Cabinet Projects	4	g
<u>2,965</u>		<u>2,242</u>	
	<u>School Balances</u>		
3,543	Balances held by schools under a scheme of delegation	4,409	h
<u>3,543</u>		<u>4,409</u>	
	<u>Earmarked Capital Reserves</u>		
3,033	Capital Funding Reserve	4,569	i
37	Maritime Avenue Remedial Works	38	j
663	Capital Grants Unapplied	2,976	k
891	Capital Receipts Reserve	0	l
<u>4,624</u>		<u>7,584</u>	
	<u>Earmarked Revenue Reserves</u>		
66	School Rates	74	m
99	Other Fund School Balances	155	n
300	Brierton/Dyke House BSF Costs	300	o
761	Building Schools for the Future	396	p
10,829	Strategic Change & Ring Fenced Grants Reserves	11,989	q
2,310	Strategic Risk Reserve	3,252	r
4,033	Insurance Fund	3,181	s
413	Lotteries Reserve	417	t
63	Museums Acquisition	66	u
344	Business Transformation	261	v
655	NDC Fund	45	w
0	Business Transformation One off Costs	0	
0	Termination Costs	0	
0	Broadband Implementation	0	
0	Carbon Reduction Commitment	196	x
-	Incinerator Reserve	600	y
<u>19,873</u>		<u>20,932</u>	
<u>34,467</u>	<u>Total Reserves</u>	<u>39,024</u>	

Notes

- This is the General Fund Balance.
- 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
- This reserve has been established to support future year's budgets and will be fully used by 2012/2013
- 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.
- 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.
- This reserve has been created using monies received from the Government following the Council's successful achievement of LPSA Targets.
- This reserve has been created to set aside funding for future projects determined by the Cabinet.
- Reserves have arisen from the local management of schools. Further details are available from the Child & Adult Services Department. The net balance of £4.409m consists of individual school balances of £4.416m less loans to schools of £0.007m.
- The Capital Funding Reserve is earmarked to finance specific expenditure rephased to 2011/2012.
- 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.
- These are capital grants that will be used to finance capital expenditure in future years.

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- l) The Useable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years.
- m) The Schools Rates Adjustment arises from reductions in school rates payable following the reassessment of rateable values.
- n) School balances generated from other funding.
- o) 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.
- p) An amount set aside for the implementation of Buildings Schools for the Future.
- q) 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.
- r) 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.
- s) 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. This reserve has been used to fund 2010/11 redundancy costs on a temporary basis until receipt in 2011/12 of the Transitional Support Grant.
- t) The Lotteries Reserve, which consists of the proceeds of the Civic Lottery and donations received, is used for grants and donations to local organisations.
- u) The Museums Acquisition Reserve was set up to put monies aside for the acquisition of items for the Museum.
- v) An amount set aside to fund the Business Transformation Programme.
- w) An amount set aside to fund future expenditure on New Deal for Communities (NDC) projects.
- x) This reserve has been established to meet the 2011/2012 Carbon Reduction Commitment liability.
- y) 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.

Note 30: Unusable Reserves

The Unusable Reserves are shown below.

Restated 1 April 2009 £000s	Restated 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	151,434	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		120,410	

Table 1 - Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council 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.

Restated 2008/09 £000s	Restated 2009/10 £000s		2010/11 £000s
9,441	20,785	Balance at 1 April	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)
(1,030)	(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	Balance at 31 March	22,265

Table 2 -Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council 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	Balance at 1 April	604
(25)	(92)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(186)
696	604	Balance at 31 March	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 Council 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 Council.

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.

Restated 2008/09 £000s	Restated 2009/10 £000s		2010/11 £000s
200,899	189,127	Balance at 1 April	176,642
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(9,040)	(8,665)	· Charges for depreciation and impairment of non-current assets	(9,694)
(12,810)	(18,521)	· Revaluation losses on Property, Plant and Equipment	(13,847)
-	-	· Amortisation of intangible assets	
(619)	(1,571)	· Revenue expenditure funded from capital under statute	(1,438)
(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)
(24,188)	(28,858)		(50,231)
1,097	712	Adjusting amounts written out of the Revaluation Reserve	5,039
(23,091)	(28,146)	Net written out amount of the cost of non-current assets consumed in the year	(45,192)
		Capital financing applied in the year:	
480	1,800	· Use of the Capital Receipts Reserve to finance new capital expenditure	1,509
7,265	10,006	· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	11,490
-	73	· Application of grants to capital financing from the Capital Grants Unapplied Account	2,049
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	
11,319	16,032		19,690
-	(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	-
189,127	176,642	Balance at 31 March	151,434

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 Council 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 Council 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 Council 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)	Balance at 1 April	(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)	Balance at 31 March	(51,856)

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 Council 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
-	Balance at 1 April	0
-	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	12
-	Transfer to the Capital Receipts Reserve upon receipt of cash	(2)
-	Balance at 31 March	10

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	Balance at 1 April	386
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	Balance at 31 March	219

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)	Balance at 1 April	(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	1,162
(2,323)	(2,594)	Balance at 31 March	(1,432)

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 8 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 which can be viewed on the Council's website. The relevant members did not take part in any discussion or decision relating to the grants. Details of all these interests are recorded in the Register of Members' Interest, open to public inspection at the Civic Centre during office hours.

The Council also pays other grants and/or makes contractual payments to voluntary organisations where an individual Councillor(s) may be a members of the voluntary organisations management board. These interests are recorded in the declaration of interests completed by individual members. These grants are either funded from the Council's own resources, or specific grant secured by the Council where the Council acts as the accountable body for the grant. These arrangements are governed by the Council's internal financial procedure rules and constitution.

In many cases funding is allocated by officers under delegated budget management responsibility, particularly for accountable body funding. Where the final funding decision is made by a Councillor(s), which would normally be Cabinet Member with specific responsibility for a defined service portfolio, this decision would be made on the basis of an officer report at a formal Portfolio Holders meeting. These reports, meetings and minutes are open to the public. The only exception would be where the Council's Monitoring Officer determined in accordance with statutory regulations that publication of the information would be prejudicial to the Council's financial position and the decision would be made without members of the public being present.

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).

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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 82 recently built domestic properties on the Council's behalf for which the Council paid Housing Hartlepool a management fee of £15,000 (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.

The Council has not produced group accounts on the grounds of materiality.

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 and totals £0.415m in 2010/11

2009/10 (Surplus) / Deficit £000s	Internal Trading Operations	Expenditure £000s	2010/11 Income £000s	(Surplus) / Deficit £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	4,198	(4,224)	(26)
103	Building Cleaning	2,446	(2,375)	71
243	School Catering	4,082	(3,768)	314
-	Community Housing	15	(50)	(35)
567		22,664	(22,249)	415

Catering - provision of catering at Council functions.

Leisure Management - provision of leisure facilities within the Borough eg Mill House, Headland Sports Hall

Building Maintenance - repairs and maintenance to all Council buildings. Capital works and school works are subject to competitive tendering.

Highways Works - works to roads and gully's within the Borough. Capital works are subject to competitive tendering.

Grounds Maintenance - for all parks and open spaces. School work is subject to a Buy Back Arrangements.

Vehicle Maintenance - all vehicles for provision of Council Services eg Refuse Vehicles. Also, provides vehicle MOT's and servicing to members of the public.

Building Cleaning - cleaning of all Council buildings. Some external work which was subject to competitive tendering eg Housing Hartlepool or in the case of schools Buy Back Arrangements.

School Catering - provision of school meals to schools within the Borough. This is subject to a Buy Back Arrangement.

Community Housing - relates to the newly built community housing which is managed by Housing Hartlepool. Further information is shown in the Related Parties note.

