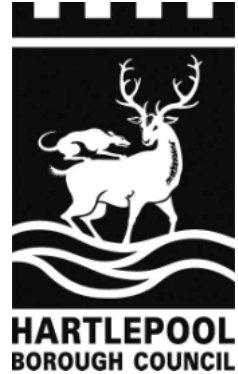


REPLACEMENT AGENDA

AUDIT COMMITTEE AGENDA



Friday 20 July 2012

at 9.00 am

in Committee Room C, Civic Centre, Hartlepool

MEMBERS: AUDIT COMMITTEE:

Councillors Ainslie, C Akers-Belcher, Dawkins, Hall, Shields, Turner 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 16 May 2012
 - 3.2 To confirm the minutes of the meeting held on 14 June 2012
4. **ITEMS FOR DISCUSSION/DECISION**
 - 4.1 Audit Commission Report Audit Committee Update – *Chief Finance Officer*
 - 4.2 Audit Committee Member Information – *Head of Audit and Governance*
 - 4.3 2011/2012 Financial Report (Including the 2011/12 Statement of Accounts – *Chief Finance Officer*
 - 4.4 Internal Audit Plan 2012/13 Update – *Head of Audit and Governance*
 - 4.5 Role of Head of Internal Audit in Local Government – *Chief Finance Officer*
 - 4.6 Proposed Amendments to Contract Procedure Rules – *Assistant Director (Resources) and Chief Solicitor*
 - 4.7 Mill House Master Plan – Verbal Update – *Chair of Audit Committee*
5. **ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

16 May 2012

The meeting commenced at 9.00 am in the Civic Centre, Hartlepool

Present:

Councillor Christopher Akers-Belcher (Chair)

Councillors Gerard Hall and Ray Wells

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

Also present: Diane Harold, Audit Commission

40. Apologies for Absence

Apologies for absence were submitted on behalf of Councillor Cath Hill.

41. Declarations of Interest

None.

42. Minutes of the Meeting held on 21 March 2012

Confirmed.

43. Audit Commission Report – Audit Committee Update *(Chief Finance Officer)*

Purpose of Report

To inform members of the Audit Committee that arrangements had been made for representatives from the Audit Commission to be in attendance at this meeting to present the content of the Audit Commission's Audit Committee Update report for 2011/12.

Issues for Consideration

The Audit Commission representative provided the Committee with an update on progress made by the Audit Commission in delivering its responsibilities as the Council's external auditors. The report also

included an update on the externalisation of the Audit Practice.

The report also sought to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The report included some questions which the Committee may wish to consider in assessing whether it had received enough assurance on emerging issues.

Details of the key messages regarding the update were included in the District Auditor's report, attached at Appendix 1. With regard to the Auditing standards requirement to highlight any significant risks, the Audit Commission representative advised that one area of risk had been identified in relation to management override of controls.

Members were provided with details of the savings in external audit fees which would be passed back to local authorities. For Hartlepool the reduction in fee for 2012/13 was £144,180 compared to the 2011/12 fee level. This reduction was significantly greater than the saving estimated when the 2012/13 budget was set in February 2012 of £81,000, which was based on information available at the time. The additional saving in 2012/13 of £63,180 would be reported to Members within the regular financial management reports alongside any other variances from approved budgets and this report would enable Members to develop a strategy for dealing with these issues. The saving was anticipated to be sustainable and the ongoing additional savings would be reflected in the base budget when the 2013/14 budget was prepared. However, there was a risk that when responsibility for appointing External Auditors transferred to individual authorities these reductions may not be sustainable. This position would need to be kept under review.

Decision

That the report of the Audit Commission, be noted.

44. Letter to Those Charged with Governance – Compliance with Laws and Regulations/Fraud *(Chief Finance Officer)*

Purpose of Report

To inform Members of the proposal to reply to the letter received from the District Auditor to those charged with governance regarding compliance with laws and regulations and fraud.

Issues for Consideration

The Head of Audit and Governance outlined the background to the

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

Attached at Appendix A was a copy of a letter to the Audit Commission from the Chair of the Committee detailing how the Committee had complied with the requirements of International Standards for Auditing.

The Committee was advised that the letter to the Audit Commission from the Chair of the Committee had been amended to include the following addition, an updated copy of which was tabled at the meeting:-

"I can also confirm that during the year 2011/12, I and the Committee are not aware of any breaches of internal control, any non-compliance with laws and regulations nor any litigation or claims which would affect the financial statements. Also I have no reason to doubt the Council's ability to continue as a going concern."

Decision

That the contents of the letter to the Audit Commission from the Chair of this Committee, attached at Appendix A, to include the above addition, outlining how the activities of the Committee complied with the requirements of International Standards for Auditing, be agreed.

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

Purpose of Report

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

Issues for Consideration

The Chief Finance Officer referred to the background to the statement issued by CIPFA, as set out in the report together with the five key principles that defined the core activities and behaviours that belonged to the role of the CFO in public service organisations and the organisational

arrangements needed to support them. The review of the statement was undertaken annually in line with best practice. Appendix A to the report detailed how the Council ensured the requirements of the statement were met.

Decision

- (i) That the review of the CIPFA statement – “The Role of the CFO in Public Service Organisations”, be noted.
- (ii) That the Council's compliance with the requirements of the CIPFA statement, as detailed in Appendix A, be noted.

46. Internal Audit Outcome Report 2011/12 *(Head of Audit and Governance)*

Purpose of Report

To inform members of the outcome of audit work covering the period April 2011 to March 2012.

Issues for Consideration

The Head of Audit and Governance provided information on the standards of financial administration and management arrangements operating within the Authority, as detailed in the report together with a progress report on the extent of implementation of audit recommendations. The report also detailed the performance of Internal Audit in 2011/12 on a range of key performance indicators.

It was reported that the Council also provided the audit service to Cleveland Fire Authority. In addition to the audits detailed in Appendix A, Internal Audit had completed 12 major systems and probity reviews for the Cleveland Fire Authority during 2011/12.

Staffing resources were as anticipated ensuring that all high risk functions were reviewed and a balanced programme of work covering all Council departments was achieved for 2011/12. From the work undertaken during the year 2011/12, the Head of Audit and Governance had reached the opinion that reliance could be placed on the adequacy and effectiveness of the organisations control environment. Key systems were operating soundly and there was no fundamental breakdown in controls resulting in material discrepancy. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of Hartlepool Borough Council's financial affairs.

Decision

That the contents of the report be noted

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

Purpose of Report

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

Issues for Consideration

The Chief Finance Officer provided background information to the Accounts and Audit Regulations reporting regulations and the requirements that relevant bodies conduct an annual review of the effectiveness of its system of internal audit and that a committee of the body consider these findings. At their previous meeting Members had agreed that the Chief Finance Officer would undertake the review and the Committee would receive and consider a report on the findings of the review.

The report included details of how the review had been undertaken. Tasks included a review of the planning and development work undertaken by Internal Audit in producing an annual audit plan, a review of the use of new audit software and monthly performance reviews with the Head of Audit and Governance. Any reports previously submitted to the Audit Committee were also reviewed to ensure they supported the committee in meeting its remit. The final results indicated that the system of internal audit was operating effectively in accordance with that described in the Annual Governance Statement and as defined by the CIPFA Audit Panel in respect of the requirements of the Accounts and Audit Regulations 2003 (amended 2006, 2011).

Assurances were sought that staffing resources were adequate to undertake all the relevant functions of the Council to ensure risks were kept to a minimum given the current challenges and ongoing reduction in staffing levels. The Chief Finance Officer indicated that staffing resources continued to be reviewed and in the event that risks increased action was taken to manage such risks. The role of departmental managers to manage risks was outlined.

Decision

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

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

Purpose of Report

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

Issues for Consideration

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

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

In terms of the Council's responsibility to review the effectiveness of the governance framework, the process that had been applied in maintaining and reviewing the effectiveness of the system of internal control was set out in the statement.

With regard to governance issues identified, the Head of Audit and Governance advised that the action relating to the steps to address governance arrangements as a result of changes to council size and potential for a Mayoral referendum had been separated into two separate actions as suggested. An updated copy of the changes were tabled at the meeting.

During the discussion that followed in relation to the significant governance issues identified, as detailed in the statement, the Chief Finance Officer and Head of Audit and Governance responded to issues raised by Members. Clarification was provided in relation to the risk involved in managing ongoing budget reductions and the potential implications of the Welfare Reform Act to which further information was awaited from the Government. In response to a request for clarification regarding the approval process, the Committee was advised that following approval of the statement at today's meeting the statement would be signed by the Mayor and the Chief Executive on behalf of the Council.

In relation to the actions identified in the statement to address and enhance the Council's governance arrangements, the importance of

ensuring that the wide ranging controls in addition to financial controls were considered was emphasised. Whilst the importance of considering the consequences of a Mayoral referendum were noted, the need to also explore the consequences of the removal of the current Mayoral political system was highlighted.

Decision

That the 2010/11 Annual Governance Statement be approved.

The meeting concluded at 9.40 am.

CHAIR

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

Thursday 14 June 2012

The meeting commenced at 1.00 p.m. in the Civic Centre, Hartlepool

Present:

Councillor C Akers-Belcher (Chair)

Councillors: Ainslie, Dawkins, Hall, Shields, Turner and Wells

Officers: Peter Devlin, Chief Solicitor
Graham Frankland, Assistant Director (Resources)
David Hart, Strategic Procurement Manager
Terry Maley, Procurement and Category Manager
Sally Scott, Procurement Officer
Vicky Bosley, Democratic Services Officer

1. Apologies for Absence

None

2. Declarations of interest by members

None at this point in the meeting. However a prejudicial interest was declared by Councillor Ged Hall in relation to minute 5.

3. Minutes of the meeting held on 16 May 2012

Deferred.

4. Role and remit of an Audit Sub-Committee *(Chief Solicitor, Assistant Chief Executive and Assistant Director)*

Purpose of report

- i. To agree the role and remit and determine the future arrangements for the convening of a Sub Committee of the Audit Committee.
- ii. To consider the potential amendments to the Contract Procedure Rules in relation to electronic tenders as detailed in Section 4 of the report.

Issue(s) for consideration by the Committee

The Chief Solicitor reported that the recent approval of Council held on 12 April 2012 in relation to the review of member support and community engagement, it was resolved that the Contract Scrutiny Committee should no longer form part of the governance arrangements of the Council. However, the remit of this Committee would essentially transfer (other than where there was an element of duplication) to the Audit Committee. Further, that a Sub-Committee of Audit Committee would be created, amongst other matters, to open tenders. It was agreed that the Sub-Committee should consist of three Members of Audit Committee and that arrangements be confirmed at the first meeting of the Audit Committee.

It was advised that the role and remit of such a Sub Committee could be as follows:-

- to receive and examine tender lists
- to open and record tenders
- to periodically review its effectiveness and report its findings to the Audit Committee

As there is the potential for such a Sub-Committee to meet with some regularity it was suggested that membership be drawn from amongst the Audit Committee (covering at least two political groups) with a composition of three members, which was consistent with other Sub-Committees operating within the Council's governance arrangements. Based on the current political balance it was calculated that the make-up of the Sub-Committee should be two Labour Members and one Independent Member.

The Assistant Director of Resources reported on the electronic tender process and how the Council was moving towards seeking quotations and tenders via electronic means. Due to the complexity and length of time taken to open electronic tenders, gave rise to the need for the Audit Committee to reconsider this matter. This would also include making recommendations to the Constitution Committee for amendments to the Contract Procedure Rules (and thereafter to full Council). Using electronic tenders and electronic auctions provided a much more efficient tender process. It was therefore suggested that the Committee considered a number of possible changes to the Contract Procedure Rules as, which were detailed within the report.

A Member of the Committee requested that the exempt minutes be issued to all members of Audit Committee in order that valid concerns could be raised. The Chair requested that of the same role as Contract Scrutiny Committee was required and explained there was a responsibility attached to the role.

Committee members made nominations and the following Sub-Committee was agreed:

Councillor Jim Ainslie (Chair)
Councillor Keith Dawkins
Councillor Linda Shields

Members of Audit Committee requested that the exempt papers of Audit Sub-Committee be distributed to all Audit Committee Members as apposed to Audit Sub-Committee Members only. The Chief Solicitor confirmed that updates from Audit Sub-Committee would be reported to Audit Committee.

Decision

That the Committee agreed to:-

- (i) Approve the role/remit of the Audit Sub-Committee.
- (ii) The proposed composition of the Audit Sub-Committee and subsequent nominations to the Sub-Committee.
- (iii) Consider the potential amendments to the Contract Procedure Rules in relation to electronic tenders as detailed in Section 4 of the report.

5. Tender for Passenger Transport and Design and Printing Services *(Assistant Director, Recourses)*

Purpose of report

- i. To confirm the process agreed with the chair in relation to special arrangements necessary for dealing with Passenger Transport Services and Design and Print Services Framework Tenders.
- ii. The arrangements were required due to the time lapse between the first Audit Committee and the tender return dates and the complex nature of the tenders themselves (including coach and taxi services).

Issue(s) for consideration by the Committee

It was at this point of the meeting that Councillor Ged Hall declared a prejudicial interest.

The Assistant Director of Resources provided background information on Passenger Transport Services (e auction) and Design and Print Services (e tender).

The Passenger Transport Services tender formed a two stage process the first being electronic submissions of expressions of interest and the second being an electronic auction whereby those providers that qualified in the assessment at stage one would bid against other bidders for their chosen lots in a “live” situation within a fixed period of time. The tenders were received on 25th May 2012 and required to be progressed so that the Stage 1 assessment and preparations for e auction could be made. In addition there was a need to complete the selection process, meet successful tender and award contracts prior to the end of schools’ summer term. The e auction was due to run week commencing 25th June 2012 and in line with the Chair’s agreement Members

of the Committee were invited to attend Council Chamber on 26th June 2012 from 10am to 10.30am (coach services) and Committee Room B on 29th June 2012 at the same time (taxi services) to view the e auction “live”. Once completed the outcome of the e auction would be reported to the Committee so it could be formally received and recorded.

A large number of suppliers were expected to bid for a variety of design and print services that supplement other in-house print team’s provision. This was also an electronic tender. Due to the large number of submissions and the complex nature the Chair agreed to officers opening submission after the closing date and to commence assessment thereafter.

As the number and complexity of e tenders increased it was proposed that the Committee would need to consider future arrangements and how these could be integrated with the remit of the Audit Sub-Committee and the Council’s Contract Procedure Rules, detailed in minute number 4.

Decision

The Committee agreed to:-

- i. Endorse the Chair’s actions in relation to the special arrangements for the tenders.
- ii. Formally receive and record the tenders submitted in relation to Passenger Transport Services as detailed in **Appendix 1**.
- iii. Formally receive and record the tenders submitted in relation to Design and Print Services as detailed in **Appendix 2**.

6. Local Government (Access to Information)

The Chairman ruled that the following items of business should be considered by the Committee as a matter of urgency in accordance with the provisions of Section 100(B) (4)(b) of the Local Government Act 1972 in order that the matter could be dealt with without delay.

Minute 7 – Provision of Mentoring Services - This item contains exempt information under Schedule 12A Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006 namely information relating to the financial or business affairs of any particular person (including the authority holding that information) – Para 3.

7. Provision of Mentoring Services – (Procurement and Category Manager)

This item contains exempt information under Schedule 12A Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006 namely information relating to the financial or business affairs of any particular person (including the authority holding that information) – Para 3.

Five tenders had been received in respect of this contract, which were opened in the presence of the Committee. Details are contained in the exempt section of the minutes.

Decision

That the opening of the tenders be noted.

8. Any Other Items which the Chairman Considers are Urgent

The Chairman ruled that the following items of business should be considered by the Committee as a matter of urgency in accordance with the provisions of Section 100(B) (4)(b) of the Local Government Act 1972 in order that the matter could be dealt with without delay.

9. Any Other Business - Mill House Redevelopment

The Chair emphasised to the committee that the Audit Committee had, as its remit, the obligation to consider the overall effectiveness of the Councils corporate governance arrangements to ensure that the Council acts with propriety in its decision making and does not leave its self open to formal legal challenge or criticism thereby undermining its reputation and standing. In accordance with this the Chair raised the following issues regarding the Mill House redevelopment site:

- When disposing of land proscribed procedures should be followed
- 'Circular 06/03: Local Government Act 1972' provides a general disposal consent, otherwise than through the Secretary of State, in relation to land with a valuation below £2 million
- A professional valuation should be secured to avoid 'undervalue'
- Our designated district auditors have a related duty to consider whether or not a local authority is acting lawfully
- The Council's 'Annual Governance Statement' obligates and aligns the Council's responsibility towards its community in Safeguarding assets and disposing only where required in full compliance with any statutory requirements
- The rental income may not be a commercially based rent payment and it has not been increased in the last five years

A debate took place and Members felt that disposal of the land could infringe statutory requirements, including applicable guidance. Whilst the Committee appreciated that further information and/or advice may become available, not least from the District Auditor, it appeared premature for the Council to move to any consideration as to the disposal of this particular parcel of land and consequently upon the successful delivery of the Master Plan for the Mill House area.

The Chair confirmed a letter would be sent to the Acting Chief Executive outlining the issues as detailed above.

Decision

That the Chair of Audit Committee would send a letter to the Acting Chief Executive outlining the issues raised by Audit Committee, with reference to the proposed Mill House redevelopment, which would comprise the potential sale of Victoria Park to Hartlepool United Football Club

The meeting concluded at 2.10 pm

CHAIR

AUDIT COMMITTEE

20.07.12



Report of: Chief Finance Officer

Subject: AUDIT COMMISSION REPORT- AUDIT COMMITTEE UPDATE

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for representatives from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions Audit Committee Update Report for 2011/12.

2. BACKGROUND

- 2.1 This report provides the Audit Committee with an update on progress made by the Audit Commission in delivering its responsibilities as the Councils external auditors. It also includes an update on the externalisation of the Audit Practice.
- 2.2 The report also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The report also includes some questions which the Committee may wish to consider in assessing whether it has received enough assurance on emerging issues.

3. KEY MESSAGE OF THE AUDIT COMMISSION

- 3.1 Details of the key messages regarding the update are included in the main body of the report attached as Appendix 1.

4. RECOMMENDATIONS

- 4.1 That the Audit Committee:
- i. note the report of the Audit Commission

5. BACKGROUND PAPERS

- 5.1 Audit Commission – Audit Committee update.

6. CONTACT OFFICER

- 6.1 Chris Little
Chief Finance Officer
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Audit **Committee** **update**

Hartlepool Borough Council

Audit 2011/12

July 2012

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

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

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

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Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has obtained sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign up to be notified of any new content that is relevant to your type of organisation.

Mark Kirkham

District Auditor

9 July 2012

Progress report

Financial statements

5 We began our detailed testing of the financial statements at the beginning of July and will report to members in our Annual Governance Report at the September Audit Committee.

Early review of the financial statements

6 As highlighted previously, we carried out an early review of the financial statements this year. We will review whether this was useful at the end of the audit and discuss it with officers.

7 It should be stressed that our early review of the financial statements did not replace and was not part of the Council's own quality assurance processes.

VFM conclusion

8 We will report the outcome of our VFM conclusion at the September Audit Committee. We have no significant issues to highlight at this stage.

Other – update on independence issues

9 In our Audit Plan presented to the March Audit Committee, we set out how we comply with ethical standards and what 'independence' issues we had to report. We also informed members that we would update you if there were any changes. Since we last reported independence issues to members, there has been a change in the audit team as detailed below.

10 One member of the team with a close relative working in a non-senior and non-financial position of a Hartlepool school is not planned to work on the financial statements audit.

11 A new member is to join the team for the financial statements audit. This auditor has a close relationship with a Hartlepool Councillor which we are required under ethical standards to declare to you. This relationship does not prevent the auditor from working on the financial statements subject to appropriate safeguards being put in place. We can confirm that we have put these safeguards in place.

Update on outsourcing the work of the Audit Practice

12 Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies.

13 It has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. Firms will take up audit appointments for the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

14 Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work as soon as possible.

Update on the residual Audit Commission

15 The Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

16 The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing, in advance of its proposed abolition. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

Other matters of interest

Audit Commission report – certifying claims and returns 2010/11

17 Auditors certify claims and returns to provide assurance to grant-paying bodies that claims for grants and subsidies comply with terms and conditions, or that information in financial returns is reliable.

18 The report includes information and commentary on the number and value of claims and returns certified; auditors' findings; and the cost of certification work, in 2010/11.

19 Appointed auditors provided assurance to grant-paying bodies, certifying 2174 claims and returns totalling £50.8 billion.

20 They agreed amendments to claims and returns totalling £47.6 million and issued 509 qualification letters. Across all schemes, 23 per cent of auditors' certificates were qualified. The housing and council tax benefit subsidy scheme continues to have high levels of amendments and qualification letters – 73 per cent of 2010/11 subsidy claims had qualification letters and 72 per cent had amendments.

21 Auditors identified cases where authorities' improved performance led to lower certification fees but also cases where authorities could improve working papers and the supervision and review of claims and returns – to try to reduce the number of errors and issues requiring attention.

22 They charged certification fees totalling £16.1 million (0.03 per cent of the total value certified).

23 Link to Audit Commission website: <http://www.audit-commission.gov.uk/audit-regime/support-guidance/pages/certifyinggrantclaimsandreturns.aspx>

2012/13 audit fees

Fee scales for 2012/13 National Fraud Initiative

24 The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

25 The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

26 In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11.

2010/11 National Fraud Initiative

27 In May 2012 the Audit Commission published the results of the NFI for 2010/11.

28 The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

29 When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the Table below.

Table 1: **Examples of data matches covered by the NFI**

Data Match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a deceased person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

30 The latest NFI in England identified almost £229 million of fraud, overpayments and errors across a number of bodies (i.e. not just local government). This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

31 The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

32 The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to officers.

33 Since the initiative's start in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse.

34 Link to Audit Commission website: <http://www.audit-commission.gov.uk/fraud/nfi/reports/pages/default.aspx>

Public Sector Internal Audit Standards

35 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

36 This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

37 The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts).

Payment by results

38 The Audit Commission published *Local payment by results* on 5 April 2012. This is a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services.