Note 33: External Audit Costs

The Council 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 Council'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
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: -

	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
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 2011/12	843	(43)	800

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		809

The Council 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 Council 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). Where appropriate the value of these leases are shown in the Investment property note.

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

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

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
	Value of Assets held under Finance Leases	
408	Vehicles, plant & equipment	472
408	Total	472

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
	Future minimum lease payments due	
328	Current	362
601	Non-current	438
410	Finance costs payable in the future	247
1,339	Total minimum lease payments	1,047

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

	Minimum Lease Payments		Finance Lease liabilities	
	2009/10 £000s	2010/11 £000s	2009/10 £000s	2010/11 £000s
Payable:				
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	-	-	-	-
Total	1,339	1,047	929	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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council 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	Opening Capital Financing Requirement	86,903
	Capital investment	
17,681	Property, Plant and Equipment	23,538
-	Investment Properties	27
8,067	Revenue Expenditure Funded from Capital under Statute	10,165
	Sources of Finance	
(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	Closing Capital Financing Requirement	92,207
	Explanation of movements in year	
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	Increase/(decrease) in Capital Financing Requirement	5,304

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
Investments				
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	-	-
Total Investments	604	418	38,093	24,407
Debtors				
Loans and receivables (Trade Debtors)			3,136	2,786
Total debtors	-	-	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	47,207	12,247	1,698
Total Borrowings	47,213	47,207	12,247	1,698
Other Long Term Liabilities				
Finance lease liabilities	929	801		
Total other long term liabilities	929	801		
Creditors				
Financial liabilities carried at contract amount (Trade Creditors)	-	-	4,017	4,987
Total creditors	-	-	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
Net (gain)/loss for the year	2,116	(1,185)	92	1,023	2,046	(503)	186	1,729

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

Financial liabilities (i.e. loans and long-term creditors) and financial assets (i.e. receivables and long-term debtors) are carried in the Balance Sheet at amortised cost, this is known as the carrying value. Their fair value represents the breakage costs of early redemption based on market parameters applying at the balance sheet date. The difference between the two represents the potential profit or loss of disposal of the debt or investment at the balance sheet date.

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	Fair Value	Carrying Amount	Fair Value
	£000s	£000s	£000s	£000s
Financial Liabilities				
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 market loans is lower than the carrying amount because the Council has a portfolio of market loans where the interest rate payable is lower than the prevailing rates at the balance sheet date. The fair value for PWLB loans is greater than the carrying value as the rate of interest payable on these loans is greater than the current market rates.

	31 March 2010		31 March 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000s	£000s	£000s	£000s
Loans and receivables				
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 their fair value at the balance sheet date.

The carrying value of the Council's investment with Durham Tees Valley Airport (Note 18) has been determined from the Council's 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 Council's activities expose it to a variety of financial risks:

- market risk – the possibility that financial loss might arise for the Council 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 Council.
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.

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 the role of the Audit Committee to include the scrutiny of treasury activities.

Price Risk

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

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

Collateral Risk

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

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

The full Investment Strategy for 2010/11 was approved by Full Council on the 29th January 2010 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 Council'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 Council'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 Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The following analysis summarises the Council'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	Amount at 31 March 2011	Historical experience of default	Adjustment for market conditions at 31 March 2011	Estimated maximum exposure to default at 31 March 2011
	£000s	£000s	%	%	£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 Council 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	31 March 2011
	£000s	£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 Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council 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 Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council 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	31 March 2011
	£000s	£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 Council 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 Council. 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.

A large proportion of the Council's long term borrowing (£45m) is held in the form of LOBO (Lender Option Borrower Option) loans from the money markets. These loans are subject to periodic "calls" from the lender. Where the lender decides to "call" a loan, they increase the interest rate of the loan and the Council then has the opportunity to accept the increased rate or to repay the loan. In accordance with the Code of Practice, the Council's LOBOs are included in the maturity analysis according to the end date of the loan rather than when the next call date falls.

The Council's view is that the risk of these loans being called is very low and there is therefore minimum refinancing risk owing to low current market rates. The Council manages this risk through the Treasury Management strategy.

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.

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

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:

	<u>£000s</u>
Increase in interest payable on borrowings	468
Increase in interest receivable on variable rate investments	<u>(353)</u>
Impact on Surplus or Deficit on the Provision of Services	<u>115</u>
Impact on Other Comprehensive Income and Expenditure	<u>115</u>
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)	<u>(8,011)</u>

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	(8,665)	(9,694)
Impairment and downward valuations	(18,521)	(13,847)
Increase in impairment provision for bad debts	1,462	(911)
Increase in creditors	(4,065)	4,317
Increase in debtors	4,185	(2,544)
Decrease in stock	100	22
Pension liability	(3,771)	27,871
Carrying amount of non-current assets sold	(841)	(25,252)
	(4,398)	(16,786)
Other non-cash items charged to the net surplus or deficit on the provision of services		
	(34,514)	(36,824)

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)	16,233	24,598
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	4,200	16,800
Proceeds from the sale of property plant and equipment, investment property and intangible assets	1,164	620
	21,597	42,018

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)	(912)
Interest paid	2,592	1,946
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	24,931
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)	(620)
Proceeds from short-term and long-term investments	(4,200)	(16,800)
Other receipts from investing activities	(23,370)	(31,235)
Net cash flows from investing activities	(11,643)	(23,724)

Note 44: Cash Flow Statement - Financing Activities

	2009/10 £000s	2010/11 £000s
Cash receipts of short-term and long-term borrowing	(66,041)	(43,876)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	278	366
Repayments of short- and long-term borrowing	82,205	54,536
Other payments for financing activities	(9,896)	5,406
Net cash flows from financing activities	6,546	16,432

Note 45: Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council 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 Council 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 Council 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
Comprehensive Income and Expenditure Statement		
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	21,501
Expected return on scheme assets	(12,619)	(18,983)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	14,504	(17,230)
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial (gains) and losses	63,138	(41,884)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	77,642	(59,114)
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(14,504)	17,230
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contribution payable to scheme	10,733	10,642
Transfer from Pensions Reserve	(3,771)	27,872

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement for the year ending 31st March 2011 is a gain of £35.258m (£6.626m 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)	(21,501)
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
Closing balance at 31 March	(400,384)	(354,402)

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	-	-
Closing balance at 31 March	278,772	302,546

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	2010/11 £000s
Present value of liabilities (A)	290,935	287,471	254,994	400,384	354,402
Fair value of scheme assets (B)	223,288	231,505	200,291	278,772	302,546
Surplus/(deficit) in Scheme (B)-(A)	(67,648)	(55,966)	(54,703)	(121,612)	(51,856)
Experience Adjustments on Scheme Assets	860	(12,144)	(53,067)	64,152	5,472
Experience Adjustments on Scheme Liabilities	-	(11,539)	-	3,983	(7,402)

The liabilities show the underlying commitments that the Council 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 Council as recorded in the Balance Sheet, resulting in a negative overall balance of £159.431m. 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. The Local Government Pension Scheme liabilities have been assessed by Barnett Waddington, an independent firm of actuaries, estimates for the Council being 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	2010/11
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	2010/11
	%	%
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
	100.0	100.0

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 %	2010/11 %
Differences between the expected and actual return on assets	0.39	(5.25)	(26.49)	23.01	1.81
Experience gains and (losses) on liabilities	-	4.01	-	(0.99)	2.09

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 Council'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 Council's 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 in the event that Housing Hartlepool had financial difficulties. This liability reduces each year.
- The Council has settled a number of equal pay claims during 2010/11. There are still claims outstanding. Precise figures cannot be provided at this stage.
- The Council recently received results of an independent arbitration of property values in relation to one house within one of the Council's Housing Market Renewal programmes. The Council is in the process of assessing the impact of this decision and seeking legal advice on options open to the Council. When this work is complete and if necessary the outcome will be addressed as part of the 2012/13 Budget Strategy. The information usually required by IAS37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of the process.

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.

THE COLLECTION FUND

The Collection Fund is an agents statement that reflects the statutory obligation for billing authorities to maintain a fund separate from the General Fund of the Council, which accounts independently for transactions of the billing authority in relation 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
<u>INCOME</u>			
Council Tax :			
33,266	Billed to tax payers	33,873	
12,190	Council Tax Benefits transferred from General Fund	12,925	
45,456		46,798	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	-	
25,217		22,810	
70,673	TOTAL INCOME	69,607	
<u>EXPENDITURE</u>			
44,996	Precepts	46,435	3
-	Increased Provision for Non-Payment of Council Tax	306	
-	Increased Provision for Non-Payment of NNDR	8	
-		314	
Non Domestic Rates :			
24,962	Payment to National Pool	22,676	2
115	Cost of Collection Allowance	126	
Contributions for previous years estimated			
Collection Fund Surplus/(Deficit) :			
310	Hartlepool Borough Council	215	
40	Cleveland Police Authority	28	
14	Cleveland Fire Authority	10	
364		253	
70,437	TOTAL EXPENDITURE	69,803	
(236)	(Surplus)/Deficit for the year	196	
(218)	(Surplus)/Deficit brought forward	(454)	
(454)	(Surplus)/Carried forward	(258)	

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
TOTALS		41,693	32,458					54,190

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)
45,456		46,798

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.

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

2009/2010		2010/2011
£000		£000
28,691	Gross Rates payable	35,391
(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	22,810
(115)	Cost of Collection	(126)
178	(Increase)/Decrease in Bad Debt Provision	(8)
2	Other	-
24,962	Contribution to NNDR Pool	22,676

Note 3 - Precepts and Demands on the Collection Fund

2009/2010		2010/2011		
£000		Precept /	Share of	Total
		Demand	Surplus in	£000
		£000	Year	
			£000	
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
45,232		46,435	(196)	46,239

The amount included within the Council's Comprehensive Income and Expenditure Statement also includes the £0.214m for its estimated share of the surplus for 2009/10.

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: -

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

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 and 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 or can be obtained from the Council's Contact Centre. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council 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.

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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.

Issue Raised	Action Undertaken
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 Council 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.

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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 Council has a Treasury Management Strategy that was approved by Audit Committee on 3rd December 2010 and referred to Council for approval on 10th 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 full cabinet and a range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Council.

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 Council 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 Council has adopted the revised outcomes as its own corporate objectives. The 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 Council 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 Council's control framework will be developed further and the committee regularly updated on progress.

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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 21st 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 23rd 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.

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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 Council. 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 Council 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 23rd 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 23rd October 2006 and has been updated in March 2010. Each department has a lead officer responsible for business continuity. All senior managers have been briefed about business continuity. Following completion and circulation of the Business Continuity Plan in May 2008 a series of table top testing exercises were carried out with each department between July 2008 and January 2009. Arrangements have continued to develop. These have included a self assessment exercise to provide a gap analysis between the Council's Plan and BS 25999, and a gap analysis on the Cabinet Office Expectations paper which both cover Business Continuity and may be incorporated as a required standard into future legislation. CMT were kept informed of progress on this and other BCP work.

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 Council. 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 Audit's performance is measured against standards agreed by management and Members. Internal Audit reporting arrangements have been formalised and strengthened as part of the review of financial procedure rules.

Other review bodies external to the Council 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 Council 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 framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Audit and Governance's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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.

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- 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 Council's financial arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- Internal Audit – the Council has the responsibility for maintaining and reviewing the system of internal control and reviewing annually Internal Audit. In practice, the Council, and its External Auditors, takes assurance from the work of Internal Audit. In fulfilling this responsibility:
 - Internal Audit operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
 - Internal Audit reports to the Section 151 Officer and Audit Committee.

The Head of Audit and Governance provides an independent opinion on the adequacy and effectiveness of the

 - system of internal control, quarterly update reports and an annual internal audit performance report to the audit committee.
 - Internal audit plans are formulated from an approved risk assessment package.
- External Audit – in their annual audit letter, comment on their overall assessment of the Council. It draws on the findings and conclusions from the audit of the Council and 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 Council's 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:

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Mayor & Chief Executive on behalf of Hartlepool Borough Council.

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

Opinion on the Authority accounting statements

I have audited the accounting statements of Hartlepool Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hartlepool Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of 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. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Hartlepool Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Authority's responsibilities

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

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Hartlepool Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Hartlepool Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Lynne Snowball
Officer of the Audit Commission

2nd Floor
Nickalls House
Metro Centre
Gateshead
Tyne & Wear
NE11 9NH

23rd September 2011

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 an asset or expenditure that adds to and not merely maintains the value of an existing asset.

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 asset that have been consumed during the period.

Consumption includes the wearing out, using up or other reduction in the useful life of an 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 property, plant and equipment consumed in a period
- b) Difference methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

EVENTS AFTER THE BALANCE SHEET DATE

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

EXCEPTIONAL ITEMS

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

EXPECTED RATE OF RETURN ON PENSION ASSETS

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

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

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.

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 Property, Plant and Equipment below its carrying amount on the Balance Sheet.

INFRASTRUCTURE ASSETS

These 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.

INVENTORIES

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.

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.

MINIMUM REVENUE PROVISION (MRP)

The statutory minimum amount that authorities must set aside each year as provision for debt repayment based on the Capital Financing Requirement

NET BOOK VALUE

The amount at which 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

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

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 material errors. A material 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 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 of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an Authority include:

- Central Government;
- Local Authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its Councillors;
- its Chief Officers; and
- its Pension Fund.

Examples of related parties of a pension fund include its:

- administering Authority and its related parties;
- scheduled bodies and their related parties; and
- Trustees and Advisors;

These lists are not intended to be comprehensive

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

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

RELATED PARTY TRANSACTION

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

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

This list is not intended to be comprehensive.

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

REMUNERATION

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

RESIDUAL VALUE

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

RETIREMENT BENEFITS

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

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

SCHEME LIABILITIES

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

SETTLEMENT

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

- a lump-sum cash payment to scheme Councillors in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

USEFUL LIFE

The period over which the Authority will derive benefits from the use of an 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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AUDIT COMMITTEE

23rd SEPTEMBER, 2011



Report of: Chief Finance Officer

Subject: TREASURY MANAGEMENT OUTTURN
2010/2011

1. PURPOSE OF REPORT

- 1.1 This report provides a review of the Treasury Management activity for 2010/2011 and the outturn Prudential Indicators for this period.

2. BACKGROUND

- 2.1 As part of the annual Budget and Policy Framework process Council approved the 2010/11 Treasury Management Strategy and associated Prudential Indicators on the 29th January, 2010.

- 2.2 The submission of the outturn report to Council is a requirement of the CIPFA Code of Practice on Treasury Management, DCLG (Department for Communities and Local Government) Investment Guidance and the CIPFA Prudential Code for Capital Finance in Local Authorities, as it allows Members to review progress against the approved strategy. This report is being submitted to the Audit Committee to enable members to scrutinise it prior to it being presented to the Council on the 27th October 2011.

- 2.3 The 2010/11 financial year continued the challenging economic environment of the previous year with weak signs of recovery. The implications have been the continuation of low investment returns and continued counterparty risk, albeit less severe than in previous years.