39 PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service. These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

40 What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

41 National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

42 The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

43 The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

44 The Audit Commission has sent the briefing to council chief executives and other key stakeholders.

45 Link to Audit Commission website: <http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/localpbr.aspx>

The rights of local electors

46 The Audit Commission has published an updated version of *Council accounts: a guide to your rights*. The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

47 The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.

48 Members of the Audit Committee may find it helpful to familiarise themselves with the document which can be found on the Audit Commission's website.

49 Link to Audit Commission website: <http://www.audit-commission.gov.uk/audit-regime/support-guidance/pages/councilsaccountsyourrights03072006.aspx>

NAO role in local VFM studies

50 The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector.

51 A new Local Government Reference Panel has been set up to give councils an input to the NAO's programme of local government value for money studies. The panel, which will meet twice a year, includes representatives from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

52 The programme comprises three studies in 2012/13, the first being communication between central and local government, rising to four in 2013/14 and six in 2014/15.

53 Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

CIPFA's brief guide to Local Government Finance reforms

54 As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes.

55 CIPFA's *Brief Guide to Local Government Finance Reforms* seeks to answer some common questions that local government officers and elected members may have surrounding the localisation of support for council tax and business rate retention.

56 The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all the legislation and guidance has yet to be published, so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known.

Key considerations

57 The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Committee asked officers the questions set out in the Audit Commission's NFI briefing for elected members? Is the Committee satisfied with the answers?
- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?

Contact details

58 If you would like further information on any items in this briefing, please contact either your District Auditor or Audit Manager.

59 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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AUDIT COMMITTEE

20.07.12



Report of: Head of Audit and Governance

Subject: AUDIT COMMITTEE MEMBER INFORMATION

1. PURPOSE OF REPORT

- 1.1 To provide Members of the Audit Committee advice received from the Better Governance Forum in respect of Commissioning, procurement and contracting risks.

2. BACKGROUND

- 2.1 In order to ensure that the Audit Committee fulfils its requirements in relation to the review of the Councils accounts and Annual Governance Statement as well as keeping abreast of current thinking into the role of Audit Committees, the Better Governance Forum has provided briefing papers for Audit Committee members in public sector bodies.
- 2.2 The latest briefing paper is attached as Appendix A, and provides background information and questions relevant to the role of Audit Committee in relation to Commissioning, procurement and contracting risks.

3 RECOMMENDATION

- 3.1 It is recommended that Members review the contents of the briefing paper and consider the issues raised in relation to Commissioning, procurement and contracting risks.

4. BACKGROUND PAPERS

- 4.1 Better Governance Forum Member Update 8

5. CONTACT OFFICER

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Appendix A

Introduction

Dear audit committee member,

This issue of Audit Committee Update focuses on some of the risk and control issues arising from commissioning, procurement and contracting. To undertake these essential processes effectively public sector organisation should ensure that they have appropriate governance, risk management and internal control arrangements in place. The article highlights the key risk areas and controls and examines some of the questions the audit committee might wish to raise. We also feature an article on some of the current challenges affecting procurement and commissioning in public bodies by Mohamed Hans of CIPFA's Procurement and Commissioning Network.

As usual we also feature a round-up of legislation, reports and developments that may be of interest to audit committee members. Whenever I put these issues together I am reminded just how much there is for audit committee members to consider in their role. I hope these briefings help to make that role a little easier!

We have included links to resources and further information on our website. To access these all you need to do is register. Further details on how to do this are at the bottom of the page.

We welcome feedback on these briefing and also any suggestions for future topics. Feel free to contact me and let me know.

Kind regards
Diana Melville
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CIPFA Better Governance Forum

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Commissioning, procurement and contracting risks – what does the audit committee need to know?

The public sector spends a huge amount of money on goods and services. The range is vast from the routine and relatively simple, such as fuel & equipment, to major construction contracts and complex service contracts for social care. The processes of commissioning, procurement and contracting form a major part of service planning and delivery and often involve specialist input from professional advisors.

From the audit committee's point of view it is worth understanding some of the key risks associated with this area. The audit committee is unlikely to be involved in the commissioning and procurement processes directly, but has an important role to play in reviewing the management of the risks and ensuring there are appropriate arrangements in place for assurance.

Commissioning – key risks

Ensuring a strategic approach

Commissioning of services arises from the strategic planning process and should reflect the vision for the development and delivery of services. Depending on the service the commissioning strategy could be long term and depend on a number of variables outside the direct control of the organisation. For example, commissioning adult social care services will need to take account of likely future demand.

Shared services and partnerships

A number of organisations are investigating alternatives to procurement on the open market. Establishing a new form of service delivery involves a number of risks which need careful planning. Sharing the Gain is a CIPFA guide that highlights key areas.

De-commissioning

Changes in legislation, in service needs or the end of partnership could result in the need to de-commission a service. Often how this will be achieved is not considered in advance which could result in additional costs.

Procurement – key risks

Value for money

There isn't always an obvious answer to the question of value for money. Should you go for the cheapest cost now or should you consider the whole life of the asset / service being procured? Having a clear objective at the start is very important so that the procurement process can be developed accordingly. Identifying key deliverables and stakeholders' expectations, and assessing the extent to which these are likely to be achieved by the procurement process at a reasonable cost, is not often undertaken. The end result being a focus on the immediate savings realised at the contract award stage, rather than on whether the contract is actually going to deliver throughout its term.

Legal compliance

One of the major areas of risk concerns legal compliance. Major procurements will usually require compliance with EU procurement rules. Failure to follow the rules can result in costly legal action and could even result in the contract award being set aside. To avoid this, major procurements should involve appropriate professional advice at an early stage.

Procurement process

A number of risks can arise from the procurement process itself. For example a decentralised system could mean that economies of scale are not realised or that procurement is undertaken by

inexperienced staff. On the other hand a very centralised system may be inflexible and unresponsive to service needs. Few organisations measure the true cost of procurement.

Fraud

There are a number of fraud risks in the procurement process. These could include:

- bribery of staff to award a contract or disclose advantageous information;
- collusion between “competing” contractors
- Invoice fraud to secure payments for goods or services not provided
- Payment fraud to divert genuine payments to contractors to fraudulent bank accounts.

The Annual Fraud Indicator 2012 compiled by the National Fraud Authority estimates that procurement fraud in the public sector amounts to £2.29 billion. A fraud loss tool, developed by the National Fraud Authority, is available on the CIPFA TIS online website to allow English local authorities to estimate their exposure to procurement fraud. CIPFA has produced guidance documents on procurement fraud which can help identify the risks and take appropriate action. Further details are provided in the resource list.

Contracting – key risks

Due diligence and contractor vetting

During the contractor evaluation process a proper due diligence process should be undertaken to evaluate the contractor’s suitability for the service. Advice on suitable financial and other checks is available in a CIPFA guide produced in association with Grant Thornton. It is also important to be aware of risks during the lifetime of the contract, for example is a key contractor experiencing financial difficulties and likely to go out of business?

Contract Management

Effective management of the contract and monitoring of performance is essential to ensure that:

- The service is delivered to the standards expected.
- Payments are made only for services / goods supplied.
- Opportunities for improvement are identified.

This can be a weak area and the reasons for this could be a lack of suitably experienced staff to properly assess the contractor’s performance. Ensuring that adequate and accurate data is collected and evaluated is a key part of the contract management process. There are also risks of collusion between contractor and contract management staff.

Contingency planning

In the event of service failure, whether temporary or longer-term, organisations should have contingency plans for the delivery of essential services. This can be difficult if the specialist equipment, knowledge or expertise is not readily available.

Audit Committee Role

There are a number of ways in which the audit committee is likely to review the effectiveness of the organisation’s management of its commissioning & procurement risks.

- Oversight of the control framework. For example whether the organisation has up to date and effective strategies and policies in place.
- Review of risk registers and major commissioning and procurement risks.
- Review of governance arrangements over partnerships and shared services.
- Review of the governance and assurance arrangements for major projects that involve procurement.
- Review of the internal audit plan and reports. The audit committee should consider the extent to which they cover these risks.

- The assurances that underpin the Annual Governance Statement are likely to cover commissioning and procurement activity.

Wherever procurement and commissioning appears on the audit committee agenda, members of the committee should be seeking assurance that the risks have been fully identified, that controls are in place to manage the risk and that they are effective in practice.

Key questions to ask:

1. Have the major areas of procurement spend been identified and what assurance do we have over those areas?
2. Are policies and strategies to ensure compliance and value for money in place? How effectively do they work in practice?
3. What is the risk from procurement fraud? What steps have we taken to prevent and detect fraud of this type?
4. Are there plans to establish new partnerships, shared services or projects that will involve commissioning or procurement of services? Have the risks been identified and how will we get assurance?
5. Do we have effective arrangements to carry out due diligence checks and monitoring during the lifetime of a contract?

Sources of further information:

Procurement Fraud briefing

Reducing the risks of procurement fraud briefing

Annual Fraud Indicator, from the National Fraud Authority

Due Diligence – A guide to Pre-Qualification Questionnaires

Procurement and Contract Audit Forum, has audit programmes and information to support the audit of procurement. The forum is supported by CIPFA's Audit Panel and the Better Governance Forum.

CIPFA Procurement and Commissioning Network have resources for procurement professionals.

Diana Melville
Governance Advisor
CIPFA Better Governance Forum

Current developments in procurement & commissioning

The landscape of procurement and commissioning is constantly changing in response to government policy, case law, emerging good practice, risks and service needs. The following areas reflect some of the current developments that public bodies are currently dealing with.

Public Services (Social Value) Act 2012

The Public Services (Social Value) Act became law on 8th March 2012. Under the Act, for the first time, all public bodies in England and Wales are required to consider how the services they commission and procure might improve the economic, social and environmental well-being of the area.

It applies to all English and some Welsh bodies who will have to comply with the new law, including local authorities, government departments, NHS Trusts, PCTs, fire and rescue services, and housing associations.

The provisions will apply to all public services contracts and those public services contracts with only an element of goods or works. It will not apply to public work contracts or public supply (goods) contracts. However, there is widespread approval for public bodies considering social value in all forms of contracts including support from Nick Hurd, Minister for the Cabinet Office. It is expected that the Act will come into force from January 2013.

Community Right To Challenge

On 17 May 2012, in exercise of powers conferred by sections 81 and 235 of the Localism Act 2011, the Secretary of State made the Community Right to Challenge (Expressions of Interest and Excluded Services) (England) Regulations 2012, SI 2012/1313.

They came into force on 27 June 2012. Regulation 3 and Schedule 1 specify requirements for expressions of interest for the purposes of Section 81(1)(b). Regulation 4 and Schedule 2 specify services that are to be excluded for the purposes of Section 81(5), in some cases only until 1 April 2014. The Secretary of State has also issued Statutory Guidance on the Community Right to Challenge.

Abnormally Low Tenders – Your contracts are at risk!

The tough economic climate has led to an upsurge in suicide bidding – tendering at silly prices. This worrying practice is demonstrated in the construction industry: a RICS survey of nearly 400 quantity surveyors has shown contractors putting in bids below cost. 20% of tenders submitted during 2010 – 2011 were priced at a “sub-economic level”. Most suicide bids were 10% below cost but some were 40% under!

The findings also show that more than 50% have seen a client accepting a “sub-economic tender” in the full knowledge it was “potentially unviable”. Construction industry tender prices have fallen by about 15% since the start of the recession and suicide bidding has already caused some contractors to go bust.

Therefore tender with caution and be aware of recent ECJ case law which requires contracting authorities to investigate Abnormally Low Tenders. Failing to do so may put your contract in peril! For detailed information on these areas contact the Procurement & Commissioning Network.

Mohamed Hans
Procurement Advisor
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Developments you may need to know about:

Local Government (Wales) Measure 2011 – statutory guidance

The Welsh Government undertook consultation earlier this year on the statutory guidance to support the implementation of this legislation, including guidance on audit committees (section 85.1). The statutory guidance has now been published.

Welsh authorities are required to establish an audit committee and the statutory guidance advises authorities to review the guidance contained in the CIPFA publications *“Audit Committees: Practical Guidance for Local Authorities”* and *“A toolkit for Local Authority Audit Committees”* as complimentary to the statutory guidance. The Toolkit is available on the Audit Committee page of the Better Governance Forum website

Welsh audit committees must appoint at least one lay member and up to a third may be lay members. The chair of the committee must not be from the same political group as the executive. The authority should adopt a Statement of Purpose for its audit committee ensuring that the committee is given a prime role in ensuring that effective corporate governance is central to the organisation.

National Fraud Indicator

The National Fraud Authority publishes an annual indicator of the level of fraud in the UK. The assessment breaks down the total fraud by sector and by major types of fraud. It estimates that the loss to the public sector from fraud is £20.3 billion, of which £14 billion is loss to the tax system.

Fraud loss in central government is estimated to be £2.5 billion and the loss to local government £2.2 billion. In addition there is a further loss of £1.6 billion on benefit and tax credit fraud. In local government the areas of the greatest fraud are estimated to be housing tenancy fraud (£900 million) and procurement fraud (£890 million).

Fighting Fraud Locally

The National Fraud Authority launched the strategy for local government in April. Its aim is to help local authorities to better protect themselves from fraud and to have in place a more effective fraud response. To improve a local authority's strategic approach to fraud the National Fraud Authority (NFA) recommends that there should be an annual report to the audit committee on all matters relating to fraud. This should include an assessment of the effectiveness of the authority's fraud response. The NFA wrote to the chairs of all local authority audit committees to make them aware of the strategy.

CIPFA has been working with the NFA to develop and extend resources and guidance for counter fraud practitioners and also for those charged with governance. On the Audit Committee page of our website you will find links to the Counter Fraud Standards Managing the Risk of Fraud (Red Book) and a checklist for those charged with governance. On CIPFA's TIS online website there are further resources available in the fraud risk management section.

Issue 3 of Audit Committee Update (October 2010) featured articles on counter fraud and the role of the audit committee. It includes two case studies of how local authority audit committees contribute to the fight against fraud.

Review of Good Governance Guidance Note

A steering group made up of CIPFA, Solace and practitioners is currently updating the Guidance Note that accompanied the Good Governance Framework in 2007. A draft for English local authorities will be released for consultation later this summer with publication due in December 2012. A separate publication is also being developed to support police bodies and reflect the changes happening in that sector.

The guidance note will feature new guidance on addressing governance issues that local authorities are facing. Since the governance framework is principles based it can be adapted to reflect changing circumstances and the updated guidance note will facilitate this.

Localism Act – code of conduct

Under the Localism Act local authorities are required to put in place new arrangements by 1st July to fulfil their responsibilities for ethical standards. Two templates have been produced by the DCLG and LGA to guide the development of a local code of conduct. A briefing on the Localism Act is available on the Better Governance Forum website.

Internal Audit Standards Advisory Board and new professional standards for internal audit

CIPFA is collaborating with the Chartered Institute of Internal Auditors on a number of professional developments. A new Board was established in March this year to develop new public sector internal audit professional standards. The standards will be published for consultation soon and following the consultation they will be finalised at the end of 2012. The new standards will come into force from April 2013 and will be mandatory for all public sector bodies. It is proposed that a “comply or explain” requirement will be introduced. Audit committees will have an important role to play in monitoring the compliance of the internal audit service against the professional standards and supporting improvement.

Details of the consultation will be published on the CIPFA website. An article outlining the work of the Board appeared in Public Finance a few weeks ago.

Appointment of external auditors

The Audit Commission concluded the outsourcing of external audits for local government, health, police and other bodies recently. The appointments are all for a five year period. Further details are available on the Audit Commission website.

In the Queen’s Speech a bill was announced to take forward the Government’s objective of local appointment of external auditors. The draft bill is expected to be published for pre-legislative scrutiny later this summer.

Audit Quality Review Programme

The Audit Commission publish an annual report of the appointed external auditors for health and local government. The review covers the quality of the audits performed and compliance with regulatory requirements.

Local Government Governance Review, Grant Thornton

External auditors Grant Thornton have issued a major research report, High Pressure System, reviewing governance arrangements and Annual Governance Statements (AGS) in local authorities. The research included a desktop review of 200 councils 2010/11 AGS comparing them to their best practice criteria. The review found that more could be done to make the AGS more accessible to the public and more effective as an assessment. Areas for improvement included demonstrating what assurance is needed to support the AGS and concluding explicitly where they have received sufficient assurance.

The review also includes sections on the contribution of the audit committee to governance, risk management, scrutiny arrangements and counter fraud. Other key documents for public reporting, including the explanatory foreword to the accounts are also assessed. Again a range of practice and quality was identified and there are opportunities to improve the usefulness of the document to the public.

Internal Audit in Central Government

The National Audit Office has published a value for money review of internal audit in central government. They conclude that Government is not getting the most out of the £70 million it spends on internal audit because the service does not always focus on the right issues and it is often not of sufficient quality to be useful in decision-making. The report identifies the NAO's key characteristics of an effective internal audit service. Audit committee members in central government bodies should consider the report and its recommendations.

Value for money from shared services

The National Audit Office (NAO) published a report in March "Efficiency and reform in government corporate functions through shared service centres". The report focused on shared service arrangements in central government but the key messages are important for any public body planning the implementation of shared service arrangements.

UK Code of Governance and Audit Committee consultations

The Financial Reporting Council has issued consultations on the UK code of governance and on the role of the audit committee. The consultations are not applicable for the public sector but for governance and audit committee practitioners they will be of general interest. Of particular note is the proposal that the audit committee should advise the board on whether the annual report is fair, balanced and understandable and provides the information necessary for users to assess the company's performance, business model and strategy.

The audit committee cycle

Review of Annual Governance Statements & Financial Statements

Prior to the end of September local authorities must approve their accounts and annual governance statements (AGS). Audit Committees usually play a significant role in reviewing not just the final documents, but reviewing supporting assurances and contributing to the development of the draft documents.

Issue 2 of Audit Committee Update included an article on the audit committee role in reviewing the AGS. For 2011/12 it will now be a requirement to comply or explain in the AGS against the CIPFA Statement on the Role of the Chief Financial Officer. Guidance on this is provided in the Application Note. A webinar is available to view covering the 2011/12 AGS.

Audit annual reports and review of effectiveness

The annual report of the Head of Internal Audit, including the opinion on the control environment, is a key document to support the AGS. The report should include:

- An opinion on the overall adequacy and effectiveness of the organisation's control environment.
- Disclose any qualifications to that opinion, together with reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the AGS.
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets.

Comment on compliance with these (CIPFA code of Practice) standards and communicate the results of the internal audit quality assurance programme.

Professional standards for internal audit (IIA and CIPFA) require appropriate quality review arrangements to be in place and the results of these reviews should help the audit committee to assess the assurances it receives from internal audit. In addition, the Accounts and Audit Regulations 2011 require local authorities to assess annually the effectiveness of internal audit.

Audit Committee Annual Reports

Many audit committees prepare an annual report to demonstrate how they have fulfilled their terms of reference and to account for their performance. Key aspects to consider including are: Committee membership

- Summary of activity, including key topics, decisions and recommendations.
- Review of the committee's effectiveness, including any external assessment results.
- Development activity undertaken. For example training, networking with other audit committees or peer reviews.
- Annual reports should be publically available and care should be taken to make them readable and accessible.

We are keen to share good examples of annual reports so please send a copy to Diana.Melville@cipfa.org.uk and we will feature it on our website.



AUDIT COMMITTEE

20 July 2012

Report of: Chief Finance Officer

Subject: THE 2011/2012 FINANCIAL REPORT
(INCLUDING THE 2011/12 STATEMENT OF
ACCOUNTS)

1. PURPOSE OF THE REPORT

- 1.1 To inform Members of the arrangements for approving the Council's Financial Report for 2011/12 (which includes the Statement of Accounts) and to provide a copy of the 2011/12 unaudited Financial Report.
- 1.2 This will be achieved by considering the following: -
- i) Background;
 - ii) Basis for preparing the Statement of Accounts;
 - iii) Reconciliation of the Council's Management Accounts and the Statement of Accounts;
 - iv) The 2011/2012 Unaudited Statement of Accounts;
 - v) Recommendations.

2. BACKGROUND

- 2.1 In accordance with the Accounts and Audit Regulations 2011, all Local Authorities are required to produce an annual Statement of Accounts by 30th June.
- 2.2 In previous years Members were required to approve the draft Statement of Accounts prior to audit by the Audit Commission. This requirement was removed last year. However, Members are still required to approve the audited Statement of Accounts before 30th September and a report will be submitted to this Committee on 23rd September to discharge this responsibility. The pre-audited Financial Report is being presented to your meeting today to enable Members to familiarise themselves with the Statement of Accounts and to provide time for Members to ask questions. If it should be necessary to amend the accounts during the course of the audit, any major amendments will be reported to Members.