- 2.4 The focus of this report is events relating to the financial year 2010/2011 and summarises:

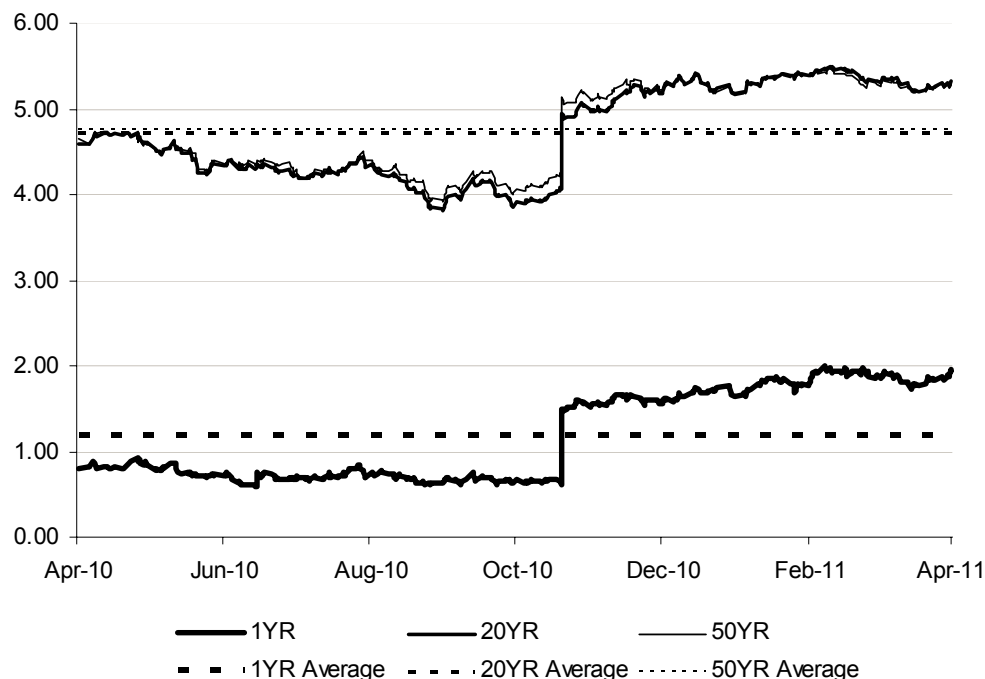
- the economic background for 2010/2011;
- the Council's capital expenditure and financing in 2010/2011;
- the Council's treasury position at 31st March 2011;
- the regulatory framework, risk and performance;
- Pooled Investment Fund Termination

- 2.5 This report is being submitted to finalise the reporting of 2010/11 Treasury Management issues.

3. ECONOMIC BACKGROUND FOR 2010/2011

3.1 2010/11 proved to be another difficult year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 1%, without an associated increase in early redemption rates. This made new borrowing more expensive and early repayment less attractive and in some cases not cost effective.

3.2 The graph below shows PWLB borrowing rates during 2010/2011, the increase in new borrowing rates can clearly be seen.



3.2 UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, albeit growth was only 1.1%. The economy slipped back into negative territory in the final quarter of 2010. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

3.3 The change in the UK political background was also a factor behind weaker domestic growth expectations. The new coalition Government adopted a policy to reduce the national budget deficit and announced significant spending cuts in the October Comprehensive Spending Review. The March 2011 Budget continued this theme. Although the

main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

- 3.4 Gilt yields (i.e. interest paid on Government debt) fell for much of the first half of the year as financial markets deemed the UK debt to be safer than European debt which was affected by sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this position was mostly reversed in the closing months of 2010 as sentiment changed owing to sharply rising inflation pressures.
- 3.5 The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU / IMF (International Monetary Fund) rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government debt.
- 3.6 Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and stronger than expected first half growth, fed through to prospects of an earlier start to increases in Bank Rate by the Bank of England. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate. This sharp disparity was also seen in the Bank of England MPC (Monetary Policy Committee) voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at historically low levels. A rise in interest rates is now not expected until the final quarter of 2012.

4. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2010/2011

- 4.1 The Council's approved capital programme is funded from a combination of capital receipts, capital grants, revenue contributions and prudential borrowing.
- 4.2 Part of the Council's treasury management activities is to address this prudential borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activity also includes managing the Council's day to day cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance.

- 4.3 Actual capital expenditure forms one of the required prudential indicators. As shown at **Appendix A**, the total amount of capital expenditure for the year was £33.5m, of which £9.7m was funded by Prudential Borrowing. Capital expenditure of £30.7m was rephased into 2011/2012 and matched by rephased resources.
- 4.4 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is the accumulated value of capital expenditure which has been financed from Prudential Borrowing. Each year the Council is required to apply revenue resources to reduce this outstanding balance.
- 4.5 Whilst the Council's CFR sets a limit on underlying need to borrow, the Council can manage the actual borrowing position by either;
- borrowing externally to the level of the CFR; or
 - choosing to use temporary internal cash flow funds instead of borrowing; or
 - a combination of the two.
- 4.6 The Council can also borrow for future planned increases in the CFR up to 3 years in advance, when this is deemed to be appropriate. This was not the case in 2010/2011.
- 4.7 The Council's CFR for the year was £92.2m as shown at Appendix A. This is lower than the approved estimate owing to the rephasing of capital expenditure until 2011/2012. The Council's total long term external borrowing as at 31st March, 2011 was £48.3m. This is currently less than the CFR as a result of being able to use the Council's balances to internalise the funding of capital expenditure. This strategy was approved in January 2010 and enabled the council to significantly reduce counterparty risk by reducing the level of external investments. This strategy was also the most cost effective strategy in 2010/2011 and contributed to the overall favourable 2010/2011 outturn reported in May 2011.
- 4.8 As reported when the Treasury Management Strategy was approved the Council will need to fund the CFR from external borrowing at some stage. The timing of new long term borrowing will need to be carefully managed to ensure the annual repayment and interest costs relating to the CFR do not exceed the available budget and become a budget pressure. This risk will continue to be managed closely to protect the Council's medium term financial position.

5. THE COUNCIL'S TREASURY POSITION AT 31ST MARCH, 2011

- 5.1 The table overleaf shows the treasury position for the Council as at the 31st March, 2011 compared with the previous year:

Treasury position	31st March 2010		31st March 2011	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt				
- PWLB	£1.8m	4.12%	£1.8m	4.12%
- Market Loans	£45.0m	4.00%	£45.0m	4.00%
Total Long Term Debt	£46.8m	4.00%	£46.8m	4.00%
Variable Interest Rate Debt				
- Temporary loans	£4.0m	0.45%	£1.5m	1.00%
Total Debt	£50.8m	3.24%	£48.3m	3.42%
Total Investments	£29.4m	2.68%	£24.3m	1.26%
Net borrowing Position	£21.4m		£24.0m	

- 5.2 As shown in the above table, the Council has reduced the level of total debt. This resulted from the Council's Treasury Strategy of funding a greater share of the Council's Capital Finance Requirement by temporarily using balance sheet resources, such as reserves and reducing the level of investments. This strategy has enabled the Council to reduce exposure to counterparty default risk while also managing to achieve the optimum level of cost effectiveness.
- 5.3 A key performance indicator shown in the above table is the very low average rate of external debt of 3.42% for debt held as at 31st March, 2011. The latest available data from CIPFA shows that the Council ranked joint lowest out of 48 unitary Councils in terms of lowest average rate for external borrowing.
- 5.4 The Council's investment policy is governed by Department of Communities and Local Government (DCLG) guidance, which has been implemented in the annual investment strategy approved by Council on 29th January, 2010.
- 5.5 The original criteria approved by Members provided a starting point which was then restricted further to produce an operational list which is reviewed on a regular basis. Following the increased risk and uncertainty arising from the unprecedented recent economic crisis the Chief Finance Officer continued to adopt an even more vigilant approach resulting in what is effectively a 'named' list. This consists of a very select number of counterparties that are considered to be the lowest risk. This has involved the Council temporarily suspending making new deposits with all building societies except the Nationwide, which has a financial standing rating equivalent to the major clearing banks.
- 5.6 The Council's approach of suspending building societies from the counterparty list has proven prudent as the ratings for all building

societies (except Nationwide) were downgraded during 2010/2011 owing to continuing concerns about their financial stability and exposure to property loans

- 5.7 The Council also continued to exclude all foreign banks, including Irish banks from the list following the downgrading of the countries sovereign rating.
- 5.8 By not relying on credit ratings the Council sought to take a more pragmatic and broad based view of the factors that impact on counterparty risk. The downside of this prudent approach is that the Council achieved lower investment returns than would have been possible if deals were placed with organisations with a lesser financial standing. In the current climate the risk associated with these higher returns would not have been prudent.
- 5.9 As part of the approach to maximising investment security the Council has also kept investment periods short. This has also resulted in lower investment returns.
- 5.10 A prudent approach will continue to be adopted in order to safeguard the Council's resources.

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

- 6.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:
 - The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
 - The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2010/2011);
 - Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
 - The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
 - The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
 - Under the Act the DCLG has issued Investment Guidance to structure and regulate the Council's investment activities;
 - Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November, 2007.

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

6.3 The Council is aware of the risks of passive management of the Treasury Portfolio and with the support of Sector (who recently acquired Butlers), the Council's advisers, has proactively managed its treasury position. A proactive approach will continue to be adopted.

6.4 **Prudential Indicators and Compliance Issues**

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

6.6 The **Authorised Limit** is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. Appendix A demonstrates that during 2010/2011 the Council has maintained gross borrowing within its Authorised Limit.

6.7 **Net Borrowing and the CFR** - In order to ensure that borrowing levels are prudent, over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not have exceeded the CFR for 2010/2011 plus the expected changes to the CFR over 2011/2012 and 2012/2013. The Council has complied with this Prudential Indicator.

7. **POOLED INVESTMENT FUND TERMINATION**

7.1 From February 2009 the Council 'pooled' its investments with Cleveland Fire Authority to help spread counterparty risk. As a result of this collaboration both organisations shared the same Treasury Management Strategies and criteria determining approved investment counter-parties. During 2010/2011 it was agreed to unwind the 'pooled' fund as the investment and borrowing needs of two authorities now differ. The Chief Finance Officer, using delegated powers, revised the Council's individual counterparty limits for 2010/2011 in order to assist the unwinding of the fund.

7.2 The fund had been largely unwound during the year and at the 31st March, 2011 only two pooled investments remained with a total value of £5.5m. These investments have now matured and the pooled fund has now been terminated.

8 CONCLUSION

- 8.1 The report provides members with an overview of the Treasury Management activities for 2010/2011, as required by legislation. The report demonstrates that these activities have been undertaken in accordance with relevant legislation, regulations and the Council's approved Treasury Management Strategy. Therefore, there are no specific issues to bring to Members attention.

9. RECOMMENDATION

- 8.1 It is recommended that Members approve that the report be referred to Council.

Appendix A

Prudential Indicators 2010/11 Outturn

1. Ratio of Financing Costs to Net Revenue Stream

This indicator shows the proportion of the total annual revenue budget that is funded by the local tax payer and Central Government, which is spent on servicing debt. The outturn is lower than the estimate, mainly as a result of a technical change in the calculation of this indicator as a result of the Government's decision to un-ring fence a number of revenue grants. Savings have also been achieved from long term borrowing repayment and the very low rates of interest on short term loans.

2010/11 Estimate		2010/11 Outturn
7.32%	Ratio of Financing costs to net revenue stream	4.70%

2. Capital Expenditure

This indicator shows the total capital expenditure for the year.

2010/11 Estimate £'000		2010/11 Outturn £'000
34,167	Capital Expenditure	33,483

The actual is slightly lower than the estimate as a result of rephasing of capital expenditure into future years.

3. Capital Expenditure Financed from Borrowing

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

2010/11 Estimate £'000		2010/11 Outturn £'000
13,459	Capital Expenditure Financed by Borrowing	9,708

The actual is lower than the estimate owing to expenditure funded by prudential borrowing rephased into future years.

4. Capital Financing Requirement

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

2010/11 Estimate £'000		2010/11 Outturn £'000
95,347	Capital Financing Requirement	92,207

The actual is lower than the estimate as a result of capital expenditure included within the estimate which has been rephased into 2011/2012.

5. Authorised Limit for External Debt

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

2010/11 Limit £'000		2010/11 Peak £'000
115,000	Authorised limit for external debt	65,766

The above Authorised Limit was not exceeded during the year. The level of debt as per the Balance Sheet at the year end, excluding accrued interest was £46.8m. The peak level during the year was £65.766m.

6. Operational Boundary for External Debt

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

2010/11 Limit £'000		2010/11 Peak £'000
102,000	Operational boundary for external debt	65,766

The operational limit was not exceeded in the year. The peak level of debt was £65.766m.

7. Interest Rate Exposures

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

2010/11 Limit £'000	Upper limits on fixed and variable interest rate exposure	2010/11 Peak £'000
102,000	Fixed Rates	46,817
102,000	Variable Rates	18,949

The figures represent the peak values during the period.

8. Maturity Structure of Borrowing

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

	Upper Limit £000	Lower Limit £000	Actual £000
Under 12 months	92,000	0	1,470
12 month to 2 years	102,000	0	65
2 years to 5 years	102,000	0	15
5 years to 10 years	102,000	0	145
10 years to 20 years	102,000	0	39
20 years to 30 years	102,000	0	0
30 years to 40 years	102,000	0	0
40 years to 50 years	102,000	0	1,553
50 years to 60 years	102,000	0	5,000
60 years to 70 years	102,000	0	40,000

9. Investments over Maturing over One Year

This sets an upper limit for amounts invested for periods longer than 364 days. The limit was not exceeded as a prudent approach to investment has been taken owing to uncertainties in the economy this is in line with the Treasury Management Strategy. Consequently all investments made during the year were limited to less than one year.

	1 year £000	2 year £000	3 year £000
Maximum Limit	30,000	20,000	15,000
Actual	0	0	0

AUDIT COMMITTEE

23.09.11



Report of: Chief Finance Officer

Subject: UPDATE ON PROPOSED NEW LOCAL AUDIT ARRANGEMENTS

1. PURPOSE OF REPORT

- 1.1 To update Members on proposals for new local audit arrangements published by the Department for Communities and Local Government (DCLG) and the Audit Commission.

2. BACKGROUND

- 2.1 On 25 June 2010, the Government instructed the Audit Commission and five other inspectorates to stop Comprehensive Area Assessments. On 13 August 2010, the Government announced plans to disband the Audit Commission. The Government has described these decisions as being part of a fundamental shift in power away from central government to councils and communities, overturning decades of increasing central government control.

3. GOVERNMENT PROPOSALS

- 3.1 Two letters to the Chief Executive are attached as Appendix A. The first letter is from the Audit Commission and updates members of the committee on the proposed timetable for the appointment of a new External Auditor and how this will affect the Council.
- 3.2 Effectively the arrangements in place now will continue until 31.08.12. As of the 01.09.12 a new external auditor will be appointed by the Audit Commission. The Audit Commission has stated that they will consult on this appointment during the period 23 April - 13 July 2012.
- 3.3 The second letter is from Sir Bob Kerslake at the DCLG and states that initial contracts will be sought for period of both three and five years in order to ensure the length of the contract provides cost effectiveness and an adequate period in which local authorities can prepare to appointment their own external auditors in the future.

4 RECOMMENDATION

- 4.1 It is recommended that Members note the contents of the report and are kept fully apprised of any future developments in relation to the provision of local audit arrangements.