3. BASIS FOR PREPARING THE STATEMENT OF ACCOUNTS

- 3.1 As part of the Council's approach to preparing the 2012/13 budget, details of action taken to manage the 2011/12 budget and the resulting forecast outturn were reported to Cabinet in October and December 2011 and February 2012. These reports were also referred to Scrutiny Co-ordinating Committee and the overall forecast position reported to full Council on 9th and 23rd February 2012.
- 3.2 A further update report was also considered by Cabinet in March 2012 and referred to Council on 12th April 2012. This outlined relatively minor changes to the previous forecasts including additional financial risks and also where resources need to be carried forward to 2012/13 to fund specific rephased expenditure commitments. This report identified uncommitted funds of £0.319m which Council determined to allocate for Family Poverty initiatives.
- 3.3 The forecast outturn reports highlighted the one-off financial benefits in 2011/12 from the following factors:
- The positive action taken during 2011/12 to achieve planned 2012/13 savings early. This provided a one-off benefit in 2011/12 and also provided a more robust base for the 2012/13 budget as some of the required savings were implemented before the start of the new financial year, reducing financial risk from delays in the achievement of planned savings built into the base budget for 2012/13;
 - The robust action taken to manage expenditure, including holding posts vacant to help manage budget reductions needed in 2012/13 by either deleting vacant posts permanently, or by providing redeployment opportunities;
 - Temporary savings in interest costs from the netting down of investments and borrowings to take advantage of prevailing 2011/12 interest rate structures and reduce investment counter party exposure. As reported previously this is a temporary benefit and will need managing carefully to ensure the Council locks into long term interest rates at the appropriate time to ensure this area does not become a budget pressure;
 - The financial benefit to the Council's budget of the continuation of a freeze in local authority pay levels across all staff. The ongoing saving from pay freezes in April 2011 and April 2012 (the third successive year for local authority employees – fourth year for Chief Officers) has been included in the base budget for 2012/13.

- 3.4 The financial management reports also advised Members that the positive outturn enabled the Council to address a number of strategic financial risks by earmarking specific funding for these issues. If this funding had not been achieved from the 2011/12 outturn then additional cuts would have been needed in 2012/13 to fund the unavoidable commitments, including significant Housing Market Renewal commitments and redundancy / early retirement costs arising from budget cuts over the 3 years 2012/13 to 2014/15.
- 3.5 The outturn has also provided one-off funding to partly offset the removal of the 2012/13 Council Tax freeze grant in 2013/14 and funding to potentially provide transitional support to offset the Council Tax Benefit grant cuts next year, or to manage demand risks – which increases the Council's financial flexibility to manage these very difficult issues next year. Decisions on the use of these specific resources will need to be considered as part of the 2013/14 budget process and referred to full Council in February 2013 for a decision.
- 3.6 Previous reports also advised Members of the financial and service complexities of managing an overall revenue budget in the order of £211 million.
- 3.7 In terms of the Council's financial position at the year end the final underspend is slightly higher than previously forecast by £0.306m (£0.171m General Fund and £0.135m EIG). There have been no other changes to the forecast outturns for 2011/12 previously reported and included in the Medium Term Financial Strategy (MTFS) report submitted to Council in February.
- 3.8 The final outturn report to Cabinet indicated that in accordance with the amendments made by Council to the Constitution regarding the final outturn, the additional underspend of £0.306m has been transferred into the General Fund Reserve. Proposals for using this amount will need to be approved by full Council. It is suggested that any proposed use is considered as part of the 2013/14 budget process to enable any proposals to be considered in the context of the overall financial challenges facing the Council next year.

4. RECONCILIATION OF MANAGEMENT ACCOUNTS AND YEAR END STATUTORY ACCOUNTS

- 4.1 As reported in the MTFS the outturn strategy was designed to manage financial risks and unavoidable commitments in 2012/13 and future financial years. This position was therefore reflected in the management accounts and the MTFS report. At the end of the financial year the Council is required to prepare statutory accounts which present this information in a defined format.
- 4.2 In relation to the links between the management accounts and the statutory accounts the key statement is the note showing 'Transfer

to/from Earmarked Reserves'. Statutory accounting regulations define 'Earmarked Reserves' as revenue reserves, capital reserves and reserves 'Held in Trust' (mainly schools reserves).

- 4.3 The Council's management accounts concentrate on revenue reserves as these are the resources directly controlled by the Council and available to manage risks. The review of reserves completed during 2011/12 therefore excluded capital reserves, reserves 'Held in Trust' and reserves already committed to support the 2011/12 budget and this needs to be the starting position for reconciling the statutory accounts and management accounts, as detailed in the following table:

Table 1 - Value of Council's Revenue Reserves

	Balance at 31 March 2011 £'000	Transfer in/(out) of reserves £'000	Balance at 31 March 2012 £'000
Total Reserves (as per 2011/12 Statement of Accounts)	39,024	10,965	49,989
<u>Less - Reserves held in trust and capital reserves</u>			
Schools Balances	5,854	3,082	8,936
Earmarked Capital Reserves	7,546	(931)	6,615
Civic Lottery Reserve	417	9	426
Museums Acquisitions	66	3	69
Value of Council's Revenue Reserves	25,141	8,802	33,943

- 4.4 In summary the transfer into reserves identified in the statutory accounts (see page 7 of the Financial Report 2011/12) and reflected in the above table reflect the year end accounting treatment of the issues approved in the MTFS previously reported to Members. The following table reconciles the statutory and management accounts and reflects the issues previously approved in the MTFS.

Reserve	£'000
Total change in reserves reported in Statutory Accounts	8,802
LESS – issues reported in the MTFS reports:	
Strategic One-off Costs Reserve – approved in February 2012 as part MTFS (para 4.6)	(4,066)
Specific one-off commitments identified in MTFS and to be incurred in 2012/13 (para 4.7)	(689)
Rephased income/income risks/specific commitments reported to Council 12.04.12 (para 4.8)	(550)
Earmarked for Family Poverty initiatives as approved by Council 12.04.12 (para 4.8)	(319)
Income in advance – mainly from Department for Health and PCT (para 4.9)	(1,233)
Repayment of Insurance Fund from Transitional Grant (para 4.10)	(1,470)

Changes in other reserves (para 4.10)	(169)
Final Underspend – transferred to General Fund Reserve in accordance with changes approved by full Council on use of final outturn (para 3.8)	306

- 4.5 The following paragraphs provide a commentary on the issues detailed in the above table and reflect information previously reported to Cabinet and Council in the MTFS report.
- 4.6 At the time the MTFS was approved in February 2012 the budget report provided a consolidated summary of the previous outturn forecasts submitted in October and December 2011 and February 2012. These reports had identified a gross managed underspend for 2012/13 of £5.186m and also identified specific expenditure commitments of £1.120m covering a range of issues (the most significant issues related to income shortfalls driven by the recession in relation to Building Control, Development Control, land charges, car parking and shopping centre income). As these additional commitments covered more than one financial year the MTFS concentrated on the net uncommitted underspend of £4.066m (i.e. £5.186m less £1.120m) to enable Members to consider proposals for earmarking the available uncommitted funding for strategic financial risks. Council approved proposals to earmark this funding for the following strategic issues:

	£'000
Strategic One-off costs (Redundancy / Early Retirement and Housing Market Renewal costs)	1,980
Transitional Support to offset Council Tax Benefit cuts	1,197
Support to offset removal 12/13 Council Tax freeze grant in 13/14	727
Contribution to Members Ward Issues budget	83
Works in Default Empty Homes	50
Allocated to fund initial 2012/13 Budget Deficit	29
	4,066

- 4.7 Actual spending in 2011/12 against the specific expenditure commitments of £1.12m have now been identified as part of the 2011/12 closure process and some of the reserves have been partly committed in 2011/12 to meet agreed expenditure commitments. For example the partial use of the specific reserve earmarked for Building Control / Development control over the two years 2011/12 and 2012/13. Whilst, use of these reserves in 2011/12 reduces the value of the specific reserves held at 31st March 2012, there is also a corresponding decrease in outstanding commitments previously identified. Therefore, in overall terms these phasing issues do not impact on the financial position reported in the MTFS in February. This review has identified that £0.683m will be carried forward to 2012/13 to manage these ongoing risks. At this stage it is not known if this one-off funding is sufficient and this position will be monitored

as part of the regular financial management arrangements during 2012/13 and reported to Members.

- 4.8 The decisions reached in the MTFS reflected the forecast outturns based on expenditure and income patterns for the first nine months of the year. Following approval of the MTFS a further review of expenditure and income patterns was completed in February and a further outturn forecast reported to Cabinet and Council. This report identified a range of issues where income had been received earlier than expected, or was higher than normal owing to increased workloads for Neighbourhood Services. Further, some minor additional managed underspends and one off expenditure commitments were identified for 2012/13. It was therefore recommended that these resources should be carried forward to either fund rephased expenditure and additional one off commitments or to manage income volatility risks in 2012/13. In total these issues amounted to £0.55m of resources to carry forward at the 31 March 2012. After reflecting these commitments there was an uncommitted additional underspend of £0.319m (£0.177m from the General Fund and £0.142m from the Early Intervention Grant) which full Council determined to earmark for Family Poverty initiatives.
- 4.9 As reported previously in the MTFS report the outturn position also includes the receipt of income in advance from external providers, particularly the notification at the year end of one-off funding allocations from the Department of Health and PCT. These resources fund one off commitments in 2012/13 and in accounting terms are reflected in the outturn for the year. These contributions total £1.233m and this is now reflected in the 2011/12 contribution to reserves.
- 4.10 There have also been changes in other reserves. The main change relates to year end accounting treatment of the repayment of the loan to the Insurance Fund which was temporarily used to fund redundancy and earlier retirement costs pending the receipt of the Transitional Grant income of £1.470m. The unused balance of the Transitional Grant of £0.308m has been transferred to the General Fund reserve as previously agreed by Council. There has also been a change of £0.175m in other reserves owing to the rephased use of reserves approved in previous years, which have been carried forward to meet expenditure commitments which have slipped into 2012/13.

5. THE 2011/2012 PRE-AUDIT FINANCIAL REPORT

- 5.1 The pre-audit Financial Report is attached to this report and in summary this document provides the following information: -

i) Explanatory Foreword

The foreword provides an explanation of the Council's overall financial performance for 2011/12, details of the year-end financial position, outlines the impact of the current economic climate on the Council's ongoing financial position and provides a guide to the most significant matters reported in the Statement of Accounts.

ii) Statement of Responsibilities for the Statement of Accounts

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

iii) Comprehensive Income and Expenditure Statement

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

iv) Balance Sheet as at 31st March, 2012

The Balance Sheet shows the value of the Authority's assets, liabilities and other balances as at 31st March, 2012 and I would comment on a number of items: -

a) Investments

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

During 2011/2012 the Council, in accordance with the approved Treasury Management Strategy, continued to reduce exposure to counterparty risk by holding shorter maturity investments and reducing external investments to avoid borrowings.

b) Long Term Loans Borrowing

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

In accordance with the Treasury Management Strategy the Council has taken a proactive approach to managing cash investments and debt. During 2011/12 the Council took out new borrowing totaling £4.233m to fund specific capital investment in photo voltaic cells and housing investment. This has allowed the Council to mitigate interest rate risk on these specific schemes and secured fixed interest rates within the costs established by the business cases. The Council continued to manage investment risk by using surplus cash to temporarily avoid further 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.

c) Other Long Term Liabilities

These increased from £52.657m at 31st March 2011 to £134.37m 31st March 2012 owing to an increase in International Accounting Standard (IAS) 19 Pension Liabilities. As this is an accounting valuation this has no impact on the Council's underlining financial position or pension contributions.

d) Earmarked Reserves – Useable Reserves

Earmarked Reserves consist of Unearmarked General Fund Balances, Earmarked General Fund reserves, Schools Balances, Earmarked Capital Reserves and Earmarked Revenue Reserves. Total values of these reserves were £49.988m at 31st March, 2012 (£39.024m at 31st March, 2011), as detailed in Table 1 paragraph 4.3.

In cash terms these figures show that reserves have increased. This overall analysis masks the fundamental changes which are affecting the Council's financial position, the financial risks these reserves are held to manage, the level of capital commitments funded from reserves and the reserves held on behalf of schools (governing bodies determine how these amounts are used). These issues are detailed in Section 4 of this report.

Note 6 on page 40 provides a comprehensive analysis of the changes in reserves and the key issues are summarised below:

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

Earmarked Revenue Reserves - the net increase reflects the specific reserves arising from the outturn strategy detailed earlier in the report which allocates resources to manage risks and carries forward income received in advance.

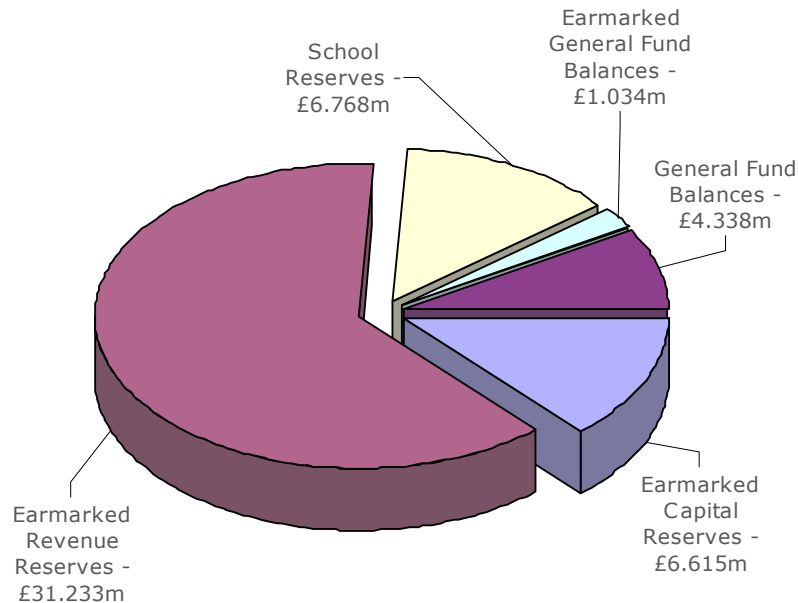
General Fund Balances - The increase reflects amounts that full Council determined should be transferred into their reserve and summarised in the following table. The 'uncommitted balance' of £3.462m is maintained to manage unforeseen risks/ issues and equates to approximately 4% of the net budget, which is within the recommended range.

	<u>£m</u>
Uncommitted Balance	3.462
Transferred from Job Evaluation provision and not used to support 2012/13 budget	0.545
Right to buy income received 2011/12 contribution from final outturn	0.025
	<u>0.306</u>
	4.338

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

Earmarked General Fund Balances – the reductions reflects the planned use of the Budget Support Fund in 2011/12. The Budget Support Fund will be fully used by the end of 2012/13 to support the core revenue budget as agreed by Council in February 2012.

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

Analysis of Reserves at 31/03/12 - Total £49.9mv) Cash Flow Statement

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

vi) Statement of Accounting Policies

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

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

vii) Notes to the Core Statements

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

viii) Annual Governance Statement

The statement sets out the Authority's responsibilities for ensuring the Authority has an appropriate system of internal control. This statement was approved by this Committee on 16th May, 2012.

ix) Glossary of Terms

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

6. CONCLUSION

- 6.1 The report completes the financial reporting process for 2011/12 and confirms there have been no significant changes in the forecast outturns reported during 2011/12 to Cabinet, Scrutiny Co-ordinating Committee and Council.
- 6.2 The report provides a summary of the robust action taken during 2011/12 to manage the overall budget of £211m and the specific reserves created from the 2011/12 outturn. These proposals were included in the MTFS approved by Council in February and enable the authority to manage the following significant financial risks:
- earmarking resources for one-off redundancy / earlier retirement costs over the period 2012/13 to 2014/15;
 - Housing Market Renewal commitments – following the withdrawal of funding to complete existing schemes;
 - Council Tax Benefits changes and a 10% funding cut;
 - The withdrawal of the 2012/13 one-year Council Tax freeze grant in 2013/14.
- 6.3 If these one-off resources had not been available from the actions taken during 2011/12 the Council would need to make greater cuts in services to release funding for these unavoidable commitments.
- 6.4 The final outturn is slightly higher than forecast by £0.306m. In accordance with the amendments made by Council regarding the final outturn the additional underspend of £0.306m has been transferred into the General Fund Reserve. Proposals for using this amount will need to be approved by full Council. It is suggested that any proposed use is considered as part of the 2013/14 budget process to enable any proposals to be considered in the context of the overall financial challenges facing the Council next year.
- 6.5 The report also provides details of how the previously reported outturn position for 2011/12 is reflected in the year end Statutory Accounts. This information simply provides a reconciliation of the Council's management accounts and year end Statutory Accounts.

- 6.6 The draft 2011/12 Financial Report will now be audited by the Audit Commission. Following completion of this work the Statement of Accounts and Auditor's Report, will be submitted to Audit Committee in September 2012 to enable Members to approve the Audited Financial Report.

7. RECOMMENDATIONS

- 7.1 It is recommended that Members:-

- i) Note the report;
- ii) Note that the pre-audit accounts will be subject to independent audit by the Audit Commission and details of any material amendments will be reported to Audit Committee in September;
- iii) Note that there is the opportunity to raise questions and/or seek clarification of information included in the pre-audit Statement of Accounts in the period up to 23rd September 2012, when the audited Statement of Accounts will be presented to Audit Committee for final approval.

8. CONTACT OFFICER

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DRAFT
FINANCIAL REPORT

2011 / 2012



CHRIS LITTLE
CHIEF FINANCE OFFICER
CORPORATE FINANCE

Hartlepool Borough Council

Hartlepool Borough Council - Financial Report 2011/2012

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SECTION 1 : Explanatory Foreword

INTRODUCTION

The Statement of Accounts presents the overall financial position for the year ended 31st March, 2012 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 2011/12, details the year-end financial position for 2011/12, 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 2011/2012

Revenue Spending 2011/2012 - Budget Position

The preparation of the 2011/12 budget was set against a background of Government proposals for reducing the national deficit budget and confirmation that the public sector, in particular local authorities, face a period of sustained and significant reductions in funding.

The Council prepares a rolling three year financial strategy. This is based on the Government's Spending Review, which provides details of the actual grant cuts for individual councils for 2011/12 and 2012/13. The Spending Review also provided details of the overall cuts in council funding for 2013/14 and 2014/15. For 2011/12 the amount of Formula Grant, the main revenue grant received from the Government, was reduced by £6.1m, which was a 12% reduction on the previous year. The Council also had to manage the impact of a cut in the Early Intervention Grant of £1.9m, (21% reduction), reductions in other revenue grants of £1.2m, (15% reduction) and the complete withdrawal of the Working Neighbourhood Fund Grant of £4.9m.

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 learning difficulties and providing for above inflationary increases in Concessionary Fares.

For 2011/12 the Council faced an overall budget shortfall of £10m. The second phase of the Business Transformation Programme was implemented in April 2011 and saved £2.9m by reviewing how existing services are provided.

The Business Transformation Programme was designed before the scale of the national budget deficit was known and the level of cuts in Government grants had been determined. As these cuts are worse than feared the Business Transformation Programme will not address the shortfall in funding caused by Government grant cuts.

The Council has therefore had to implement other measures to offset the higher grant cuts in 2011/12. This included a range of corporate savings which saved £1.5m. The remaining deficit of £5.6m was bridged by cuts in existing services which included further reductions of £1.7m in management and administrative costs, freezing payments to service providers at current prices and withdrawal of some services completely such as the Supported Bus Service.

The Council listened to concerns about cuts in grants to Voluntary and Community Groups and reduced the scale of these cuts from 30% to 10%. Temporary funding was also provided to keep a number of Community Centres open to provide time to determine if these facilities can be transferred to other groups to manage.

The Council's net 2011/12 General Fund budget, which is funded from Government Grant and Council Tax was £169.983m, including expenditure funded from the Dedicated Schools Grant.

SECTION 1 : Explanatory Foreword

Revenue Spending 2011/2012 - Outturn Position

The Council's actual expenditure for 2011/12 was £8.802m less than the approved budget. Financial management reports submitted to Members during the year identified that there were four factors for this managed underspend :

- positive action taken during 2011/12 to achieve planned 2012/13 savings early. This provided a one-off benefit in 2011/12 and also provided a more robust base for the 2012/13 budget as some of the savings required were implemented before the start of the new financial year, which reduces risk from delayed implementation;
- robust action taken to manage expenditure, including keeping posts vacant to help manage budget reductions required in 2012/13 by either deleting posts permanently, or by providing redeployment opportunities;
- temporary savings in interest costs from the netting down of investments and borrowings to take advantage of prevailing 2011/12 interest rate structures and reduce investment counterparty exposure;
- the financial benefit to the Council's budget of the continuation of a freeze in local authority pay levels across all staff. The ongoing saving has been included in the base budget for 2012/13.

As part of the Council's strategic approach to managing resources over more than one financial year the Council allocated these resources to address a number of strategic financial risks by earmarking specific funding for these issues. If this funding had not been achieved from the 2011/12 outturn then additional cuts would have been needed in 2012/13 to fund the unavoidable commitments, including significant Housing Market Renewal commitments and redundancy / early retirement costs arising from budget cuts which will be required over the period 2012/13 to 2014/15.

The outturn has also provided one-off funding to partly offset the removal of the 2012/13 Council Tax Freeze grant in 2013/14 and funding to potentially provide transitional support to offset the Council Tax Benefit grant cuts next year, which increases the Council's financial flexibility to manage these difficult issues.

After addressing these strategic issues there was an uncommitted underspend of £0.306m which has been transferred to the General Fund Reserve.