Appendix A

Dear Mr Walker

Future of Local Audit

The Department for Communities and Local Government (DCLG) has been considering the options for transferring the audit work of the Audit Commission's in-house audit practice to the private sector. Ministers have now decided the best value for money should be achieved by outsourcing the work through a procurement exercise. Sir Bob Kerslake, Permanent Secretary at DCLG, has written to the chief executives of all local authorities to advise them of the decision.

I am writing to tell you about the timetable for this procurement and what it means for your auditor appointment.

Procurement exercise

DCLG has asked the Commission to seek bids for the work currently undertaken by the in-house audit practice. New contracts will be awarded for three or five years, commencing from the audit of the accounts for 2012/13. We aim to issue a Contract Notice in the Official Journal of the European Union in early September 2011.

The Commission will award contracts in spring 2012 to allow new auditor appointments to be in place by 1 September 2012.

Auditor appointment

Your current auditor, from the in-house audit practice, is appointed to audit the accounts for the 2011/12 financial year. The procurement does not affect this appointment.

As we will not be awarding contracts until spring 2012 we will not be able to appoint your auditor for 2012/13 until after the start of that financial year. Because an auditor needs to be in place at the start of the financial year, we will need to make an interim auditor appointment to cover the period from 1 April 2012 to 31 August 2012.

To minimise disruption, we are proposing to extend your current auditor's appointment to deal with any issues that may arise during that period. This 'interim' auditor's role will be limited to keeping a 'watching brief'. Any costs incurred by interim auditors will be paid by the Commission. We will write to you again to formally consult you on the interim appointment by the end of this year.

Following the procurement exercise we will be appointing a new auditor, to audit the 2012/13 and future years' accounts, with effect from 1 September 2012. We will consult you on this appointment following the award of contracts in spring 2012.

I recognise these arrangements may raise questions but I have tried to anticipate these by setting out the position in the table below:

Period	Auditor Appointment	Comments
From 1 April 2011	Current auditor (in-house audit practice)	<ul style="list-style-type: none"> No change for audit of 2011/12 accounts.
1 April 2011 to 31	Current auditor	<ul style="list-style-type: none"> Interim appointment for 2012/13: no change - subject to

August 2012	(in-house audit practice)	consultation by end of 2011. <ul style="list-style-type: none"> • Role will be to keep a 'watching brief' only and any costs incurred by auditors will be paid by the Commission.
From 1 September 2012	New auditor (private firm)	<ul style="list-style-type: none"> • Change of auditor (to a private firm) - subject to consultation following award of contracts in spring 2012. • Auditor will audit the 2012/13 accounts (opinion on the financial statements and the annual VFM conclusion). • Full year's scale fee payable by audited body. • Auditor responsible for audit of future year's accounts.

If you want to clarify any of the points in this letter or ask other questions about the content of this letter, please email: auditor-appointments@audit-commission.gov.uk or contact Andrew Davies or Marcine Waterman on 0844 798 2447.

Yours sincerely

Eugene Sullivan
Chief Executive, Audit Commission



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From the Permanent Secretary

Local Authority Chief Executives

28 July 2011

UPDATE ON WORK ON THE FUTURE OF LOCAL AUDIT

I wrote to you on 2 June 2011 letting you know that we had asked the Audit Commission to begin preparatory work for outsourcing all local audits from 2012/13. As you will see from the attached press notice Ministers have now confirmed that they want to proceed with outsourcing.

The Commission timetable for running an outsourcing process means it is unlikely audit appointments would be made by the 1 April date they usually adopt, but they would nevertheless be made by the start of the Annual Audit Cycle on 1 September 2012. We are confident that the practical effects of this are manageable, but we are committed to working with you and with the Commission to ensure practical arrangements are in place to address any issues that do arise.

We have been considering carefully how long the outsourced contracts should be. Our initial proposal was for three years from 2012/13, after which, legislation permitting, local authorities would be free to appoint their own auditors. But it's possible that longer contracts (over five years) might achieve greater value for money. However, this would need to be balanced against delaying the point at which local public bodies can appoint their own auditor and the benefits of greater transparency and accountability in a new, decentralised local audit framework. This is clearly a trade-off in which local government has a very strong interest. We therefore plan to seek bids from audit firms on the basis of three and five years after which we want to talk to the sector about this trade off once we have a better sense of the difference this makes to audit fees. We will let you know how we plan to handle this discussion in the Autumn.

In addition, you will wish to note that the Commission's timetable to appoint auditors for 2012/12 envisages them consulting you on those appointments between April and June next year.

In the meantime we continue to make progress on what a new local audit framework will look like. The consultation on proposals for this framework closed on 30 June

and I wanted to take this opportunity to thank all those who responded to and contributed to the consultation. All these views are currently being analysed and we plan to refine our proposals further, respond in due course, and then to bring forward primary legislation as soon as Parliamentary time allows.

We continue to be committed to working closely with local government and the Commission to ensure a smooth transition through outsourcing and into a new local audit framework. I will keep you informed of developments accordingly.



SIR BOB KERSLAKE

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AUDIT COMMITTEE

23 September 2011



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2011/12 UPDATE

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
Golden Flatts Primary	Ensure school finance and governance arrangements are in line with best practice.	- A register of business interests (including 'nil' returns) should be maintained for all governors and those staff who can influence purchasing decisions. The register should be updated at least annually.	Y
		- Periodic reviews should be undertaken to ensure that all roles have up to date CRB clearances.	Y
		- 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. Where purchasing is being made via the Internet to achieve the best value available, the school should consider obtaining a purchase card to enable these purchases to be made directly by the school.	Y
		- Orders should be in place prior to goods/services being received with few limited exceptions and committed on to the school's financial system to prevent overspending.	Y
		- In order to demonstrate Best Value in the provision of its services, the School should identify areas to review the economic, efficient and effective use of resources, document these areas in a best value statement and submit this statement to the LEA on an annual basis.	Y
		- All items of equipment costing in excess of £500 or of a portable and attractive nature should be recorded in the inventory record.	Y
		A stock check should be undertaken on an annual basis. The person undertaking the stock take should be independent of the day to day maintenance of the inventory and should sign and date the inventory.	
		- The auditor is provided with the software licenses listing and evidence of software audits that are undertaken.	Y
		- Annual accounts should be presented to the Governing Body.	Y
		- Governors approve the 2011/12 budget and the Chair signs and date the Delegated Budget document.	Y
		- The auditor will review the recruitment process at the time of the follow up audit and carry out the required testing on any recruitment that has been undertaken in the interim	Y