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

	<u>£000</u>	<u>%</u>
<u>Grant Funding</u>		
Dedicated Schools Grant	73,797	43%
Share of National Non-Domestic Pool	39,730	24%
Revenue Support Grant	12,280	7%
Transitional Support Grant	1,846	1%
Council Tax Freeze Grant	992	1%
Total Grant Funding	128,645	76%
<u>Other Funding</u>		
Council tax (HBC Charge on Collection Fund)	39,669	23%
Surplus on Collection Fund (HBC Share)	208	0%
Use of Reserves	1,461	1%
Total Other Funding	41,338	24%
Total Funding	169,983	100%

SECTION 1 : Explanatory Foreword

Summary of 2011/2012 Financial Position

Description of Expenditure	2011/2012 Approved Budget £000	2011/2012 Actual Expenditure / Income £000	2011/2012 Variance Adverse / (Favourable) £000
<u>Departmental Expenditure</u>			
Child & Adult Services	53,650	52,308	(1,342)
Chief Executives Department	3,337	3,391	54
Regeneration & Neighbourhoods	22,014	22,100	86
Total Departmental Expenditure	79,001	77,799	(1,202)
Non Departmental Expenditure	17,185	9,585	(7,600)
Dedicated Schools Grant Related Expenditure	73,797	73,797	0
Total Departmental and Non Departmental Expenditure	169,983	161,181	(8,802)
Contributions to Reserves			
Strategic One-off Costs		1,980	
Works in Default Empty Homes		50	
2012/13 Budget Deficit		29	
Transitional Support to Offset Council Tax Benefit Cuts		1,197	
Contribution to Members Ward Issues Budget		83	
Support 2013/14 Budget and Loss of 2012/13 Council Tax Freeze Grant		727	
			4,066
Building / Development Control Income Shortfall		260	
Holiday Pay Reserve		43	
Concessionary Fares		60	
School Meals Income Shortfall		70	
Mayoral Referendum		70	
Collection Fund		186	
			689
Bowling Club Rent		25	
Care Matters - Service Developments for Looked After Children		90	
Education Psychology		17	
Performance Data - YOS Statistical Analysis		5	
Contribution to Local Plan & Housing Strategic Studies Reserve		58	
Digital City		30	
Contribution to Engineering Consultancy Reserve		100	
Contribution to Fleet Reserve		100	
Contribution to Plant Replacement Reserve		40	
Contribution to Stranton Nursery Reserve		40	
Contribution to Passenger Transport Reserve		45	
			550
Earmarked for Family Poverty Initiatives as approved by Council 12th April 2012			319
Income in advance - mainly from Department of Health and Primary Care Trust			1,233
Repayment of Insurance Fund from Transitional Grant			1,470
Changes in other reserves			169
Total Contributions to Reserves			8,496
Final Contribution to General Fund Balance			(306)

SECTION 1 : Explanatory Foreword

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

The current economic climate reduced the level of income received from the Shopping Centre, Car Parks and Land Charges. In 2011/12 these reductions, which totalled £0.7m, have been managed using the specific reserve of £0.550m set up to cover these shortfalls and £0.150m of the Council's 2011/12 outturn monies. The Council reviewed the position on these issues as part of the 2012/13 budget process and determined that these income shortfalls are likely to continue in the foreseeable future. Therefore, these issues have been addressed in the 2012/13 budget.

There has also been a reduction in interest earned on Council investments, although this has been mitigated by lower interest costs on the Council's borrowings.

The Government confirmed the provisional Formula Grant allocations for 2012/13. For Hartlepool, this confirmed the Core Formula Grant cut for 2012/13 included in the Medium Term Financial Strategy (MTFS) of £4.1m (an 8% cut). This grant cut confirms the cumulative cut in the Core Formula Grant over two years of 20%. As a result of the grant reductions, demographic pressures and income shortfalls the Council needed to reduce costs by £5.7m in 2012/13. Following on from significant efficiencies and cuts achieved in previous years it was extremely difficult to balance the 2012/13 budget. The Council implemented a range of measures to offset the grant cuts in 2012/13. This has included reducing non pay budgets by £3m and increasing income by £0.7m. Pay budgets have also been reduced by £1.7m and this has been achieved by reviewing vacant posts and deleting these where possible, which make up £0.5m of this saving.

The grant position for 2013/14 and 2014/15 is still uncertain and for planning purposes the current MTFS anticipates that the national grant cuts will apply at a local level.

In addition, the Chancellors recent Autumn Statement outlined a longer period of public sector austerity which could result in higher overall cuts in local authority grants in 2013/14 and 2014/15 than currently planned. This is likely to mean actual grant cuts for Hartlepool for these years will be higher than the current MTFS planning assumptions. In the meantime the existing planning assumptions indicate that significant additional cuts will need to be made in 2013/14 and 2014/15 of £4.2m and £5.2m respectively. Detailed proposals for achieving these reductions will be developed during 2012/13 and initial proposals were reported to Cabinet in June 2012. Further reports will be submitted to Cabinet with options to address the impact of the Government's proposals to relocalise Business Rates and localise support for Council Tax.

On a positive note in 2011/12 the Council has improved in year collection rates for Council Tax to 97.2 % (97% in 2010/11) and Business Rates to 98 % (97% in 2010/11).

CAPITAL PROGRAMME

Capital Spending 2011/2012 - Outturn Position

In 2011/12 the Council had a total Capital Programme of £57.327m and incurred expenditure totalling £34.846m. The remaining capital programme of £22.481m has been rephased to 2012/13. An analysis of this actual 2011/12 expenditure is shown below, together with an analysis of how this expenditure was financed.

	£000	%
<u>Expenditure</u>		
School Improvements	20,488	59%
Housing Investment Programme	4,307	12%
Other Schemes	7,468	21%
Highway Maintenance & Construction	2,583	8%
Total Expenditure	34,846	100%
<u>Capital Financing</u>		
Capital Grant	28,131	81%
Borrowing	3,967	11%
Other	1,886	5%
Capital Receipts	862	3%
Total Capital Financing	34,846	100%

SECTION 1 : Explanatory Foreword

As at 31st March, 2012, the Council had rephased capital expenditure totalling £22.481m into 2012/13. This will be funded from the following resources, which have also been rephased to 2012/13.

<u>Capital Financing</u>	<u>£000</u>
Government Grants	14,425
Borrowing	5,045
Capital Funding Reserves	3,011
	22,481

This position reflects the lead time between commissioning capital schemes and the completion of the work. In many cases schemes had commenced in 2011/12 and will be completed in 2012/13.

Capital Receipts

The Council received gross receipts of £0.836m in 2011/12 from the sale of assets. The net receipt after funding the cost of disposals was £0.836m. £0.824m related to the disposal of land and buildings and this funding is earmarked to fund strategic one-off costs relating to Housing Market Renewal. £0.012m related to the sale of vehicles.

BORROWING FACILITIES AND INVESTMENT STRATEGY

The Council's arrangement for borrowing accord with the approved 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 2011/12 the Council took out new borrowing totalling £4.233m to fund specific capital investment in photo voltaic cells and housing investment. This has allowed the Council to mitigate interest rate risk on these specific schemes and secured fixed interest rates within the costs established by the business cases. The Council continued to manage investment risk by using surplus cash to temporarily avoid further 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, 2012, there was a deficit on the Pensions Reserve of £134.089m (£51.856m in 2010/11) which decreased the net worth of the Council. This was offset by a Pension Liability of the same value. The change in the deficit arose substantially because of actuarial losses in the pension fund liabilities, these losses arose predominantly for two reasons. Firstly, investment returns were lower than assumed thus assets were lower than expected. Secondly the value placed on the liabilities increased by more than assumed due to a reduction in corporate bond yields which is the discount rate that the accounting standard requires the actuaries to use. The lower the discount rate the higher the value placed on the liabilities. The discount rate reduced from 5.5% to 4.6%, thus leading to a widening of the gap between assets and liabilities. Further information is included at Note 45 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 full valuation set the employer's contribution rate for the period 2011/12 to 2013/14.

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

SECTION 1 : Explanatory Foreword

CORE FINANCIAL STATEMENTS

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 (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (i.e. 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 International Financial Reporting Standards (IFRS), 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.

During 2011/12 the value of shares held by the Council in Durham Tees Valley Airport Limited was reduced down to nil to reflect the company's negative net worth in their latest accounts. The shareholding also reduced from 2.47% to 1.08% upon the sale of the airport to YVR Airport Limited. This change has been reflected in the Income and Expenditure Account.

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 reserve includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

The major movements on the Balance Sheet are as follows:

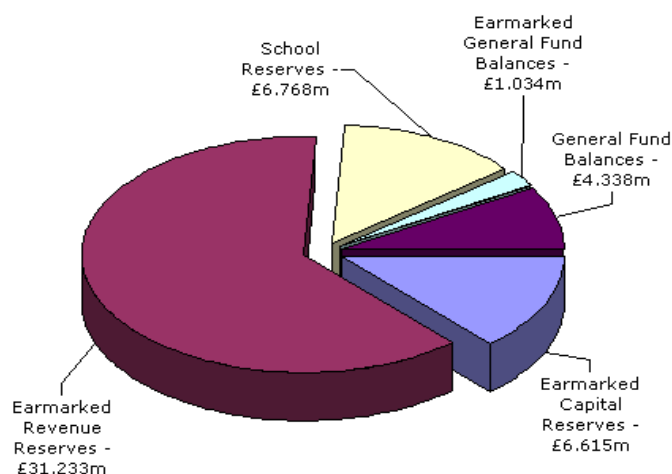
- Property, Plant and Equipment, Revaluation Reserve and Capital Adjustment Account – the Council's total fixed assets have increased by £8.066m which comprises of expenditure on fixed assets of £21.607m, upward revaluations of existing assets of £11.822m, less depreciation, downward revaluations and disposals of £25.363m.
- Short Term Debtors – as at 31st March, 2012, are £9.303m (£17.801m at 31st March, 2011). The decrease is mainly owing to an amount owed from Government departments.
- Long Term Investments, plus current investments - totalled £25.232m as at 31st March, 2012 (£19.022m at 31st March, 2011). The increase largely relates to the changes in cash flows.
- Temporary short terms loans plus bank overdraft - as at 31st March, 2012, were £0.702m (£6.906m at 31st March, 2011). The decrease is mainly owing to cash flow changes and increased use of short term liquid accounts.

SECTION 1 : Explanatory Foreword

- Earmarked Reserves and General Fund Balances – as at 31st March, 2012, are £49.988m (£39.024m at 31st March, 2011). The net increase reflects a number of factors. Contributions have been made to specific reserves to manage risks and protect the Council's financial position. 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 2012/13 and beyond. Details of the movements on reserves and balances are provided in Note 6.

In summary reserves at 31st March, 2012 consist of five main components:

Analysis of Reserves at 31/03/12 - Total £49.9m



- Earmarked - Capital Reserves - (£6.615m) these reserves are earmarked for capital expenditure commitments rephased from 2011/12 to 2012/13.
- Earmarked - Revenue Reserves - these reserves are earmarked for specific risks and include the Insurance Fund (£4.6m), Strategic Risk Reserve (£2.7m), Strategic One-Off Costs (£8.5m) to support the budget from 2012/13, Strategic Change and Ring Fenced Grants Reserve (£7.8m).
- School Reserves - (£6.768m) these reserves are earmarked for individual schools in accordance with the scheme for funding schools.
- Earmarked General Fund Balances - (£1.034m) this includes the Budget Support Fund (£0.871m) which will be fully used to support the 2012/13 budget.
- General Fund Balances – (£4.338m) this balance is earmarked for unforeseen commitments.

Cash Flow Statement

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

SECTION 1 : Explanatory Foreword

Prior Period Adjustments, Changes in Accounting Policies, 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, i.e. 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.

In the 2011/12 restatements have been made to comparative prior year figures in relation to the following:

- the adoption of FRS30: Heritage Assets. The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced accounting for Heritage Assets. Previously such assets were accounted for as Community Assets within Property, Plant and Equipment. The Code now requires that Heritage Assets are disclosed separately. This change in accounting policy affects the Balance Sheet and Note 14 – Property, Plant and Equipment. A new note has also been introduced, Note 16 – Heritage Assets. These changes do not impact on the Council's overall net worth.

- the 2011/12 Code has confirmed that IAS20: Accounting for Government Grants and Disclosures applies to both revenue and capital grants, and the recognition of Revenue Grant Receipts in Advance. The relevant balances in 2010/11 were included as income in advance within short term creditors. The Balance Sheet, Note 27 – Grant Income and Note 24 – Short Term Creditors have been restated to meet the disclosure requirements. This change does not impact on the Council's overall net worth.

- the Service Reporting Code of Practice 2011/12 (SeRCOP) amended the requirement for the presentation of Service Expenditure Analysis and Recommended Standard Subjective Analysis. The changes in disclosure as a result of this are within the Comprehensive Income and Expenditure Statement (CIES). Previously Cultural, Environmental, Regulatory and Planning Services were disclosed on one line in the CIES. The SeRCOP 2011/12 now requires separate disclosure of this service line under the following revised service lines and the CIES has been restated accordingly:

- Cultural and Related Services
- Environmental and Regulatory Services
- Planning Services

- in 2010/11 there was a presentational error within the reconciliation for Amounts Reported within Segmental Reporting. This did not affect the Council's outturn position or the major statements. Note 7 – Amounts Reported for Segmental Reporting has been restated to correct this presentational issue.

Where balances have been restated this is indicated on individual statements and notes. An additional note has been included (Note 47 - Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors) which summarises all restatements.

SECTION 1 : Explanatory Foreword

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, National 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 33,169 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		
Hartlepool Council Precept	39,695	54%
Cleveland Police Authority Precept	5,252	7%
Cleveland Fire Authority Precept	1,789	3%
Payment to NNDR Pool	25,646	35%
Other	610	1%
	72,992	100%
Income		
Council Tax	47,017	64%
NNDR from Rate Payers	25,883	36%
	72,900	100%
Net Deficit / (Surplus) in Year	92	

CHANGES IN COUNCIL RESPONSIBILITIES

There were no significant changes in the Council's statutory responsibilities during 2011/12.

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 2010/11 have been shown where appropriate. Where appropriate a third balance sheet comparator for 1st April, 2010 has also been shown.

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 2011/12 financial year the inspection period was 2nd July, 2012 to 27th July, 2012.

Chris Little
Chief Finance Officer
Date: 29th June, 2012

SECTION 2 : 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 21st September, 2012

Councillor C Akers-Belcher
Chair of Audit Committee
Date: 21st September, 2012

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council'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 Section 1 to 3 of the Financial Report 2011/12 which includes the Statement of Accounts give 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, 2012.

Chris Little
Chief Finance Officer
Date: 29th June, 2012

SECTION 3 : Statement of Accounts

Movement in Reserves Statement for the year ended 31 March 2012

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. 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 2010	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 5)	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
<u>Movement in reserves during 2011/12</u>								
Surplus or (deficit) on provision of services	10,018	-	-	-	-	10,018	-	10,018
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	(65,724)	(65,724)
Total Comprehensive Income and Expenditure	10,018	-	-	-	-	10,018	(65,724)	(55,706)
Adjustments between accounting basis & funding basis under regulations (note 5)	2,228	-	(1,505)	-	225	948	(948)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	12,246	-	(1,505)	-	225	10,966	(66,672)	(55,706)
Transfers to/(from) Earmarked Reserves	(11,764)	1,152	10,612	-	-	-	-	-
Increase/(Decrease) in Year	482	1,152	9,107	-	225	10,966	(66,672)	(55,706)
Balance at 31 March 2012 carried forward	4,338	7,803	34,647	-	3,200	49,988	53,737	103,725

For detail on Usable and Unusable Reserves see Notes 28 and 29.

SECTION 3 : Statement of Accounts

Comprehensive Income and Expenditure Statement for the year ended 31 March 2012

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 2010/11			2011/12				
£000s	£000s	£000s		£000s	£000s	£000s	
Expenditure	Income	Net	Continuing operations:	Expenditure	Income	Net	Note
19,239	16,908	2,331	Central Services to the Public	15,963	14,168	1,795	
18,524	6,771	11,753	Cultural and Related Services	14,480	3,006	11,474	
19,098	4,680	14,418	Environmental and Regulatory Services	13,867	2,959	10,908	
10,450	4,828	5,622	Planning Services	5,054	1,763	3,291	
133,212	97,688	35,524	Education and Children’s Services	131,609	101,914	29,695	
18,163	6,247	11,916	Highways and Transport Services	13,917	4,153	9,764	
53,594	45,026	8,568	Other Housing Services	53,486	49,431	4,055	
42,121	13,581	28,540	Adult Social Care	45,644	17,836	27,808	
5,342	513	4,829	Corporate and Democratic Core	3,789	285	3,504	
1,240	-	1,240	Non Distributed Costs	4,228	41	4,187	
(34,008)	-	(34,008)	Non Distributed Costs - Past Service Gain - Pensions (see Note (a) below)	-	-	-	
286,975	196,242	90,733	Cost of Services	302,037	195,556	106,481	
1,010	690	320	Other Operating Expenditure	2,283	1,131	1,152	8
24,368	-	24,368	Transfer of Foundation School Assets (see Note (b) below)	-	-	-	8
5,244	2,187	3,057	Financing and Investment Income and Expenditure	3,501	2,141	1,360	9
-	121,379	(121,379)	Taxation and Non-Specific Grant Income	-	119,011	(119,011)	10
317,597	320,498	(2,901)	(Surplus) / Deficit on Provision of Services	307,821	317,839	(10,018)	7
		1,476	(Surplus) / Deficit on Revaluation of Property, Plant and Equipment			(16,536)	29 Table 1
		186	(Surplus) / Deficit on Revaluation of Available for Sale Financial Assets			221	29 Table 2
		(41,884)	Actuarial (Gains) / Losses on Pension Assets & Liabilities			82,039	29 Table 4
		(12)	Other Gains and Losses			0	29 Table 5
		(40,234)	Other Comprehensive Income and Expenditure			65,724	
		(43,135)	Total Comprehensive Income and Expenditure			55,706	

Note (a) - The Government announced plans in 2010/11 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' for 2010/11 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 for 2010/11 and is disclosed separately in the Comprehensive Income and Expenditure Statement owing to the exceptional nature of these transactions.

SECTION 3 : Statement of Accounts

Balance Sheet as at 31 March 2012

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 (e.g. 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 1 April 2010 £000s	Restated 1 April 2011 £000s		31 March 2012 £000s	Note
267,161	240,213	Property, Plant and Equipment	248,281	14
9,938	9,938	Heritage Assets	14,652	16
14,976	15,285	Investment Property	14,532	15
604	418	Long Term Investments	197	18
244	259	Long Term Debtors	282	19
292,923	266,113	Long Term Assets	277,944	
35,813	18,604	Short Term Investments	25,035	37
756	778	Inventories	637	20
17,228	17,801	Short Term Debtors	9,303	21
79	147	Landfill Trading Allowance Scheme	-	
2,391	5,909	Cash and Cash Equivalents	8,495	22
250	470	Assets Held for Sale	3,845	23
56,517	43,709	Current Assets	47,315	
6,303	4,822	Cash and Cash Equivalents	237	22
2,643	2,455	Provisions	1,177	25
12,639	2,084	Short Term Borrowing	465	37
26,192	19,223	Short Term Creditors	21,467	24
9,982	15,682	Capital Grants Receipts in Advance	8,460	27
3,702	3,451	Revenue Grant Receipts in Advance	961	27
61,461	47,717	Current Liabilities	32,767	
472	745	Provisions	745	25
46,821	46,821	Long Term Borrowing	51,016	37
122,553	52,657	Other Long Term Liabilities	134,370	26
1,837	2,451	Capital Grant Receipts in Advance	2,634	27
171,683	102,674	Long Term Liabilities	188,765	
116,296	159,431	Net Assets:	103,727	
3,462	3,856	Unearmarked General Fund Balances	4,338	28
2,966	2,241	Earmarked General Fund reserves	1,034	28
3,543	4,410	Schools Balances	6,768	28
4,623	7,583	Earmarked Capital Reserves	6,615	28
19,873	20,932	Earmarked Revenue Reserves	31,233	28
81,829	120,409	Unusable Reserves	53,739	29
116,296	159,431	Total Reserves:	103,727	

SECTION 3 : Statement of Accounts

Statement Of Cash Flows For The Year Ended 31 March 2012

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 (i.e. borrowing) to the Council.

2009/10 £000s	2010/11 £000s		2011/12 £000s	Note
19,898	(2,901)	Net (Surplus) / Deficit on the Provision of Services	(10,018)	
(34,514)	(36,824)	Adjustments to Net (Surplus) / Deficit on the Provision of Services for Non-cash Movements	(22,989)	39
21,597	42,018	Adjustments for items included in the Net (Surplus) / Deficit on the Provision of Services that are Investing and Financing Activities	29,217	40
6,981	2,293	Net Cash Outflow from Operating Activities	(3,790)	
(11,643)	(23,724)	Investing Activities	1,731	42
6,546	16,432	Financing Activities	(5,112)	43
1,884	(4,999)	Net (Increase) / Decrease in Cash and Cash Equivalents	(7,171)	
(2,028)	(3,912)	Cash and Cash Equivalents at the beginning of the reporting period	1,087	
(3,912)	1,087	Cash and Cash Equivalents at the end of the reporting period	8,258	22

SECTION 3 : Statement of Accounts

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31st March, 2012. 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 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

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.

SECTION 3 : Statement of Accounts

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.

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.

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.

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.

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.

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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, 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, i.e. 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.

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 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, e.g. 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.

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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 provide 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.

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 – i.e. 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.

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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.

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.

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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 either Capital or Revenue Grant 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.

10. Interests in Companies and Other Entities

Under Local Government Reorganisation the Council was allocated 2.47% of the shares in Durham Tees Valley Airport Limited, which has reduced to 1.08% upon the sale of the airport to YVR 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 shares have no value as this is determined by the net worth of the company, which is negative, as disclosed in the company's latest accounts. The value of the shares have been written out of the accounts accordingly.

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.

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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 (i.e. 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.

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).

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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 (e.g. there is a rent-free period at the commencement of the lease).

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 (i.e. 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 (e.g. 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.

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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 Service Reporting Code of Practice 2011/12. 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.

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 CIPFA Service Reporting Code of Practice 2011/12 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:

- The Council has good marketable title, free from any onerous or restrictive covenants.
- There are no hazardous substances or latent defects in the properties and there is no contamination present.
- Details of tenure, planning consents and other relevant information are assumed to be correct.
- 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.
- 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.
- No allowance has been made for any taxation, acquisition, realisation or disposal costs or other expenses.
- No soil surveys have been carried out or services tested.

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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.

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 (i.e. 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.

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

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

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

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

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 as follows :

- 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.

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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 (i.e. freehold land and Community Assets) and assets that are not yet available for use (i.e. 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 disposal.

Depreciation is calculated on the following bases:

- dwellings – 50 years.
- other buildings – 25 to 40 years.
- vehicles, plant and equipment – 3 to 15 years.
- infrastructure – 15 to 100 years.

Where an item of Property, Plant and Equipment 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.

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 (i.e. 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.

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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.

16. Heritage Assets

Heritage Assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the Council's history and local area. The items in the Museum Exhibit and Art Collection and the Civic Collection are held on the Balance Sheet at insurance value, and will be reviewed every five years. The assets within these collections are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions will be recognised at cost until the collection is revalued by the external valuer. Donations will only be recognised where the value is deemed to exceed £10,000, and will be valued by the external valuer.

The Council has an Acquisitions and Disposals Policy in place which sets out the acquisition, preservation, management and disposal of Heritage Assets. This is available to view on the Council's Internet.

The Council does not consider that reliable cost of valuation information can be obtained for many of the items held under the Sculptures, Monuments and War Memorial category. This is because of the diverse nature of the assets held and lack of comparable market values.

The Council was able to transfer two assets from Community Assets at Historic Cost. The remainder have been included at £1. The Council does not make purchases of these assets.

17. 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.

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Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. 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 policy. 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.

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

SECTION 3 : Statement of Accounts

Statement of Accounting Policies

18. 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.

19. 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.

20. 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.

21. Financial Instruments

Financial liabilities

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

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

SECTION 3 : Statement of Accounts

Statement of Accounting Policies

Financial assets

Financial assets are classified into two types:

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

Available for sale 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.

Debtors are included within loans and receivables. The Council recognises that debts are not always paid and makes provision for impairment of bad debts. Bad debt impairment is calculated using a percentage based on known historic collection rates. This is applied to current outstanding debt.

SECTION 3 : Statement of Accounts

Note 1: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

As a result of IFRS7 Financial Instruments: Disclosures, The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in accounting policy in relation to the disclosures required for Financial Instruments.

The change in the disclosures of Financial Instruments Disclosures are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the Council's financial position. The Council at present does not meet this criteria and is of the view that the change in disclosure of the standard would not apply.

Note 2: 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 2012/13. 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.
- The Council has an external contract for the provision of its ICT service. This contract has been classed as an embedded lease and under IAS 37 was brought onto the Balance Sheet in 2009/10 as a finance lease.

Note 3: 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, 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £82,000 for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	These changes would not impact on the Council's revenue budget and the cash cost of services as actual pension rates are determined on an actuarial basis every 3 years. The latest valuation has determined the employers contribution for 3 years from 2011/12.

SECTION 3 : Statement of Accounts

Note 3: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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 2011/12. As part of the 2012/13 budget process it was determined that these income shortfalls would continue into foreseeable future and therefore this issue was addressed in 2012/13 budget.
Arrears	At 31st March, 2012, the Council had a balance of £5.690m on general and trade debtors. A review of these balances suggested that an impairment of doubtful debts of £1.340m 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 £1.340m 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 4: Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 29th June, 2012. 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, 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

SECTION 3 : Statement of Accounts

Note 5: 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 practise to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2011/12	Usable Reserves					
	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement</u>						
Charges for Depreciation and Impairment of Non-current Assets	(19,937)	-	-	-	-	(19,937)
Movements in the Market Value of Investment Properties	(1,177)	-	-	-	-	(1,177)
Capital Grants and Contributions	25,871	-	-	-	-	25,871
Write out Finance Leases	205	-	-	-	-	205
Direct Revenue Funding	-	-	1,889	-	-	1,889
Revenue Expenditure Funded from Capital Under Statute	(12,337)	-	(384)	-	-	(12,721)
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	(2,147)	-	-	-	-	(2,147)
						-
<u>Insertion of items debited or credited to the Comprehensive Income & Expenditure Statement</u>						
Provision for the Financing of Capital Investment (MRP)	4,872	-	-	-	-	4,872
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital Grants and Contributions Unapplied Credited to the Comprehensive Income & Expenditure Statement	2,485	-	-	-	(2,485)	-
Application of Grants to Capital Financing transferred to the Capital Adjustment Account	-	-	-	-	2,260	2,260
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	862	-	-	(862)	-	-
Use of the Capital Receipts Reserve to finance new Capital Expenditure	-	-	-	862	-	862
Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool	(1)	-	-	1	-	-
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	-	-	-	(1)	-	(1)

SECTION 3 : Statement of Accounts

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

2011/12	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
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	-	-	-	-	-	-
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(9,543)	-	-	-	-	(9,543)
Employer's Pension Contributions and Direct Payments to Pensioners payable in year	9,349	-	-	-	-	9,349
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	(78)	-	-	-	-	(78)
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	(652)	-	-	-	-	(652)
Total Adjustments	(2,228)	-	1,505	-	(225)	(948)

	Usable Reserves					
2010/11	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement</u>						
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
<u>Insertion of items debited or credited to the Comprehensive Income & Expenditure Statement</u>						
Provision for the financing of Capital Investment (MRP)	4,642	-	-	-	-	4,642

SECTION 3 : Statement of Accounts

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

2010/11	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
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)
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)

SECTION 3 : Statement of Accounts

Note 6: 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 2011/12. Further details are provided in Note 28.

	Balance at 1 April 2010 £000s	Transfers Out £000s	Transfers In 2010/11 £000s	Balance at 31 March 2011 £000s	Transfer Between Reserves £000s	Transfers Out 2011/12 £000s	Transfers In 2011/12 £000s	Balance at 31 March 2011 £000s
Unearmarked General Fund Balance								
General Fund Balance	3,462	-	394	3,856	(394)	-	876	4,338
	3,462	-	394	3,856	(394)	-	876	4,338
Earmarked General Fund Reserves								
Strategic Change Reserve	781	(49)	-	732	(503)	(84)	-	145
Strategic Change Reserve - Held in Trust for Schools					79	(79)	-	-
Budget Support Fund *	2,086	(1,444)	794	1,437	172	(1,635)	897	871
Energy Saving Fund	29	(28)	-	1	(1)	-	-	-
Strategic Procurement Review	50	-	-	50	(50)	-	-	-
LPSA Reward	15	(15)	18	18	-	-	-	18
Cabinet Projects	4	-	-	4	(4)	-	-	-
	2,965	(1,536)	813	2,242	(307)	(1,798)	897	1,034
School Balances								
Balances held by schools under a scheme of delegation	3,543	(3,560)	4,427	4,409	-	(4,417)	6,776	6,768
	3,543	(3,560)	4,427	4,409	-	(4,417)	6,776	6,768
Earmarked Revenue Reserves								
School Rates	66	-	8	74	(74)	-	-	-
Other Fund School Balances	99	(47)	103	155	-	(18)	250	387
Brierton/Dyke House BSF Costs	300	-	-	300	-	(300)	-	-
Building Schools for the Future *	761	(808)	442	396	(172)	(80)	220	364
Strategic Change & Ring Fenced Grants Reserves	10,829	(4,491)	5,651	11,989	(4,504)	(1,436)	1,743	7,792
Strategic Change & Ring Fenced Grants Reserves - Held in Trust for Schools					1,211	(408)	978	1,781
Strategic Risk Reserve	2,310	(132)	1,074	3,252	-	(574)	-	2,678
Insurance Fund	4,033	(1,992)	1,140	3,181	(1,468)	(23)	2,938	4,628
Lotteries Reserve	413	(12)	16	417	-	(8)	17	426
Museums Acquisition	63	-	3	66	-	-	3	69
Business Transformation	344	(91)	8	261	-	(52)	-	209
NDC Fund	655	(610)	-	45	-	(37)	-	8
Carbon Reduction Commitment	-	-	196	196	-	(76)	110	230
Incinerator Reserve	-	-	600	600	(200)	(400)	-	-
Strategic One Off Costs	-	-	-	-	7,446	(864)	1,980	8,562
Supporting Family Poverty	-	-	-	-	-	-	319	319
Works in Default Empty Homes	-	-	-	-	-	-	50	50
Transitional Support to Offset Council Tax Cuts	-	-	-	-	-	-	1,197	1,197
Members Ward Issues	-	-	-	-	-	-	182	182
Support 13/14 Loss of 12/13 Council Tax Freeze Grant	-	-	-	-	-	-	727	727
Pension Actuarial Reserve	-	-	-	-	-	-	122	122
Training for Staff on Redeployment Register	-	-	-	-	-	-	50	50
Early Intervention Grant Reserve	-	-	-	-	-	-	454	454
Future Project Investigation Costs	-	-	-	-	-	-	250	250
Mayoral Referendum Reserve	-	-	-	-	-	-	70	70
Concessionary Fare	-	-	-	-	-	-	60	60
Seaton Carew Youth Club	-	-	-	-	-	-	30	30
Building / Development Control Income Shortfall	-	-	-	-	-	-	260	260
Holiday Pay Reserve	-	-	-	-	-	-	43	43
Trading Account Reserves	-	-	-	-	-	-	285	285
	19,873	(8,182)	9,241	20,932	2,239	(4,276)	12,338	31,233
Earmarked Capital Reserves								
Capital Funding Reserve	3,033	(689)	2,225	4,569	(1,500)	(1,952)	2,297	3,414
Capital Grants Unapplied	663	(2,067)	4,381	2,976	-	(2,260)	2,485	3,201
Maritime Avenue Remedial Works	37	-	1	38	(38)	-	-	-
Capital Receipts Unapplied	891	(891)	-	-	-	(863)	863	-
	4,624	(3,647)	6,607	7,584	(1,538)	(5,075)	5,645	6,615
Total Reserves	34,467	(16,925)	21,481	39,024	-	(15,566)	26,532	49,988

* an accounting error of £172k between the Budget Support Fund and the Building Schools for the Future Reserve meant that the 2010/11 balance for the Budget Support fund shows £1,437k and should have been £1,609k. Building Schools for the Future shows £396k and should have been £224k. This error is not material under accounting standards and has therefore not been corrected in 2010/11 but in 2011/12.

SECTION 3 : Statement of Accounts

Note 7: 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 2011/12	Child and Adult Services	Chief Executives	Regeneration & Neighbourhoods	Corporate	Total
	£000s	£000s	£000s	£000s	£000s
Fees, Charges & Other Service Income	(30,685)	(10,622)	(34,428)	(18,369)	(94,104)
Government Grants	(18,683)	(59,928)	(1,907)	(788)	(81,306)
Total Income	(49,368)	(70,550)	(36,335)	(19,157)	(175,410)
Employee Expenses	56,912	8,987	17,619	1,557	85,075
Other Operating Expenses	110,644	60,632	30,068	32,900	234,244
Support Service Recharges	8,839	4,260	11,081	458	24,638
Total Expenditure	176,395	73,879	58,768	34,915	343,957
Net Expenditure	127,027	3,329	22,433	15,758	168,547

Restated Income and Expenditure 2010/11 Comparative Figures	Child and Adult Services	Chief Executives	Regeneration & Neighbourhoods	Corporate	Total
	£000s	£000s	£000s	£000s	£000s
Fees, Charges & Other Service Income	(38,011)	(13,992)	(44,038)	(12,102)	(108,143)
Government Grants	(26,959)	(57,715)	(4,854)	51	(89,477)
Total Income	(64,970)	(71,707)	(48,892)	(12,051)	(197,620)
Employee Expenses	54,190	10,119	24,169	3,332	91,810
Other Operating Expenses	123,991	61,522	40,612	20,165	246,290
Support Service Recharges	10,130	5,811	11,404	407	27,752
Total Expenditure	188,311	77,452	76,185	23,904	365,852
Net Expenditure	123,341	5,745	27,293	11,853	168,232

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.

	Restated 2010/11 £000s	2011/12 £000s
Net Expenditure in the Directorate Analysis	168,232	168,547
Amounts Not Reported in the Directorate Analysis	(54,250)	(41,905)
In Directorate Analysis not in CI&E	(23,249)	(20,161)
Cost of Services in Comprehensive Income & Expenditure Statement	90,733	106,481

SECTION 3 : Statement of Accounts

Note 7: 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.

2011/12	Directorate Analysis	Amounts not Reported in the Directorate Analysis	In Directorate Analysis not in CI&E	Cost of Service - Continuing Operations	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Fees, Charges & Other Service Income	(94,103)	-	65,587	(28,516)	(11,189)	(39,705)
Income from Council Tax				-	(39,825)	(39,825)
Government Grants and Contributions	(81,307)	(85,733)	-	(167,040)	(71,268)	(238,308)
Total Income	(175,410)	(85,733)	65,587	(195,556)	(122,282)	(317,838)
Employee Expenses	85,076	11,110	(9,349)	86,837	-	86,837
Other Operating Expenses	234,244	12,782	(76,399)	170,627	2,446	173,073
Support Service Recharges	24,637	-	-	24,637	-	24,637
Depreciation, Amortisation and Impairment	-	19,936	-	19,936	1,179	21,115
Disposal of Fixed Assets	-	-	-	-	2,158	2,158
Total Expenditure	343,957	43,828	(85,748)	302,037	5,783	307,820
(Surplus) / Deficit on the Provision of Services	168,547	(41,905)	(20,161)	106,481	(116,499)	(10,018)

Restated 2010/11 Comparative figures	Directorate Analysis	Amounts not Reported in the Directorate Analysis	In Directorate Analysis not in CI&E	Cost of Service - Continuing Operations	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Fees, Charges & Other Service Income	(108,143)	-	73,215	(34,928)	(2,877)	(37,805)
Income from Council Tax	-	-	-	-	(39,488)	(39,488)
Government Grants and Contributions	(89,477)	(71,836)	-	(161,313)	(81,891)	(243,204)
Total Income	(197,620)	(71,836)	73,215	(196,241)	(124,256)	(320,497)
Employee Expenses	91,810	(18,119)	(13,160)	60,531	2,518	63,049
Other Service Expenses	246,290	12,172	(83,304)	175,158	2,850	178,008
Support Service Recharges	27,752	-	-	27,752	-	27,752
Depreciation, Amortisation and Impairment	-	23,533	-	23,533	-	23,533
Transfer of Foundation School Assets	-	-	-	-	24,368	24,368
Disposal of Fixed Assets	-	-	-	-	886	886
Total Expenditure	365,852	17,586	(96,464)	286,974	30,622	317,596
Surplus or Deficit on the Provision of Services	168,232	(54,250)	(23,249)	90,733	(93,634)	(2,901)

In the amounts not reported in the Directorate Analysis, 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.

SECTION 3 : Statement of Accounts

Note 8: 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.

2010/11 £000s		2011/12 £000s
117	Parish Council Precepts and Levies	126
2	Payments to the Government Housing Capital Receipts Pool	1
(72)	Receipts from Sale of Former Council Houses	(65)
24,368	Loss resulting from Foundation Schools Transfer	0
273	(Gain) or loss on the disposal of non-current assets	1,090
24,688		1,152

Note 9: 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.

2010/11 £000s		2011/12 £000s	Note
2,046	Interest payable and similar charges on borrowing	1,992	37
191	Finance Lease Interest payable	131	37
2,518	Pensions Interest Cost & Expected Return on Pensions Assets	(915)	45
(503)	Interest Receivable and Similar Income	(273)	37
(910)	Net (Gain) / Loss on Investment Properties	(752)	15
(285)	Changes in fair values of Investment Properties	1,177	15
3,057		1,360	

Note 10: Taxation and Non-Specific Grant Income

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

2010/11 £000s		2011/12 £000s	Note
39,488	Council Tax Income	39,825	
44,989	NNDR Distribution	39,729	
21,030	Non-ring Fenced Government Grants	23,037	
15,872	Capital Grants and Contributions	16,420	
121,379		119,011	27

SECTION 3 : Statement of Accounts

Note 11 - Councillor's Allowances & Expenses - Additional Disclosure

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 2011/12, 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 2011/12 or 2010/11.

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

Basic and Special Responsibility Allowances

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

General and General Subsistence

This covers expenses claimed by Councillors for travel and subsistence within 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 were 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. This allowance ceased in May 2011 as part of the Council's budget reductions approved by Council in February, 2011.

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.

SECTION 3 : Statement of Accounts

Note 11: 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 £434,422.40 (£442,533 in 2010/11). An analysis of the allowance payments are detailed below.

Member	Basic Allowance	Special Responsibility Allowance	General Travel	Conference Travel	Conference Fees	Conference Subsistence	Telephone Expenses	Chair/Vice of Chair of Council Allowance	Total 2011/12
	£	£	£	£	£	£	£	£	£
Aiken M	5,766.96							181.69	5,948.65
Akers-Belcher C	5,766.96	2,403.05	95.29	724.23	1,400.00	480.00			10,869.53
Akers-Belcher S J	5,766.96	3,461.04	119.00		1,400.00	480.00			11,227.00
Atkinson R	604.59	0.00							604.59
Barclay A	5,766.96								5,766.96
Barker C	604.59		104.79						709.38
Brash J	5,766.96	5,236.55							11,003.51
Cook R W	5,766.96	5,766.84							11,533.80
Cranney K H	5,766.96	3,461.04							9,228.00
Drummond S	5,766.96	58,134.96					102.26		64,004.18
Fenwick M	5,162.36								5,162.36
Fleet M	5,766.96	3,461.04							9,228.00
Fleming T	5,766.96								5,766.96
Gibbon S	5,766.96								5,766.96
Griffin S	5,766.96								5,766.96
Hall G G	5,766.96	5,766.84							11,533.80
Hargreaves P	5,766.96	5,236.55					125.10		11,128.61
Hill C F	5,766.96	5,766.84							11,533.80
Ingham P	5,766.96								5,766.96
Jackson P	5,766.96	2,545.30							8,312.26
James M A	5,766.96	5,766.84							11,533.80
Laffey P	604.59								604.59
Lauderdale J	5,766.96								5,766.96
Lawton T	5,766.96								5,766.96
Lilley A E	5,766.96		5.00						5,771.96
Lilley G	5,766.96								5,766.96
London F	604.59	120.88							725.47
Loynes B	5,162.36		119.00				47.03		5,328.39
Maness S	5,766.96								5,766.96
Marshall A	5,766.96	3,461.04							9,228.00
Marshall J	5,766.96								5,766.96
Marshall J W	5,766.96								5,766.96
McKenna C J	5,766.96		3.50						5,770.46
Morris G	5,766.96	3,460.92							9,227.88
Payne R W	5,766.96	5,236.55							11,003.51
Plant M	604.59								604.59
Preece A	5,766.96	288.42	346.24				150.84		6,552.46
Richardson C	5,766.96	4,613.88						750.00	11,130.84
Robinson J	5,162.36								5,162.36
Rogan T	5,766.96	2,930.72							8,697.68
Shaw J E	5,766.96	3,461.04	160.00	318.42	700.00	230.00	119.64		10,756.06
Shields L	5,162.36		55.26				12.99		5,230.61
Simmons C	5,766.96	5,236.67	79.05						11,082.68
Sirs K	5,162.36								5,162.36
Sutheran L M	5,766.96								5,766.96
Tempest S	5,162.36								5,162.36
Thomas S	5,766.96	3,461.04	125.28						9,353.28
Thompson H	5,766.96	5,766.96	119.00						11,652.92
Thompson P	5,766.96	976.30							6,743.26
Turner M W	5,766.96						77.67		5,844.63
Wells R	5,766.96	3,126.10				51.21			8,944.27
Wilcox A	5,162.36								5,162.36
Worthy G	604.59		61.50						666.09
Wright E	5,766.96		101.54				220.04		6,088.54
Totals 2011/2012	276,209.42	149,147.41	1,494.45	1,042.65	3,500.00	1,241.21	855.57	931.69	434,422.40
Totals for 2010/11	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

SECTION 3 : Statement of Accounts

Note 11: Members' Allowances

The following Councillors were the Council's appointed representatives on Cleveland Fire Authority, Cleveland Police Authority and River Tees Port Health Authority and received a separate allowance for this additional responsibility which was funded from the Fire, Police or Port Authorities' budget, as detailed below. Unless indicated these appointments were for the period 1st April, 2011 to 31st March, 2012. Further details of these allowances can be obtained from the Fire, Police or Port Authorities Accounts.

Councillor	Cleveland Fire Authority				Period of Office
	Basic Allowances	Special Responsibility Allowances	Travel, Subsistence or Conference Allowances	Total	
	£		£	£	
Akers-Belcher S J	2,193.96	-	-	2,193.96	01/04/11-31/03/12
Atkinson R	230.01	-	19.50	249.51	01/04/11-08/05/11
Payne R	2,193.96	4,388.04	1,528.31	8,110.31	01/04/11-31/03/12
Richardson C	1,773.46	-	-	1,773.46	01/04/11-31/03/12
Wells R	1,773.46	-	-	1,773.46	01/04/11-31/03/12

Councillor	Cleveland Police Authority				Period of Office
	Basic and Special Responsibility Allowances	Special Responsibility Allowances	Travel, Subsistence or Conference Allowances	Total	
	£		£	£	
Barker C	1,026.70	-	603.50	1,630.20	01/04/11-09/05/11
Drummond S	9,548.04	6,729.72	1,361.36	17,639.12	01/04/11-31/03/12
Richardson C	9,548.04	-	-	9,548.04	01/04/11-31/03/12

S Drummond became Chair of the Cleveland Police Authority in December 2011.