Audit	Objectives	Recommendations	Agreed
		<p>period.</p> <p>The auditor is also provided with evidence that a member of the interviewing panel/staff has received training in Safer Recruitment procedures in line with Safer Recruitment guidance.</p> <p>- A statement confirming the use of surpluses for the previous financial year is completed and forwarded to the LA and a copy retained by the school.</p>	Y
Payroll	<p>The following areas have been reviewed as part of the 2010-11 annual audit;</p> <ul style="list-style-type: none"> - regulation, policy and procedures, - system access and data security, - standing data and changes to it, - starters and leavers processing, - variations to pay (additional and deductions), - timesheet pay, - data input, processing and output controls, - reconciliation to Integra, - Management Information / Budgetary Control – - cost of payroll, - performance management, <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>	<ul style="list-style-type: none"> - As discussed during the audit, the Shared Services Manager was aware of the access issues and has timetabled in a review with the intention of disabling/making obsolete those accesses not required by HBC. It is acknowledged that another Local Authority set up the access profiles and therefore HBC may have inherited default access profiles which are not required. The review of access levels should be undertaken immediately to provide a higher level of assurance that access to the system is secure and that usage can be traced to an individual. <p>A regular review should be undertaken of access profiles and level to ensure the security of the system is maintained, it is suggested that annually is sufficient.</p> <ul style="list-style-type: none"> - The costing exercise should be completed as soon as practicable and once complete consideration should be made whether to join a benchmarking group to compare these results. Once the costing exercise is complete consideration should be given to linking the results to potential performance indicators to continually measure the cost effectiveness of the service if thought appropriate. 	<p>Y</p> <p>Y</p>
Stranton Centre	Ensure centre finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - The Scale of Charges are reviewed on an annual basis and the decision noted in the relevant meeting minutes. - Where applicable, cancellation fees should be imposed by the Centre with staff recording/noting the date of notification on the system when processing the cancellation request. - Booking forms are completed in all instances and held on file. - Checks are carried out to ensure charges are made at the correct rates for all bookings made and internal recharge records are checked to ensure all bookings are listed. - Community Users of the Centre's IT 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>equipment are made aware and have access to the Acceptable Use Policy (i.e. by signage located around the Centre).</p> <p>- A purchase order should be raised prior to the goods/service being received and creditor invoices should contain sufficient detail relating to the service/goods provided. In addition, all invoices relating to services/goods provided to the Centre should be addressed to the Centre and not the School.</p> <p>- More detailed information relating to the Centre's budget is provided to the Governing Body and a separate item should be included in the Agenda to ensure that the Centre is being monitored in its own right, independent to the school.</p> <p>- Terms of Reference for the Advisory Board are implemented to ensure that all parties are clear on their responsibilities relating to the Centre and how the two bodies link together.</p>	<p>Y</p> <p>Y</p> <p>Y</p>
Loans and Investments	<p>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</p>	No Recommendations	

Audit	Objectives	Recommendations	Agreed
	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.	No Recommendations	
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.	<p>- Advice should be sought from Legal Services to determine appropriate arrangements for adhering with relevant legislation whilst monitoring compliance with the email security policy.</p> <p>Such guidance should include how the policy should be worded to enable effective communication to staff of the measures that will be taken to ensure compliance through:</p> <ul style="list-style-type: none"> • the systematic monitoring of emails to identify potential breaches; • the investigation of suspected cases of breach of the email security policy employed under RIPA legislation and the ICO - Employment Practices Code; • detailing those parties undertaking such tasks. 	Y
St. Cuthbert's Primary	Ensure school finance and governance arrangements are in line with best practice.	<p>- The meetings of the General Purposes Committee should be structured to ensure that all items contained within the Terms of Reference are covered if not by this committee by the full Governing Body, including budget monitoring discussions. In relation to budget monitoring the SIMs report should be attached to the minutes of the meeting.</p> <p>- Recruitment processes will be tested at the audit follow up.</p> <p>- The staffing structure should be formally reviewed.</p> <p>- Income records should be signed by both parties as confirmation of the</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>amount collected. This should be dated and marked with the analysis sheet number when paid in with the bankings to ensure a complete audit trail. Source records should be checked and countersigned by the HeadTeacher on a regular basis in particular to ensure that arrears are being monitored.</p> <p>The query raised needs to be investigated further by the auditor.</p> <ul style="list-style-type: none"> - All recovery action taken should be recorded and debts passed to the Local Authority Recovery section when they reach £25. It is recommended that, given the extent of the arrears at this school, all outstanding debts are immediately passed to the local authority's sundry debtors section for recovery action. - Bank reconciliations should be undertaken on a regular basis when statements are received. - The post in question should be contracted to ensure that an accurate staffing budget is produced also the contract information on SIMs should be checked for all employees and amendments made where required. - Staff Appraisals should clearly show details of training needs and how these are to be met. These should be followed up at the next appraisal. - Progress on the School Development Plan should be reviewed on a regular basis. - It would be advisable for procedures to be implemented at the school whereby the clerk accesses the secure site on a regular (possibly weekly) basis to check for updates and action these immediately to ensure that the children are receiving the correct entitlement. - The school should undertake regular procurement exercises in those areas which have a spend above £5,000. - Orders are required to ensure that the expenditure is committed against the budget, these should be raised promptly prior to an invoice being received. - The best value statement should be approved by committee and sent to Children's Services Finance. - The inventory needs to be expanded to include details of the date procured, estimated value and when last checked. It should also include smaller 	<p></p> <p>Y</p> <p></p> <p>Y</p> <p>Y</p> <p></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>desirable pieces of equipment held at the school e.g. cameras. New equipment should be added when purchased.</p> <p>- Written instructions forbidding the use of unauthorised software should be written into the Information Management Policy.</p> <p>Software licence numbers should be recorded against each software asset and regular software audits should be undertaken.</p> <p>- Policies are developed which consider all elements of information security including; password management, clear desk policy, retention of data (electronic and paper).</p> <p>- An up to date bank mandate should be obtained and a copy provided to Internal Audit.</p> <p>- The private fund should be audited on an annual basis and the accounts presented to governors and made available to parents. A copy of the current bank mandate and constitution should be provided to Internal Audit to enable testing to be completed in this area.</p> <p>- Regular bank reconciliations are required for the private fund accounts. Documentation relating to income collected needs to be retained, this needs to be completed independent of the person responsible for collecting the income in the office - ie receipts, handover of cash documentation.</p> <p>- A process should be put in place to ensure that all forms are received.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Budgetary Control	Ensure procedures are in place to control the budget setting process, the timetable, the upload to the financial ledger (Integra), the budget monitoring process both in the central accountancy function and from the departmental perspective and also the level of reserves for the 2010/11 budget process.	- A training package is developed, implemented and rolled out to try and reach as many budget holders as possible as soon as is practical.	Y
Courier Service	The audit focused on the processes in place surrounding the security of information transported using this service.	No Recommendations	
Main Accounting System	- Financial management arrangements, accounting standards and policies adopted by HBC meet the requirements of the organisation, comply with legislation and best practice and	<p>- Documentation surrounding IAS 19 should be reviewed at the follow up.</p> <p>- The description on journals should be sufficient to establish why the transaction has taken place or provide a link to more detailed information.</p>	<p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
	<p>are adhered to throughout the organisation.</p> <ul style="list-style-type: none"> - Transactions within the main accounting system are correctly coded and calculated. - The coding structure used complies with the authority's requirements for publishing the final accounts. - All transactions recorded in feeder systems are completely and accurately transferred to the main accounting system. <p>Accounting balances from the previous financial year are brought forward into the current years accounts correctly.</p> <ul style="list-style-type: none"> - Transfers between codes are adequately controlled. - All unidentified or miscoded income/expenditure is allocated to a suspense/holding code and that these are cleared on a regular basis. - Holding codes should be cleared on a regular basis or at the least as part of the year end processes. - Output from the main accounting system is correctly presented in the authority's final accounts and reported on in line with the statutory deadlines. - Security and integrity of the system is maintained. 		
Credit Cards	<p>The audit programme was designed to identify the processes in place for ensuring compliance with the Payment Card Industry Data Security Standard and provide assurance that these processes effectively mitigated the risks.</p>	<ul style="list-style-type: none"> - A PCI review is undertaken as soon as possible. 	Y
Health and Safety	<ul style="list-style-type: none"> - There are arrangements in place to ensure that Health and Safety legislation and Good Practice Guidance is adopted by HBC. - Roles and responsibilities for Health and Safety are clearly defined. - Recommendations made are actioned to ensure that H&S legislation/guidance is complied with. - Insufficient documentation to evidence that the appropriate actions have been taken. <p>Discussions with the Health and Safety Manager identified an additional area which is being</p>	<ul style="list-style-type: none"> - That consideration is given to rolling out the processes for documenting of health and safety risks and control measures using the Covalent system, within the Regeneration and Neighbourhoods Department to other Departments within the Council. 	Y