Councillor	River Tees Port Health Authority				Period of Office
	Basic and Special Responsibility Allowances	Special Responsibility Allowances	Travel, Subsistence or Conference Allowances	Total	
	£		£	£	
Tempest S	981.75	-	-	981.75	03/06/11-01/06/12

The Annual Allowance for Vice Chair of the River Tees Port Health Authority is £1,190 for the period 03/06/11 to 01/06/12. The figure above relates to the period 03/06/11 to 31/03/12.

SECTION 3 : Statement of Accounts

Note 12 - 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. In 2011/12 this post was held by Paul Walker (April to August 2011) and Nicola Bailey (Acting Chief Executive from September 2011 to March 2012).

The Chief Executive is the senior officer who leads and takes responsibility for the work of the 3,414 (3,535 in 2010/11) 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.

Permanent 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 Members.

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:-

2011/12 - TABLE A

Post holder information (Post title and name)	Salary	Expense Allowances	Car Allowance	Total Remuneration excluding Pension Contributions 2011/12 £	Pension Contributions (Note g) £	Total Remuneration including Pension Contributions 2011/12 £	Note
Chief Executive							
Paul Walker (Apr 11-Aug 11)	70,000	-	-	70,000	11,438	81,438	
Nicola Bailey (Sept 11-Mar 12)	92,167	-	-	92,167	12,219	104,386	
Total	162,167	-	-	162,167	23,657	185,824	<i>a</i>

2010/11 - TABLE B

Post holder information (Post title and name)	Salary	Expense Allowances	Car Allowance	Total Remuneration excluding Pension Contributions 2010/11 £	Pension Contributions (Note g) £	Total Remuneration including Pension Contributions 2010/11 £	
Chief Executive							
Paul Walker	168,795	0	963	169,758	27,176	196,934	<i>a</i>

Note: a - Paul Walker retired as Chief Executive on 31st August, 2011. Temporary arrangements have been put in place whereby Nicola Bailey, the Director of Child and Adult Services, has been appointed as Acting Chief Executive. The remuneration for the appointment to Acting Chief Executive was made to a fixed salary point for the duration of the appointment of £158,000. As a result of this arrangement the following supporting temporary backfill arrangements were implemented:

- Backfill of the Director of Child and Adult Services functions and statutory duties shared on an equal 50% basis by two Assistant Directors in the Child and Adult Services Department.
- Backfill a specific element (10% of existing duties) of the Assistant Directors' roles by an officer.

In relation to the terms and conditions of the additional payments for these temporary arrangements were the minimum legal payments and are fixed for the duration of the arrangement. For clarity no salary increments are to be paid and the temporary payments were not pensionable. These arrangements are a departure from the Council's normal employment arrangements and reflect the specific arrangements of these temporary arrangements.

In total these arrangements delivered a total saving in 2011/12 of £76,848.

SECTION 3 : Statement of Accounts

Note 12 - Officers' Remuneration

Senior Officers reporting directly to the Chief Executive

During 2011/12 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.

Director of Child and Adult - responsible for a gross annual revenue budget (excluding schools) of £87m and managing 754 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 £52m and managing 723 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.

2011/12 - TABLE C

Post Holder Information (Post Title)	Salary	Car Allowance	Compensation for Loss of Office	Total Remuneration excluding Pension Contributions 2011/12 £	Pension Contributions (Note g) £	Total Remuneration including pension contributions 2011/12 £	Note
	£	£	£				
Director of Child & Adult (Apr 11- Aug 11)	52,285	-	-	52,285	8,728	61,013	b
Backfill of Director of Child & Adult (Sept 11- Mar 12)	22,033	-	-	22,033	-	22,033	
Total Director of Child & Adult	74,318	-	-	74,318	8,728	83,046	a
Director of Regeneration & Neighbourhoods	128,261	-	-	128,261	20,947	149,208	b
Chief Finance Officer	72,110	-	-	72,110	11,808	83,918	c
Chief Solicitor	81,792	-	-	81,792	13,393	95,185	d
Assistant Chief Executive	81,062	-	-	81,062	13,274	94,336	e
Chief Customer & Workforce Services Officer	64,174	-	-	64,174	10,509	74,683	f
	501,717	-	-	501,717	78,659	580,376	

2010/11 - TABLE D

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	

SECTION 3 : Statement of Accounts

Note 12 - Officers' Remuneration

Notes

(a) As detailed in note (a) Table A the Director of Child and Adult Services held this post between April 2011 and August 2011. From September 2011 the Director of Child and Adult Services was appointed as Acting Chief Executive and back fill arrangements implemented for the Director role. The salary scale of the Director of Child and Adult Services was £120,000 to £130,000 (£120,000 to £130,000 in 2010/11), which has remained unchanged since 1st September 2009. The Director was appointed on 1st September, 2009 therefore was paid an increment on the anniversary of this appointment. Table C shows the cost of the backfill arrangements for this post.

(b) The salary scale for the Director of Regeneration & Neighbourhoods for 2011/12 was £120,000 to £130,000 (£120,000 to £130,000 in 2010/11), which has remained unchanged since 1st September, 2009. The Director was appointed on 1st September, 2009 therefore was paid an increment on the anniversary of this appointment.

(c) The salary scale for the Chief Finance Officer's post for 2011/12 was £64,850 to £75,658 which has remained unchanged since 1st April 2008. In 2011/12 the Chief Finance Officer's salary includes a payment of £3,432 (£3,432 in 2010/11) in respect of this post holder also acting as Deputy Treasurer to Cleveland Fire Authority. This cost is paid for by the Fire Authority.

(d) The salary scale for the Chief Solicitor's post for 2011/12 was £70,254 to £81,062 which has remained unchanged since 1st April, 2008. The Chief Solicitor's salary includes a payment of £3,432 (£3,432 in 2010/11) in respect of this post holder also acting as Legal Officer to Cleveland Fire Authority. This cost is paid for by the Fire Authority. In 2010/11 the salary also included a payment of £7,434 representing payment as the Council's Returning Officer, in 2011/12 these duties were performed by another officer and a payment of £7,646 is included in Table E.

(e) The salary scale for the Assistant Chief Executive's post for 2011/12 was £70,254 to £81,062 which has remained unchanged since 1st April, 2008.

(f) The total salary of the Chief Customer Services and Workforce Officer for the year was £81,062 however the cost to the Council was £64,174 as a result of joint working with Darlington Borough Council who contributed 50% of the salary from 1st November, 2011 to 31st March, 2012. 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 overleaf only relate to the Council's contribution to the pension scheme. In addition, the employee contributes a percentage of their salary to the scheme, for salaries below £81,100 this is upto 7.2% for salaries above £81,100 this is 7.5%.

SECTION 3 : Statement of Accounts

Note 12 - 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 2002/03 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.

The salary bandings for non-school employee Chief Officer earning above £50,000 have remained unchanged since 1st April 2008 as no cost of living pay awards have been implemented. For other non-school employees earning below £50,000 pay grades have been unchanged since 1st April, 2009.

TABLE E - NON-SCHOOLS EMPLOYEES

2010/11 No. of Non-School Employees			Remuneration Band (£)	2011/12 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>
11	3	14	50,000 to 54,999	7	1	8
5	1	6	55,000 to 59,999	5	1	6
3	1	4	60,000 to 64,999	4	-	4
2	1	3	65,000 to 69,999	1	2	3
3	2	5	70,000 to 74,999	3	-	3
2	3	5	75,000 to 79,999	2	1	3
1	-	1	80,000 to 84,999	3	-	3
1	-	1	85,000 to 89,999	-	-	-
-	-	-	90,000 to 94,999	-	-	-
-	-	-	95,000 to 99,999	-	-	-
-	-	-	100,000 to 104,999	-	-	-
-	2	2	105,000 to 109,999	-	-	-
28	13	41		25	5	30

TABLE F - SCHOOL EMPLOYEES

2010/11 No. of School Employees			Remuneration Band (£)	2011/12 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>
8	-	8	50,000 to 54,999	12	-	12
8	-	8	55,000 to 59,999	7	-	7
5	-	5	60,000 to 64,999	4	-	4
2	-	2	65,000 to 69,999	3	-	3
-	-	-	70,000 to 74,999	1	-	1
-	-	-	75,000 to 79,999	-	-	-
-	-	-	80,000 to 84,999	-	-	-
-	-	-	85,000 to 89,999	-	-	-
1	-	1	90,000 to 94,999	-	-	-
-	-	-	95,000 to 99,999	1	-	1
24	-	24		28	-	28

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 Table F as the Governing Body and not the Council are the employer.

SECTION 3 : Statement of Accounts

Note 13: Termination Costs

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 2011/12 a total of 158 employees (159 in 2010/11) either took voluntary redundancy or were made compulsory redundant. The 2011/12 costs of this involved payments of £0.904m (£1.5m in 2010/11) to employees in the form of redundancy payments and £0.393m (£1.3m in 2010/11) to the pension fund in respect of retirement benefits, the Council also incurred other costs of £0.017m (£0.000m in 2010/11). These payments incorporate schools and further details are provided in Note 44.

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. Retirement cost are based on national arrangements applying to all Local Government Pension schemes.

For non-schools employees the Council adopts robust arrangements for approving both compulsory and voluntary redundancies / early retirements and only approves applications where there is a permanent budget savings and the one-off redundancy / early retirement costs have a pay back period of 3.05 years or less. In 2011/12 the average pay back period was 7 months (7 months in 2010/11). In 2011/12 this has enabled the authority to achieve permanent salary savings of £1.8m (£4.2m in 2010/11).

The following tables provided details by band and of the number and total cost of the compulsory and voluntary redundancies for non-school and school employees.

TABLE G - NON-SCHOOLS EMPLOYEES

No of compulsory redundancies	2010/11		Total cost of redundancies by band £	Remuneration Band (£)	2011/12			
	No of voluntary redundancies	Total no of redundancies by band			No of compulsory redundancies	No of voluntary redundancies	Total no of redundancies by band	Total cost of redundancies by band £
78	31	109	830,978	0 to 20,000	86	35	121	696,226
12	20	32	878,268	20,001 to 40,000	4	2	6	182,119
-	6	6	288,428	40,001 to 60,000	2	-	2	90,523
1	1	2	124,495	60,001 to 80,000	1	1	2	141,205
-	1	1	90,410	80,001 to 100,000	1	-	1	82,290
-	-	-	-	100,001 to 120,000	-	-	-	-
-	1	1	130,056	120,001 to 140,000	-	-	-	-
-	1	1	141,882	140,001 to 160,000	-	-	-	-
-	-	-	-	160,001 to 180,000	-	-	-	-
-	-	-	-	180,001 to 200,000	-	-	-	-
-	-	-	-	200,001 to 220,000	-	-	-	-
-	1	1	221,838	220,001 to 240,000	-	-	-	-
91	62	153	2,706,355		94	38	132	1,192,363

TABLE H - SCHOOLS EMPLOYEES

No of compulsory redundancies	2010/11		Total cost of redundancies by band £	Remuneration Band (£)	2011/12			
	No of voluntary redundancies	Total no of redundancies by band			No of compulsory redundancies	No of voluntary redundancies	Total no of redundancies by band	Total cost of redundancies by band £
4	1	5	49,060	0 to 20,000	16	9	25	91,799
1	-	1	21,730	20,001 to 40,000	-	1	1	29,791
5	1	6	70,790		16	10	26	121,590

Decisions in relation to School Employees are made by individual School Governing Bodies and not by the Council. Foundation and Voluntary Aided school employees are excluded from Table H as the Governing Body and not the Council are the employer.

SECTION 3 : Statement of Accounts

Note 14: Non Current Assets - Property, Plant & Equipment

This note shows the movements in the value of non current assets (Property, Plant and Equipment) during 2011/12.

Movements in 2011/12

	Council Dwellings £000s	Other Land & Buildings £000s	Vehicles, Plant & Equipment £000s	Infrastructure Assets £000s	Community Assets (**) £000s	Surplus Assets £000s	PP&E Under Construction £000s	Total £000s
Cost or Valuation								
As at 1 April 2011	4,441	163,845	17,786	94,074	7,262	1,478	6,429	295,315
Asset Register Migration Adjustment*	(1)	(7,154)	-	-	-	-	-	(7,155)
Revised as at 1 April 2011	4,440	156,691	17,786	94,074	7,262	1,478	6,429	288,160
Additions	6	6,775	5,464	2,013	195	3,112	4,042	21,607
Accumulated Depreciation & Impairment written off to Gross Carrying Amount	(65)	(6,527)	-	-	-	(14)	-	(6,606)
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	509	9,347	15	-	1,938	13	-	11,822
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(460)	(7,042)	-	-	(236)	(3,218)	-	(10,956)
Derecognition-Disposals	-	(1,442)	(896)	-	(38)	-	-	(2,376)
Reclassified (to)/from Held for Sale	-	(1,370)	-	-	(2,120)	115	-	(3,375)
Reclassified to/from Investment Property	-	(195)	-	-	(112)	375	-	68
Valuation	-	5,729	5	13	190	-	(5,937)	-
At 31 March 2012	4,430	161,966	22,374	96,100	7,079	1,861	4,534	298,344

Accumulated Depreciation and Impairment

As at 1 April 2011	(7)	(13,188)	(9,104)	(32,793)	-	(8)	-	(55,100)
Asset Register Migration Adjustment*	1	7,154	-	-	-	-	-	7,155
Revised as at 1 April 2011	(6)	(6,034)	(9,104)	(32,793)	-	(8)	-	(47,945)
Depreciation Charge	(67)	(4,468)	(1,588)	(2,833)	-	(26)	-	(8,982)
Accumulated Depreciation & Impairment written off to Gross Carrying Amount	65	6,527	-	-	-	14	-	6,606
Derecognition - disposals	-	91	167	-	-	-	-	258
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
At 31 March 2012	(8)	(3,884)	(10,525)	(35,626)	-	(20)	-	(50,063)

Net Book Value

At 31 March 2012	4,422	158,082	11,849	60,474	7,079	1,841	4,534	248,281
Restated At 31 March 2011	4,434	150,657	8,682	61,281	7,262	1,470	6,429	240,215

Nature of Asset Holding

Owned	4,422	158,082	11,814	60,474	7,079	1,841	4,534	248,246
Finance Lease	-	-	35	-	-	-	-	35
Total	4,422	158,082	11,849	60,474	7,079	1,841	4,534	248,281

* Asset Register Migration - During 2011/12 a new asset register system was implemented. As part of this process an adjustment of £7.155m was made between the gross book values and depreciation. This is a presentational amendment to this note and a prior year adjustment is not required as the net book value of the assets concerned has not changed. There was no impact on the Balance Sheet.

** Under the CIPFA Code of Practice authorities are now required to account for Heritage Assets separately. The adoption of this requirement means that assets previously recorded as Community Assets have been transferred to Heritage Assets (see Note 16).

SECTION 3 : Statement of Accounts

Note 14: Non Current Assets - Property, Plant & Equipment

Movements in 2010/11

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Restated 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	7,262	469	5,358	314,819
Additions	-	1,165	2,602	1,900	-	1,773	16,089	23,529
Donations	-	-	9	-	-	-	-	9
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	-	(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	7,262	1,478	6,429	295,315

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	7,262	1,470	6,429	240,215
Restated at 31 March 2010	111	183,972	7,863	62,136	7,262	461	5,358	267,163

Nature of Asset Holding

Owned	4,434	150,657	8,210	61,281	7,262	1,470	6,429	239,743
Finance Lease	-	-	472	-	-	-	-	472
Total	4,434	150,657	8,682	61,281	7,262	1,470	6,429	240,215

Depreciation

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

- Council Dwellings - 50 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.

SECTION 3 : Statement of Accounts

Note 14: Non Current Assets - Property, Plant & Equipment

Capital Commitments

As at 31st March, 2012, the Council had rephased capital expenditure totalling £22.481m into 2012/13, of which £19.470m 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 31st March, 2011 was £30.671m. The Council has entered into a number of contracts for which capital monies are committed.

The major commitments are:

Scheme	Budget £000s	Expenditure to 31 March £000s	Commitment £000s
Building Schools for the Future - ICT	5,391	826	4,565
North Central Hartlepool Housing Regeneration	18,660	16,278	2,382
Tees Valley Bus Network Improvement Scheme	2,480	-	2,480

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 are 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 are 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, who are International Marine Surveyors and Consultants in March 2009. The boat is currently held at net book value of £1.078m 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 (£7.079m), Heritage Assets (£14.652m), Infrastructure Assets (£60.474m) and Property, Plant and Equipment under construction (£4.534m). The basis for the valuation is set out in the Statement of Accounting Policies.

SECTION 3 : Statement of Accounts

Note 14: Non Current Assets - Property, Plant & Equipment

	Operational Assets				
	Council Dwellings £000s	Other Land & Buildings £000s	Vehicles, Plant & Equipment £000s	Surplus Assets £000s	Total £000s
Valued at Historical Cost	-	-	11,849	-	11,849
Valued at fair value as at:					
<u>Current Year</u>					
2011/2012	4,315	76,790	-	404	81,509
2010/2011	-	32,829	-	1,437	34,266
2009/2010	107	31,162	-	-	31,269
2008/2009	-	17,172	-	-	17,172
2007/2008	-	129	-	-	129
Total	4,422	158,082	11,849	1,841	176,194

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 £0.007m. The interest on these assets were passed to the Council following the abolition of Cleveland County Council on 1st April, 1996. These assets are held on behalf of the four unitary authorities pending their disposal. The sale proceeds will be distributed to the four unitary authorities in accordance with an agreed basis.

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 £12.721m (£10.165m in 2010/11) has been charged to Services. These amounts were fully financed from capital resources, which in the case of earmarked reserves have been shown as a reconciling item within Note 5 (Adjustments between Accounting Basis and Funding Basis under Regulations) of £0.383m (£1.439m in 2010/11), and in the case of capital grants and prudential borrowing (General Fund) £12.337m (£8.726m in 2010/11).

SECTION 3 : Statement of Accounts

Note 15: 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		2011/12 £000s
(1,143)	(1,007)	Rental income from Investment Property	(952)
140	97	Direct operating expenses arising from investment property	200
(1,003)	(910)	Net (gain)/loss	(752)

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 repair, maintain or enhance these assets.

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.

2009/10 £000s	2010/11 £000s		2011/12 £000s
14,876	14,976	Balance at the start of the year	15,285
-	-	<u>Additions:</u>	
-	27	Acquisitions	498
		Subsequent expenditure	22
(17)	(4)	Disposals	(28)
(371)	286	Net Gains/(Losses) from Fair Value Adjustments	(1,177)
		<u>Transfers</u>	
488	-	(To)/from Property, Plant & Equipment	(68)
14,976	15,285	Balance at the end of the year	14,532

SECTION 3 : Statement of Accounts

Note 16: Non Current Assets - Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council:

Cost or Valuation	Museum Exhibits & Art Collection £000s	Civic Collection £000s	Sculptures, Monuments & War Memorials £000s	Total £000s
At 1 April 2009	8,418	350	1,078	9,846
Additions	-	-	92	92
Disposals	-	-	-	-
Revaluations	-	-	-	-
At 31 March 2010	8,418	350	1,170	9,938

Cost or Valuation	Museum Exhibits & Art Collection £000s	Civic Collection £000s	Sculptures, Monuments & War Memorials £000s	Total £000s
At 1 April 2010	8,418	350	1,170	9,938
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluations	-	-	-	-
At 31 March 2011	8,418	350	1,170	9,938

Cost or Valuation	Museum Exhibits & Art Collection £000s	Civic Collection £000s	Sculptures, Monuments & War Memorials £000s	Total £000s
At 1 April 2011	8,418	350	1,170	9,938
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluations	4,710	4	-	4,714
At 31 March 2012	13,128	354	1,170	14,652

SECTION 3 : Statement of Accounts

Note 16: Non Current Assets - Heritage Assets

Adoption of FRS30 in respect of Heritage Assets

The CIPFA code of practice requires authorities to account for Heritage assets. Where an asset has been identified as meeting the definition of a Heritage Asset and the cost or valuation is available, the asset should be reflected in the authorities balance sheet. The adoption of this requirement means that assets previously recorded in the Council's balance sheet under Community Assets have been transferred to Heritage Assets. The tables on the previous page show that assets valued at £9.846m were transferred as at 1st April, 2009. The disclosure requires a five year summary of transactions relating to Heritage assets, however it was not practicable to go back further than 1st April, 2009, and there would have been no material difference in the value of the Heritage Assets for the previous two years.

Museum Exhibits & The Art Collection

The Council's Museum Service possesses a fine collection of historical objects, information and artworks. These are displayed within the Museum of Hartlepool, the Hartlepool Art Gallery and selected buildings such as the Civic Centre and Borough Buildings, either as part of the permanent historical displays or as changing exhibitions. When not on display these are held in secure storage.

The collections are used as a valuable reference collection for researching the history and cultural identity of the town.

Hartlepool has an impressive and important collection of over 1,000 pieces of fine art. The collection is mainly Victorian and Edwardian in period, largely as a result of the founding collection by Sir William Gray. With few exceptions, most subsequent collecting has been work of artists living or working at least part of their lives in the Hartlepool area.

The Council also holds collections relating to Hartlepool's maritime heritage and social history. These include ship models, photographs, company records, ephemera and equipment. This also contains around 35,000 plans for the building of approximately 300 ships including the Wingfield Castle. Almost all of the plans relate to ships built by Gray's shipyard from 1927 to the yards closure in 1961. When the shipyard closed, the plans were still of importance and often bought by other ship builders. In the mid 1980's many of the plans were returned to Hartlepool and now feature in the collection. A hugely informative collection is that preserved by Robert Wood, a local historian which contains over 40,000 examples of 19th century and early 20th century ephemera, manuscript material and posters from the Hartlepool printing firm owned by John Procter. The collection reflects the social aspects of life as well as the industry in the town.

Civic Collection

The Civic Collection includes the Civic Regalia, ceremonial silverware, and a number of decorative artefacts. During 2011/12 the collection was valued at £0.354m by the External Valuers. In addition the Books of Remembrance have been included within the Civic Collection and are held at Historic Cost.

Valuation of the Collections

Although there is no requirement to have Heritage assets externally valued, during 2011/12 the External Valuers Anderson & Garland Ltd carried out an insurance based valuation of all the assets. Museum Exhibits and Works of Art were valued at £13.128m and £0.354m for the Civic Collection, compared to previous valuations of £8.418m and £0.350m respectively.

Sculptures, Monuments, War Memorials & Archaeology

The Council has recorded eleven Public Works of Art, seven Sculptures and five War Memorials which are considered to principally contribute to knowledge and culture. Where these assets had been recognised in Community Assets they have been transferred at historic cost.

Policy and Management

The Council has an Acquisitions and Disposals Policy in place which sets out the acquisition, preservation, management and disposal of Heritage Assets. This is available to view on the Council's Internet.

SECTION 3 : Statement of Accounts

Note 17: Revaluation Decreases / Impairment Losses

During 2011/2012, the Council has recognised net revaluation decreases of £12.132m in the Comprehensive Income and Expenditure Statement (£13.848m in 2010/11). There have been no impairments in 2011/12. The significant revaluation losses over £1m are detailed below.

A £3.112m 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.

A further downward revaluation relates to Jesmond Gardens School of £3.839m to reflect the value of the asset in its current use as a school.

Further revaluation decreases of £5.180m have been made against other assets. This reflects the impact of the Council's 5 year rolling revaluation programme and reclassification of assets.

Note 18: Long Term Investments

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

2009/10 £000s	2010/11 £000s		2011/12 £000s
407	221	Durham and Tees Valley Airport Limited	-
197	197	SITA Tees Valley Limited	197
604	418		197

Under Local Government Reorganisation the Council was allocated 2.47% of the shares in Durham Tees Valley Airport Limited, which has reduced to 1.08% upon the sale of the airport to YVR Airport Limited. The shares have no value as this is determined by the net worth of the company, which is negative, as disclosed in the company's latest accounts. The value of the shares have been written out of the accounts accordingly.

Further details of the Council's long term investments are included in Note 30 'Related Party Transactions'.

Note 19: Long Term Debtors

This note sets out the value of Long Term Debtors held by the Council at 31st March 2012.

2009/10 £000s	2010/11 £000s		2011/12 £000s
18	16	Housing Advances	15
77	77	Trincomalee Loan and Advances	77
149	166	Car Loans to Employees	159
-	-	Seaton Cricket Club Loan	19
-	-	Other	12
244	259		282

SECTION 3 : Statement of Accounts

Note 20: Inventories

This note sets out the value of inventories held by the Council at 31st March, 2012.

2009/10 £000s	2010/11 £000s		2011/12 £000s
656	756	Balance at 1 April	778
-	-	Transfer between activities	-
2,508	2,590	Purchases	2,600
(2,368)	(2,528)	Recognised as an expense in year	(2,738)
(40)	(40)	Written off balances	(4)
756	778	Balance at 31 March	637

Note 21 Short Term Debtors

This note sets out amounts owed to the Council as at 31st March, 2012.

2009/10 £000s	2010/11 £000s		2011/12		
			Gross Debtor £000s	Impairment of Bad Debts £000s	Net Debtor £000s
1,559	1,497	Council Tax Payers	2,954	1,508	1,446
4,365	4,239	General and Other Debtors	3,951	831	3,120
1,419	1,700	HM Revenue and Customs	807	-	807
3,695	5,245	Government Departments	727	-	727
660	1,826	Other Local Authorities	1,291	-	1,291
2,997	1,035	Payments in Advance	682	-	682
2,533	2,259	Trade Debtors	1,739	509	1,230
17,228	17,801		12,151	2,848	9,303

Debtors decreased in the year by £8.498m. The key reduction relates to a fall in the Government Department debtor as the NNDR pool owed the Council monies in 2010/11 and in 2011/12 the Council owed the NNDR pool.

Note 22: 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.

2009/10 £000s	2010/11 £000s		2011/12 £000s
111	105	Assets	
2,280	5,803	Bank and Imprests	78
2,391	5,909	Liquidity Investment Accounts	8,417
			8,495
(6,303)	(4,822)	Liabilities	
		Bank Overdraft	(237)
(3,912)	1,087		8,258

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Note 23: 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		2011/12 £000s
400	250	Balance outstanding at start of year	470
		Assets newly classified as Held for Sale:	
839	360	Property, Plant and Equipment	3,550
(589)	(72)	Revaluation losses	-
-	182	Revaluation gains	-
-	-	Assets declassified as Held for Sale	-
-	-	Property, Plant and Equipment	(175)
(400)	(250)	Assets sold	-
250	470	Balance outstanding at year-end	3,845

There have been a number of assets that have been recategorised this year as assets held for sale. The most significant are Development Land at Stranton Nursery, Staby House, Elizabeth Way and Central Park.

Note 24: Short Term Creditors

This note sets out amounts owed by the Council as at 31st March, 2012.

Restated 2009/10 £000s	Restated 2010/11 £000s		2011/12 £000s
2,635	230	Government Departments	312
-	2,243	HM Revenue and Customs	2,056
508	714	Other Local Authorities	1,404
1,980	2,354	Income in Advance	1,440
14,458	7,263	General and Other Creditors	10,518
2,594	1,432	Employee Absences	2,085
4,017	4,987	Trade Creditors	3,652
26,192	19,223		21,467

Prior year balances have been restated to reflect the new requirement to identify Revenue Grant Receipts in Advance separately. These balances were previously included within Income in Advance values above.

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Note 25: Provisions

Total provisions at 31st March, 2012, were £1.922m (£3.200m in 2010/2011), as detailed below.

Current Liabilities			2011/12			
2009/10	2010/11		Litigation	Job Evaluation/S ingle Status	Land Charges	Total
£000s	£000s		£000's	£000's	£000's	£000's
2,704	2,643	Balance at 1st April	133	2,245	77	2,455
1,138	821	Additional provisions made in year	8	100	-	108
(1,199)	(909)	Amounts used in year	-	(354)	-	(354)
-	(100)	Unused amounts reversed in year	-	(1,032)	-	(1,032)
2,643	2,455	Balance at 31st March	141	959	77	1,177

Long Term Liabilities			2011/12		
2009/10	2010/11		Custodian Authority Property Charges	Equal Pay Back Pay	Total
£000s	£000s		£000's	£000's	£000's
472	472	Balance at 1st April	97	648	745
-	273	Additional provisions made in year	-	-	-
-	-	Amounts used in year	-	-	-
-	-	Unused amounts reversed in year	-	-	-
472	745	Balance at 31st March	97	648	745

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 was due for completion in 2011/12. However, there are still some outstanding appeals. During 2011/12 £0.032m of the Schools Job Evaluation Provision was reversed back to revenue as this was no longer required. In addition £1m of the Council's provision was also reversed as a review of the provision identified that this element was no longer required.

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 2012/13.

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Note 26: Other Long Term Liabilities

This note shows the Long Term Liabilities as at 31st March, 2012. Further details are shown in the notes specified.

2009/10 £000s	2010/11 £000s		2011/12 £000s	Note
929	801	Finance lease liability	279	35
12	-	Deferred capital receipt	-	
121,612	51,856	Net Pensions liability	134,089	45
<u>122,553</u>	<u>52,657</u>		<u>134,368</u>	

The finance lease liability has reduced as a result of repayment of principal and the writing out of a Voluntary Aided School finance lease previous held on the balance sheet.

The change in the net Pensions liability arose substantially because of actuarial losses in the pension fund liabilities, these losses arose predominantly for two reasons. Firstly, investment returns were lower than assumed thus assets were lower than expected. Secondly the value placed on the liabilities increased by more than assumed due to reduction in corporate bond yields which is the discount rate that the accounting standard requires the actuaries to use.

Note 27: Grant Income - Credited to Taxation and Non Specific Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12.

2009/10 £000s	2010/11 £000s		2011/12 £000s
12,296	14,497	Area Based Grant	-
9,345	6,533	Revenue Support Grant	12,280
38,766	39,488	Council Tax Income	39,825
40,489	44,989	NNDR Pool Contribution	39,729
-	-	Council Tax Freeze Grant	992
42	-	Local Authority Business Growth Incentive	-
-	-	Early Intervention Grant	7,144
-	-	Local Support Services Grant	2,280
-	-	New Homes Bonus Grant	339
1,255	687	Capital - Devolved Formula Capital Grant	433
436	4,853	Capital - Primary Capital Programme	3,089
-	-	Capital - Building Schools for the Future	3,296
1,809	1,066	Capital - Other DfE Grants	1,728
2,915	1,853	Capital - Housing Market Renewal	3,553
1,325	4,486	Capital - Homes & Communities Agency	54
1,997	2,927	Other Capital Grants & Contributions	4,268
<u>110,675</u>	<u>121,379</u>	Total	<u>119,010</u>

SECTION 3 : Statement of Accounts

Note 27: Grant Income - Credited to Services

2009/10 £000s	2010/11 £000s		2011/12 £000s
59,700	61,717	Dedicated Schools Grant	73,797
39,403	42,611	Housing Benefit Subsidy	45,751
12,111	13,069	Council Tax Benefit Subsidy	12,796
-	-	Building Schools for the Future	9,225
3,684	4,762	Learning & Skills Council / Young Peoples Learning Agency	3,672
6,625	7,412	Other Grants	3,628
2,531	797	Department of Health Grants	2,116
10,959	13,045	Schools Standard Fund & Schools Standard Grants	1,963
-	-	Pupil Premium	1,788
1,337	1,366	Housing Benefit and Council Tax Benefit Administration	1,290
-	-	Housing Market Renewal	1,192
2,512	5,943	Other Department for Education Grants	1,188
1,119	3,281	Department for Work & Pensions	704
306	67	Environment Agency	12
4,403	5,105	General Sure Start Grant	-
2,903	1,809	New Deal for Communities	-
1,675	329	Single Housing Investment Pot	-
3,985	-	Supporting People Grant	-
153,253	161,313	Total	159,122

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. The balances at the year-end are as follows :-

Current Liabilities

Grant Receipts in Advance (Capital Grants)

2009/10 £000s	2010/11 £000s		2011/12 £000s
-	2,876	Department for Transport	2,719
-	6,592	Building Schools for the Future	2,306
2,832	1,934	Other Capital Grants & Contributions	1,898
1,304	1,417	Other Department for Education Grants	1,369
1,992	192	Homes & Communities Agency	168
3,854	2,671	Primary Capital Programme	-
9,982	15,682	Total	8,460

Grant Receipts in Advance (Revenue Grants)

Restated 2009/10 £000s	Restated 2010/11 £000s		2011/12 £000s
431	482	Young Peoples Learning Agency	525
754	274	Department for Work & Pensions	209
369	277	Other Grants	167
353	306	Other Department for Education Grants	60
1,795	1,872	Schools Standard Fund & Schools Standard Grants	-
-	240	Department for Transport	-
3,702	3,451	Total	961

SECTION 3 : Statement of Accounts

Note 27: Grant Income

Long-Term Liabilities

Grant Receipts in Advance (Capital Grants)

2009/10 £000s	2010/11 £000s		2011/12 £000s
-	1,030	Building Schools for the Future	2,434
521	302	Other Capital Grants & Contributions	200
-	450	Department for Transport	-
710	418	Primary Capital Programme	-
240	221	Other Department for Education Grants	-
366	30	Homes & Communities Agency	-
1,837	2,451	Total	2,634

The 2011 code confirmed the requirement to disclose grant receipts in advance for revenue grants.

SECTION 3 : Statement of Accounts

Note 28: Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 5 and 6 and are summarised below.

2009/10 £000s	2010/11 £000s		2011/12 £000s	Note
<u>Unearmarked General Fund Balance</u>				
3,462	3,856	General Fund Balance	4,338	1
3,462	3,856		4,338	
<u>Earmarked General Fund Reserves</u>				
781	732	Strategic Change Reserve	145	2
-	-	Strategic Change Reserve- Held in Trust for Schools	-	
2,086	1,437	Budget Support Fund	871	3
29	1	Energy Saving Fund	-	
50	50	Strategic Procurement Review	-	
15	18	LPSA Reward	18	4
4	4	Cabinet Projects	-	
2,965	2,242		1,034	
<u>School Balances</u>				
3,543	4,409	Balances held by schools under a scheme of delegation	6,768	5
3,543	4,409		6,768	
<u>Earmarked Revenue Reserves</u>				
66	74	School Rates	-	
99	155	Other Fund School Balances	387	6
300	300	Brierton/Dyke House BSF Costs	-	
761	396	Building Schools for the Future	364	7
10,829	11,989	Strategic Change & Ring Fenced Grants Reserves	7,792	8
-	-	Strategic Change & Ring Fenced Grants Reserves - Held in Trust for Schools	1,781	9
2,310	3,252	Strategic Risk Reserve	2,678	10
4,033	3,181	Insurance Fund	4,628	11
413	417	Lotteries Reserve	426	12
63	66	Museums Acquisition	69	13
344	261	Business Transformation	209	14
655	45	NDC Fund	8	15
-	196	Carbon Reduction Commitment	230	16
-	600	Incinerator Reserve	-	
-	-	Strategic One Off Costs	8,562	17
-	-	Supporting Family Poverty	319	18
-	-	Works in Default Empty Homes	50	19
-	-	Transitional Support to Offset Council Tax Cuts	1,197	20
-	-	Members Ward Issues	182	21
-	-	Support 13/14 Loss of 12/13 Council Tax Freeze Grant	727	22
-	-	Pension Actuarial Reserve	122	23
-	-	Training for Staff on Redeployment Register	50	24
-	-	Early Intervention Grant Reserve	454	25
-	-	Future Project Investigation Costs	250	26
-	-	Mayoral Referendum Reserve	70	27
-	-	Concessionary Fares	60	28
-	-	Seaton Carew Youth Club	30	29
-	-	Building / Development Control Income Shortfall	260	30
-	-	Holiday Pay Reserve	43	31
-	-	Trading Account Reserves	285	32
19,873	20,932		31,233	
<u>Earmarked Capital Reserves</u>				
3,033	4,569	Capital Funding Reserve	3,414	33
663	2,976	Capital Grants Unapplied	3,201	34
891	-	Capital Receipts Reserve	-	
37	38	Maritime Avenue Remedial Works	-	
4,624	7,584		6,615	
34,467	39,024	<u>Total Reserves</u>	49,988	

SECTION 3 : Statement of Accounts

Note 28: Usable Reserves

Notes to Usable Reserves

Unearmarked General Fund Balance

- 1 This is the General Fund Balance.

Earmarked General Fund Reserves

- 2 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.
- 3 This reserve has been established to support future year's budgets and will be fully committed in 2013/14.
- 4 This reserve has been created using monies received from the Government following the Council's successful achievement of LPSA Targets.

School Balances

- 5 Reserves have arisen from the local management of schools. Further details are available from the Child & Adult Services Department. The net balance of £6.768m consists of individual school balances of £6.771m less loans to schools of £0.003m.

Earmarked Revenue Reserves

- 6 School balances generated from other funding.
- 7 An amount set aside for the implementation of Buildings Schools for the Future which will be fully utilised by 2015/16.
- 8 These reserves have been established to enable departments to meet one-off costs that may arise from strategic changes to improve services, or reduce costs, without affecting the level of services in the year.
- 9 These risk reserves are Held in Trust for Schools to manage one-off risks.
- 10 This risk reserve is set aside to manage one-off risks in relation to Equal Pay/Equal Value claims, the achievement of turnover targets and income shortfall risks.
- 11 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.
- 12 The Lotteries Reserve, which consists of the proceeds of the Civic Lottery and donations received, is used for grants and donations to local organisations.
- 13 The Museums Acquisition Reserve was set up to put monies aside for the acquisition of items for the Museum.
- 14 An amount set aside to fund the Business Transformation Programme.
- 15 An amount set aside to fund any outstanding expenditure on New Deal for Communities (NDC) projects.
- 16 This reserve has been established to meet the 2011/12 Carbon Reduction Commitment liability.
- 17 This reserve was created to support one-off strategic financial issues including costs for redundancy and early retirement, land remediation, Housing Market Renewal and capital investment requirements. The creation of this reserve was approved by Council in February, 2012.
- 18 This reserve was created to support Family Poverty in the town.
- 19 This reserve has been created to provide a cash back fund for the completion of housing works in default.
- 20 This reserve was created to either support the 2013/14 budget, or to provide a transitional scheme to partly mitigate the impact of change to the Council Tax Benefit regime. Members will review this as part of the 2013/14 budget setting process.
- 21 This reserve was approved by Council on the 23rd February, 2012, and is to be used by Members to support specific priorities within their wards.
- 22 An amount set aside to support the loss of the 2012/13 Council Tax Freeze Grant in 2013/14
- 23 Reserve to manage the pension costs over a 3 year period of actuarial valuation.
- 24 Amount set aside to provide re-training of staff on the redeployment register.
- 25 Reserve to be used in 2012/13 to fund fixed term contract commissioning officers to ensure there is sufficient capacity to meet grant requirements. The reserve will also provide transitional monies to the voluntary and community sector to prevent any break in service delivery.
- 26 This reserve has been established to investigate the future benefits of projects agreed by Cabinet which will provide on-going revenue savings.

SECTION 3 : Statement of Accounts

Note 28: Usable Reserves

- 27 An amount set aside to cover the potential costs of a one-off mayoral referendum. It may be possible to reduce these costs if a mayoral referendum takes place on the same date as the election for the Police Commissioner post. Any unspent resources will be transferred to the General Fund.
- 28 This reserve is to cover the tri-annual cost of replacing Concessionary Fare passes.
- 29 An amount set aside to temporarily keep the Seaton Youth Centre open for 12 months to provide time to find alternative provision as part of the overall master plan for Seaton.
- 30 The level of income is being affected by the continued weakness in the economy and this reserve has been created to cover this shortfall in income in the short term.
- 31 The Holiday Pay reserve has been established as there is a significant risk that the Council will be required to fund holiday back pay claims to October 2007.
- 32 An amount set aside to manage future financial risks on Trading Operations.

Earmarked Capital Reserves

- 33 The Capital Funding Reserve is earmarked to finance specific expenditure rephased to 2012/13.
- 34 These are capital grants that will be used to finance capital expenditure in future years.

SECTION 3 : Statement of Accounts

Note 29: Unusable Reserves

The Unusable Reserves are shown below.

2009/10 £000s	2010/11 £000s		2011/12 £000s	Table
28,778	22,265	Revaluation Reserve	38,203	1
604	418	Available for Sale Financial Instruments Reserve	197	2
176,642	151,434	Capital Adjustment Account	152,009	3
(121,612)	(51,856)	Pensions Reserve	(134,089)	4
-	10	Deferred Capital Receipts Reserve	9	5
386	219	Collection Fund Adjustment Account	141	6
(375)	(648)	Unequal Pay Back Pay Account	(648)	7
(2,594)	(1,432)	Accumulated Absences Account	(2,083)	8
81,828	120,410		53,739	

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 1st 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.

2009/10 £000s	2010/11 £000s		2011/12 £000s
20,785	28,778	Balance at 1 April	22,265
12,002	2,045	Upward revaluation of assets	18,580
(3,297)	(3,519)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,044)
8,705	(1,474)	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	16,536
(639)	(449)	Difference between fair value depreciation and historical cost depreciation	(705)
(73)	(4,590)	Accumulated gains on assets sold or scrapped	107
(712)	(5,039)	Amount written off to the Capital Adjustment Account	(598)
28,778	22,265	Balance at 31 March	38,203

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; or
- disposed of and the gains are realised.

2009/10 £000s	2010/11 £000s		2011/12 £000s
696	604	Balance at 1 April	418
(92)	(186)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(221)
604	418	Balance at 31 March	197

SECTION 3 : Statement of Accounts

Note 29: Unusable Reserves

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 1st April, 2007, the date that the Revaluation Reserve was created to hold such gains. Note 14 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2009/10 £000s	2010/11 £000s		2011/12 £000s
189,127	176,642	Balance at 1 April	151,434
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(8,665)	(9,694)	- Charges for depreciation and impairment of non-current assets	(8,982)
(18,521)	(13,847)	- Revaluation losses on Property, Plant and Equipment	(10,955)
(1,571)	(1,438)	- Revenue expenditure funded from capital under statute	(12,721)
(101)	(25,252)	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	(2,147)
(28,858)	(50,231)		(34,805)
712	5,039	Adjusting amounts written out of the Revaluation Reserve	598
(28,146)	(45,192)	Net written out amount of the cost of non-current assets consumed in the year	(34,207)
		Capital financing applied in the year:	
1,800	1,509	- Use of the Capital Receipts Reserve to finance new capital expenditure	862
10,006	11,490	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	25,871
73	2,049	- Application of grants to capital financing from the Capital Grants Unapplied Account	2,260
4,153	4,642	- Statutory provision for the financing of capital investment charged against the General Fund	4,872
-	-	Direct revenue funding credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,889
16,032	19,690		35,754
(371)	285	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,177)
-	9	Movements in Donated Assets credited to the Comprehensive Income and Expenditure Statement	-
-	-	Other Adjustments	205
176,642	151,434	Balance at 31 March	152,009

SECTION 3 : Statement of Accounts

Note 29: Unusable Reserves

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 and 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.