Audit	Objectives	Recommendations	Agreed
	developed and this has been included in the review: - Health and Safety risks should be formally assessed and recorded to enable a clear indication to be provided of the operational risks that the authority faces, the controls introduced and the areas where additional control measures are required.		
Greatham Primary	Ensure school finance and governance arrangements are in line with best practice.	<p>- Effective clerking arrangements should be in place for the governing body and finance committee. Part 4 of the Statutory Guidance on the School Governance (Procedures) (England) Regulations 2003 identifies best practice relating to Committees of Governing Bodies and states that the GB must appoint a clerk to each committee. Whilst the Headteacher cannot be a clerk, a governor can be appointed although it is considered best practice to appoint a qualified clerk (or who is receiving training). The school should consider the above regulations when appointing a clerk to its Finance & General Purposes Committee.</p> <p>- The School Development Plan should be based upon 3-4 years instead of annual in order to comply with DoE guidance. A medium term budget which reflects the School Improvement Plan should be in place. The school mission statement should also be included.</p> <p>- The School Profile containing all relevant information about the school should be in place and be up to date.</p> <p>- The full quorum is achieved for meetings as set out in the Committee Structure and changes to committee structures are approved via the correct procedures (i.e. through the Full Governing Body).</p> <p>- A good practice measure is to ensure that where there may be a conflict of interest (i.e related), it is good practice for the party involved not to participate in the recruitment process. The correct recruitment process should be followed in all instances without exception which includes: job descriptions/person specifications being drawn up for all jobs; a recruitment panel is in place with at least one member trained in DfES Safer Recruitment; Appropriate checks (e.g. references)</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>should be undertaken on all new staff; documentation relating to the recruitment exercises should be retained securely for a period of six month.</p> <p>- School meals income must be reconciled to school meal records, accounted for and banked on a weekly basis. Monies should not be removed from the premises and should be retained in a secure location at all times until the reconciliation process can be performed and monies are banked.</p> <p>- The Governing Body should formally adopt a scale of charges would should be reviewed on an annual basis.</p> <p>- An up to date bank mandate showing all authorised signatories is retained by the school and the LEA's Central Finance Team.</p> <p>- Orders for goods and/or services should be raised and committed to the school's financial system prior to receipt of the goods/service.</p> <p>- Where an invoice addressed to the school is not provided, VAT should not be reclaimed by the school.</p> <p>Where discounts have been given by the supplier these should be reflected in the reimbursement amount paid.</p> <p>An independent authorised signatory should authorise orders for payments to the Headteacher.</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>A stock check should be undertaken on an annual basis. The person undertaking the stock take should be independent of the day to day maintenance of the inventory and should sign and date the inventory.</p> <p>The school iPod should be made available for the auditor to see and also be clearly marked as school property.</p> <p>- Regular software audits should be undertaken by the school to ensure that unauthorised software has not been installed on machines and that the number of software licences retained agrees to the software loaded onto machines.</p> <p>- Back ups of information should be taken on a regular basis. Testing of back up information should be performed and recorded.</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
		- An up to date mandate for the Private Fund is provided to the auditor.	Y
		- Written instruction forbidding the installation or downloading of unauthorised software should be ratified by governors and circulated to staff.	Y
		- All Policies must be formally approved/ratified by the Governing Body.	Y
		- Written instruction forbidding the installation or downloading of unauthorised software should be ratified by governors and circulated to staff.	Y
		- CRB Clearances should be reviewed every three years.	Y
		- In order to demonstrate Best Value in the provision of its services the school should identify areas to review the economic, efficient and effective use of resources, document these areas in a best value statement and submit this statement to the LEA on an annual basis.	Y
		- Overtime claim forms are only authorised when fully completed.	Y
		- The appraisal process undertaken should be formalised with documentation retained.	Y
		- When transfers have occurred, authorised documentation should be retained with the Private Fund records to support the transaction.	Y
		- The delegated budget should be signed and dated by the Chair of Governors and in order to demonstrate that the Governing Body has ratified the budget, minutes should contain adequate information relating to the decision.	Y
		- Where decisions are made at committee level, minutes should contain adequate details to show how the decision has been reached. They should contain details of all contractors considered, quote details (i.e. prices) and the reason for their selection.	Y
		- Meeting minutes should have adequate information relating to discussions undertaken and the decisions made and should be consistent in content.	Y
		- Where the school employs contractors to carry out construction type work, it should ensure that the contractor has a: <ul style="list-style-type: none"> Valid CIS certificate £5m Public Liability Insurance 	Y

Audit	Objectives	Recommendations	Agreed
		<ul style="list-style-type: none"> - The school should have an ICT strategy in place which provides direction in the use of ICT resources in the areas of learning, teaching and administration. - The auditor is to carry out testing at the time of the follow up audit. - Payments to staff are limited with orders used for all goods and services with a few limited exceptions which should be committed to the school's financial system to prevent overspending. Consideration should be given to the school obtaining a purchase card. 	<p>Y</p> <p>Y</p> <p>Y</p>
Tanfield Road	Ensure adequate processes are in place relating to income, purchases, sales, cash security and stock control.	<ul style="list-style-type: none"> - Adequate procedures should be in place to ensure that the number of vouchers issued are recorded with a reconciliation performed when redeemed at the Nursery to ensure that the vouchers are valid and have been accounted for. - Purchase Orders are completed by departments prior to placing orders to ensure the financial commitment is in place on the Authority's FMS. The Nursery should not accept any orders unless they are supported by a valid purchase order number. - Petty Cash reimbursements are only processed upon production of a valid receipt. Monies should not be given to staff in advance of the purchase. Petty cash vouchers are completed by staff and are appropriately authorised. Due to the number of transactions, consideration is given to reducing the amount of petty cash held at the Nursery. - Stock control procedures are put in place which the Audit team are willing to give assistance with if required. Regular stock reconciliations are undertaken with supporting documentation in place which should be signed, dated and retained. - A proforma is created which can be completed to show all details of takings (i.e. denominations, card takings, cheques) and includes an area for the cashier and manager's signatures to be included. The Audit Team can assist with this if required. - A record should be made of all goods taken for sale via van sales and a reconciliation carried out upon return to ensure that the income collected agrees with the number/value of goods sold. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		- The Nursery ensures that receipts are kept for all card payments made. Receipts are kept in a secure location (i.e. the safe) and clarification is sought as to how long these records should be retained.	Y
		Documentation where card details have been recorded to enable payment to be processed needs to be securely destroyed/disposed of.	
		- Investigations in conjunction with Central Procurement should be undertaken as to whether there is a level of competition in this market and seek confirmation/proof that the Authority is getting value for money. If it is decided to continue to use this supplier, authority to waive Contract Procedure Rules are obtained from Portfolio in order to comply with the Council's Constitution.	Y
		- When charges are reviewed, these should then be approved by management/committee.	Y

Appendix B

Audit	Objectives
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.
Blue Badges	Ensure scheme is in line with Government legislation.
Children Centre	Ensure adequate arrangements are in place for adequate financial management and budgetary control; IT and data security; Income; Purchasing and Contracts; SLAs; Security of assets; Day Care.
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	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: <ul style="list-style-type: none"> <input type="checkbox"/> Strategy development; <input type="checkbox"/> Governance; <input type="checkbox"/> Development and delivery of the BSF / PCP programmes; <input type="checkbox"/> Budgetary control; <input type="checkbox"/> Risk management.
Advertising Revenue	Ensure where advertising income is generated it is managed to ensure that the income is received. Review how are charges calculated. Identification of new areas of generating advertising income.
Bribery Act	Ensure adequate arrangements are in place in order to comply with the Bribery Act.
Flu Pandemic Plan	Ensure adequate arrangements are in place to mitigate the risks identified.
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.
Rift House 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.
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.