2009/10 £000s	2010/11 £000s		2011/12 £000s
(54,703)	(121,612)	Balance at 1 April	(51,856)
(63,138)	41,884	Actuarial gains or (losses) on pensions assets and liabilities	(82,039)
(14,504)	17,230	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	(9,543)
10,733	10,642	Employer's pensions contributions and direct payments to pensioners payable in the year	9,349
(121,612)	(51,856)	Balance at 31 March	(134,089)

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		2011/12 £000s
-	-	Balance at 1 April	10
-	12	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
-	(2)	Transfer to the Capital Receipts Reserve upon receipt of cash	(1)
-	10	Balance at 31 March	9

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		2011/12 £000s
185	386	Balance at 1 April	219
201	(167)	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	(78)
386	219	Balance at 31 March	141

SECTION 3 : Statement of Accounts

Note 29: Unusable Reserves

Table 7 - Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the difference between the rate at which the Council provides for the potential costs of back pay settlement in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

2009/10 £000s	2010/11 £000s		2011/12 £000s
(375)	(375)	Balance at 1 April	(648)
-	(273)	Increase in pension for back pay in relation to Equal Pay cases	-
-	(273)	Amount by which amounts charged by 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 requirements.	-
(375)	(648)	Balance at 31 March	(648)

Table 8 - 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, e.g. annual leave entitlement carried forward at 31st 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, 2011 and 31st March, 2012. This has arisen owing to employees not carrying forward annual leave to the same level as the previous year.

2009/10 £000s	2010/11 £000s		2011/12 £000s
(2,323)	(2,594)	Balance at 1 April	(1,432)
2,323	2,594	Settlement or cancellation of accrual made at the end of the preceding year	1,432
(2,594)	(1,432)	Amounts accrued at the end of the current year	(2,084)
(271)	1,162	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	(652)
(2,594)	(1,432)	Balance at 31 March	(2,084)

SECTION 3 : Statement of Accounts

Note 30: 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 significant influence 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 (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 7 on reporting for resources allocation decisions. Grant receipts outstanding at 31st March, 2012 are shown in Note 27.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2011/12 is shown in Note 11.

The Council pays grants and/or makes contractual payments to voluntary organisations where an individual Councillor(s) may sit on the voluntary organisations management board e.g. Manor Residents, Hartlepool Carers, Hartlepool Voluntary Development Agency. In 2011/12 the Council let a contract for the provision of the Navigation Service and the SAILS and Handy Peron Service to Who Cares North East. Two of our elected Members are Board Members of this company. These interests are recorded in the declaration of interests completed by individual members. Details of all these transactions are recorded in the Register of Members' Interest, open to public inspection at the Civic Centre during office hours.

These payments are either funded from the Council's own resources, or specific grant secured by the Council. In many cases funding is allocated by officers under delegated budget management responsibility. Where the final funding decision is made by a Councillor(s), which would either be Cabinet or individual Portfolio Holders with specific responsibility for a defined service portfolio, this decision would be made on the basis of an officer report at a formal Cabinet / Portfolio Holders meeting. These reports, meetings and minutes are open to the public.

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 £0.167m (£0.178m in 2010/11). In particular, the Council's Chief Solicitor held the position of Legal Advisor and the Chief Finance Officer held the position of Deputy Treasurer (see Note 12 for further details).

SECTION 3 : Statement of Accounts

Note 30: Related Party Transactions

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 £0.771m (£0.879m in 2010/11) 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 £41,000 (£15,000 in 2010/11).

The Council provided Legionella services to Middlesbrough Council, £0.051m (£0.115m in 2010/11), schools outside Hartlepool, £0.024m (£0.043m in 2010/11), and South Tees Hospital NHS Trust, £0.004m (£0 in 2010/11), which represented the cost of the service provided

The Council provided Building Cleaning service to the Sixth Form College of £0.063m (£0.112m in 2010/11), which represented the cost of the service provided.

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 £0m based on a shareholding of 1.08%. The value has been determined with reference to the net worth of the company, which is negative, as per their latest accounts for the financial year ending 31st March, 2011.

Issues of note include a loss on the Profit and Loss Account of £1.648m (previous year loss of £6.466m) and a net liability position of £22.060m (previous year restated net liability £20.966m). 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, 2010, that includes a loss on the Profit and Loss Account of £0.382m (previous year loss of £2.353m) and a net asset position of £33.9902m (previous year £34.372m). Further information on their accounts is available from the Registered Office, SITA House, Grenfell Road, Maidenhead, Berkshire, SL6 1ES. The partner of one of our members is a Director of SITA, this has been properly disclosed in the Register of Member interests.

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

SECTION 3 : Statement of Accounts

Note 31: 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 £0.224m surplus in 2011/12 (£0.415m in 2010/11).

2010/11 (Surplus) / Deficit £000s	Internal Trading Operations	Expenditure £000s	2011/12 Income £000s	(Surplus) / Deficit £000s
7	Catering	219	(146)	73
976	Leisure Management	-	-	-
(360)	Building Maintenance	4,623	(4,522)	101
(273)	Highways Works	2,348	(2,585)	(237)
(258)	Grounds Maintenance	-	-	-
(26)	Vehicle Maintenance	3,793	(3,866)	(73)
71	Building Cleaning	2,269	(2,343)	(74)
314	School Catering	3,521	(3,535)	(14)
(35)	Community Housing	351	(351)	-
415		17,124	(17,348)	(224)

Catering - provision of catering at Council venues and functions e.g. Borough Hall, Town Hall, Wingfield Castle.

Leisure Management - provision of leisure facilities within the Borough e.g. Mill House, Headland Sports Hall. This account is no longer a trading activity and is provided without competition.

Building Maintenance - repairs and maintenance to all Council buildings. Capital works and school works are subject to competitive tendering. The deficit of £0.101m compares against a budgeted surplus of £0.233m and was funded from underspends within the Regeneration and Neighbourhoods department.

Highways Works - works to roads and gullies within the Borough. Capital works are subject to competitive tendering. The outturn on this trading account was a favourable variance of £0.237m compared to the budgeted surplus of £0.2m, which is managed as part of the overall budget for Highways and included in the Highways and Transportation line of the Comprehensive Income and Expenditure Account.

Grounds Maintenance - this account is no longer a trading activity after client and contractor services were brought together under one manager and is provided without competition.

Vehicle Maintenance - all vehicles for provision of Council Services e.g. Refuse Vehicles. Also, provides vehicle MOTs and servicing to members of the public. The surplus results mainly from the timing difference of the annualised charges for vehicles and the timing of actual repairs.

Building Cleaning - cleaning of all Council buildings. Some external work which was subject to competitive tendering e.g. Vela Group 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 Note 30 - Related Party Transactions.

The above figures have been presented on a total cost basis and include charges for capital such as notional interest and repayments of principal to reflect the actual cost of running the services which are used as the basis for charges to service users.

SECTION 3 : Statement of Accounts

Note 32: 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:

2010/11 £000s		2011/12 £000s
267	Fees payable to Audit Commission with regard to external audit services carried out by the appointed auditor for the year	240
-	Rebate on 2011/2012 Audit Fee	(19)
-	Additional Audit Fees 2010/2011 Financial Statements	5
(14)	Rebate for Audit Fees relating to International Financial Reporting Standards (IFRS)	-
(8)	Rebate for Audit Fees relating to Use of Resources	-
14	Fees payable to the Audit Commission with regard to statutory inspections	-
42	Fees payable to Audit Commission for the certification of grant claims and returns for the year	59
301		285

Owing to the timing of work and invoicing of grants, the amount included above is for the previous year. One full year's amount is included in each year.

Note 33: 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 2011/12 are as follows: -

	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
Final Dedicated Schools Grant for 2011/12			73,797
Brought Forward from 2010/11			800
Carry Forward to 2012/13 agreed in advance - (i)			(580)
Agreed Budget Distribution in 2011/12	6,915	67,102	74,017
In Year Adjustments	(1,936)	1,936	-
Final Budget Distribution for 2011/12	4,979	69,038	74,017
Actual Central Expenditure	(4,373)		(4,373)
Actual Individual Schools Budget Deployed to Schools		(68,807)	(68,807)
Local authority contribution for 2011/12	-	-	-
Surplus Carried forward to 2012/13 - (ii)	606	231	837
Total Surplus Carried forward to 2012/13 ((i) +(ii))			1,417

SECTION 3 : Statement of Accounts

Note 34: 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

2010/11 £000s	Future minimum lease payments due	2011/12 £000s
368	Not later than one year	304
666	Later than one year & not later than five years	541
1,227	Later than five years	1,150
<u>2,261</u>		<u>1,995</u>

Council as lessor

2010/11 £000s	Future minimum lease payments receivable	2011/12 £000s
382	Not later than one year	224
409	Later than one year & not later than five years	324
18	Later than five years	918
<u>809</u>		<u>1,466</u>

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 31st March, 2012 the minimum payments expected to be received under non-cancellable sub-leases was £0.117m (£0.164m as at 31st March, 2011). Where appropriate the value of these leases are shown in the Investment Property note.

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

2010/11 £000s		2011/12 £000s
	Payments recognised as an expense	
370	Minimum lease payments	343
(64)	Sub-lease payments	(97)
<u>306</u>	Total	<u>246</u>

Included within the above is £19,000 relating to 17 cars following the introduction of salary sacrifice car scheme for staff during the year. The remainder relates to Land and Buildings

SECTION 3 : Statement of Accounts

Note 35: 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

2010/11 £000s		2011/12 £000s
	Value of Assets held under Finance Leases	
472	Vehicles, plant & equipment	35
472	Total	35

The reduction in value of assets held under finance leases primarily relates to the writing out of a finance lease liability relating to a voluntary aided school. This was previously held on the balance sheet.

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:-

2010/11 £000s		2011/12 £000s
	Future minimum lease payments due	
362	Current	175
438	Non-current	154
247	Finance costs payable in the future	99
1,047	Total minimum lease payments	428

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

2010/11			2011/12	
Minimum Lease Payments £000s	Finance Lease Liabilities £000s		Minimum Lease Payments £000s	Finance Lease Liabilities £000s
497	362	Payable:	239	125
550	439	No later than one year	189	154
		Later than one year & not later than five years		
1,047	801	Total	428	279

SECTION 3 : Statement of Accounts

Note 36: 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.

2010/11 £000s		2011/12 £000s
86,903	Brought Forward Opening Capital Financing Requirement	92,207
-	Writing out of Voluntary Aided School Finance Lease Liability	(205)
86,903	Revised Opening Capital Financing Requirement	92,002
	Capital investment	
23,538	Property, Plant and Equipment	21,607
27	Investment Properties	520
10,165	Revenue Expenditure Funded from Capital under Statute	12,721
	Sources of Finance	
(1,509)	Capital receipts	(862)
(22,275)	Government grants and other contributions	(30,019)
	<i>Sums set aside from revenue:</i>	
(4,642)	Minimum Revenue Position (MRP)	(4,872)
92,207	Closing Capital Financing Requirement	91,097
	Explanation of movements in year	
2,785	Increase in borrowing supported by government financial assistance	794
6,923	Increase in borrowing unsupported by government financial assistance	3,173
238	Assets acquired under finance leases	-
(4,642)	Minimum Revenue Provision (MRP)	(4,872)
5,304	Increase/(decrease) in Capital Financing Requirement	(905)

SECTION 3 : Statement of Accounts

Note 37: 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:

2010/11			2011/12	
Long Term £000s	Current £000s		Long Term £000s	Current £000s
		Investments		
-	18,500	Loans and receivables - principal Amount	-	25,000
-	5,803	Liquidity Accounts included in Cash Equivalents	-	8,417
-	104	Accrued Interest	-	35
-	24,407	Loans and receivables at Amortised Cost	-	33,452
418	-	Available-for-sale financial assets *	197	-
418	24,407	Total Investments	197	33,452

* Includes Tees Valley Airport Shares which are valued at nil in 2011/12 (valued at £0.221m in 2010/11).

The carrying value of the Councils investment with Durham Tees Valley Airport (Note 18) has been determined from the Councils 1.08% shareholding and the net worth of the company as per the latest audited accounts.

Employee Car Loans

Loans and receivables - Principal Amount	159	102
Total Employee Car Loans	159	102

In 2010/11 Employee Car Loans were omitted from this disclosure. For comparative purposes the figures for 2010/11 were £0.166m for long term and £0.113m for short term.

Debtors

-	2,786	Loans and receivables (Trade Debtors)	-	1,739
-	2,786	Total debtors	-	1,739

Borrowings

46,821	1,500	Financial liabilities Principal Amount	51,016	35
386	198	Accrued Interest	429	1
47,207	1,698	Financial liabilities at amortised cost	51,445	36
47,207	1,698	Total Borrowings	51,445	36

Other Long Term Liabilities

801	-	Finance lease liabilities	279	-
801	-	Total Other Long Term Liabilities	279	-

Creditors

-	4,987	Financial liabilities carried at contract amount (Trade Creditors)	-	3,652
-	4,987	Total Creditors	-	3,652

SECTION 3 : Statement of Accounts

Note 37: 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 Expenditure line of the Comprehensive Income and Expenditure Statement.

	2011/12				Total
	Financial Liabilities measured at amortised cost	Finance Lease Payments *	Financial Assets: Loans and receivables	Financial Assets: Available for sale	
	£000s	£000s	£000s	£000s	
Interest expense	1,992	131	-	-	2,123
Interest income	-	-	(273)	-	(273)
Losses on revaluation	-	-	-	221	221
Net (gain)/loss for the year	1,992	131	(273)	221	2,071

* In 2010/11 the finance lease figure was omitted from the above table. For comparative purposes the figure in 2010/11 was £0.191m.

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

SECTION 3 : Statement of Accounts

Note 37: 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 2012 of 0.17% to 3.23% for loans from the Public Works Loan Board and 4.23% to 4.27% for other loans receivable and payable, based on the Public Works Loan Board 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 the carrying amount is assumed to approximate fair value,
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

31 March 2011				31 March 2012	
Carrying Amount	Fair Value			Carrying Amount	Fair Value
£000s	£000s			£000s	£000s
Financial Liabilities					
45,422	44,749	Market Loans		45,426	42,772
1,785	2,671	Public Works Loan Board		6,051	7,983
1,698	1,698	Short Term Borrowing		1	1
4,987	4,987	Trade Creditors		3,652	3,652

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 2011				31 March 2012	
Carrying Amount	Fair Value			Carrying Amount	Fair Value
£000s	£000s			£000s	£000s
Loans and receivables					
24,408	24,408	Money market loans maturing within 1 year		33,452	33,452
2,786	2,786	Trade Debtors		1,739	1,739

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 fair value as at the balance sheet date.

SECTION 3 : Statement of Accounts

Note 38: 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.
- re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

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 10th February, 2011 and is available on the Council website. The key issues within the strategy were:

- the Authorised Limit for the 2011/12 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 £76m and £60m respectively.

These items are reported with the annual Treasury Management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Councillors. The Council has now extended the role of the Audit Committee to include the scrutiny of treasury activities.

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 which is actively managed to reflect continued developments in the banking and financial sector.

SECTION 3 : Statement of Accounts

Note 38: Nature and Extent of Risks Arising from Financial Instruments

The full Investment Strategy for 2011/12 was approved by Full Council on the 10th February, 2011 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 £18.432m 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, however there was no evidence at the 31st March, 2012 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 2011 £000s		Amount at 31 March 2012 £000s	Historical experience of default %	Adjustment for market conditions at 31 March 2012 %	Estimated maximum exposure to default at 31 March 2012 £000s
562	Trade Debtors	1,739	20.00%	20.00%	348
562					348

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 £1.027m of the £1.739m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31 March 2011 £000s		31 March 2012 £000s
1,262	Less than three months	520
137	Three to six months	112
172	Six months to one year	91
404	More than one year	304
1,975		1,027

SECTION 3 : Statement of Accounts

Note 38: 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 financial liabilities (borrowing and finance leases) at the year end was as follows:

31 March 2011 £000s		31 March 2012 £000s
2,087	Less than one year	162
76	Between one and five years	419
146	Between five and ten years	332
-	Between ten and fifteen years	301
-	Between fifteen and twenty years	342
-	Between twenty and twenty-five years	402
-	Between twenty-five and thirty years	363
-	Between thirty and thirty-five years	443
-	Between thirty-five and forty years	541
-	Between forty and forty-five years	1,202
46,593	More than forty-five years	46,822
<u>48,902</u>		<u>51,329</u>

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.

SECTION 3 : Statement of Accounts

Note 38: Nature and Extent of Risks Arising from Financial Instruments

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

According to this assessment strategy, at 31st March, 2012, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000s
Increase in interest payable on borrowings	510
Increase in interest receivable on variable rate investments	(335)
Impact on Surplus or Deficit on the Provision of Services	175
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)	(9,061)

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

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.

Collateral Risk

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

SECTION 3 : Statement of Accounts

Note 39: Cash Flow Statement - Adjustments for non-cash

2010/11 £000s		2011/12 £000s
(9,694)	Depreciation	(8,982)
(13,847)	Impairment and Downward Valuations	(10,955)
-	Downward Valuation of Investment Property	(1,177)
(911)	(Increase) / Decrease in Provisions	1,279
4,317	(Increase) / Decrease in Creditors	4,280
(2,544)	Increase / (Decrease) in Debtors	(4,952)
22	Increase / (Decrease) in Stock	(141)
27,871	Pension Liability	(194)
(25,252)	Carrying amount of Non-Current Assets Sold	(2,147)
(16,786)	Other Non-Cash Items charged to the Net (Surplus) / Deficit on the Provision of Services	-
(36,824)		(22,989)

Note 40: Cash Flow Statement - Adjustments for Investing and Financing Activities

2010/11 £000s		2011/12 £000s
24,598	Purchase of Short-term (not considered to be cash equivalents) and Long-term Investments (includes investments in associates, joint ventures and subsidiaries)	28,356
16,800	Proceeds from Short-term (not considered to be cash equivalents) and Long-term Investments (includes investments in associates, joint ventures and subsidiaries)	-
620	Proceeds from the Sale of Property, Plant and Equipment and Investment Property	861
42,018		29,217

Note 41: Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2010/11 £000s		2011/12 £000s
(912)	Interest Received	(342)
1,946	Interest Paid	1,969

SECTION 3 : Statement of Accounts

Note 42: Cash Flow Statement - Investing Activities

2010/11 £000s		2011/12 £000s
24,931	Purchase of Property, Plant and Equipment and Investment Property	18,445
-	Purchase of Short-term and Long-term Investments	6,500
-	Other Payments for Investing Activities	31
(620)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(862)
(16,800)	Proceeds from Short-term and Long-term Investments	-
(31,235)	Other Receipts from Investing Activities	(22,383)
<u>(23,724)</u>	Net Cash Flows from Investing Activities	<u>1,731</u>

Note 43: Cash Flow Statement - Financing Activities

2010/11 £000s		2011/12 £000s
(43,876)	Cash receipts of short-term and long-term borrowing	(8,701)
366	Cash payments for the reduction of the outstanding liabilities relating to finance leases	322
54,536	Repayments of short- and long-term borrowing	5,970
5,406	Other payments for financing activities	(2,703)
<u>16,432</u>	Net cash flows from financing activities	<u>(5,112)</u>

Note 44: 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 2011/12 amounted to £4.558m (£4.530m in 2010/11) which represented 14.1% of pensionable pay (14.1% in 2010/11). £0.003m was paid as added years contributions (£0.019m in 2010/11).

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.

SECTION 3 : Statement of Accounts

Note 45: 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

The Council recognises 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 required to be made 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:

2010/11 £000s		2011/12 £000s
	Comprehensive Income and Expenditure Statement	
	<u>Cost of Services:</u>	
13,309	Current Service cost	9,887
(34,008)	Past Service cost	-
951	Curtailment and Settlements	571
	<u>Financing and Investment Income and Expenditure</u>	
21,501	Interest cost	19,490
(18,983)	Expected return on scheme assets	(20,405)
(17,230)	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	9,543
	<u>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</u>	
(41,884)	Actuarial (gains) and losses	82,039
(59,114)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	91,582
	Movement in Reserves Statement	
17,230	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(9,543)
10,642	Actual amount charged against the General Fund Balance for pensions in the year: Employers' contribution payable to scheme	9,349
27,872	Transfer from Pensions Reserve	(194)

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement for the year ending 31st March, 2012 is a loss of £46.781m (£35.258m actuarial loss in 2010/11).

SECTION 3 : Statement of Accounts

Note 45: Defined Benefit Pension Schemes

Assets and Liabilities in Relation to Post-employment Benefits

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

2010/11 £000s		2011/12 £000s
(400,384)	Opening balance at 1 April	(354,402)
(13,309)	Current Service Cost	(9,887)
(21,501)	Interest Cost	(19,490)
(3,391)	Contributions by scheme participants	(3,229)
36,412	Actuarial gains and (losses)	(57,204)
13,750	Benefits paid	12,836
34,008	Past service costs	-
(951)	Curtailments	(571)
964	Unfunded Pension Payments	973
(354,402)	Closing balance at 31 March	(430,974)

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

2010/11 £000s		2011/12 £000s
278,772	Opening balance at 1 April	302,546
18,983	Expected rate of return	20,405
5,472	Actuarial gains and (losses)	(24,835)
10,642	Employer contributions	9,349
3,391	Contributions by scheme participants	3,229
(14,714)	Benefits paid	(13,809)
302,546	Closing balance at 31 March	296,885

Reconciliation of opening and closing surpluses / (deficit) :

2010/11 £000s		2011/12 £000s
(121,612)	Opening balance at 1 April	(51,856)
(13,309)	Current Service Cost	(9,887)
(21,501)	Interest Cost	(19,490)
41,884	Actuarial gains and (losses)	(82,039)
(964)	Benefits paid	(973)
34,008	Past service costs	-
(951)	Curtailments	(571)
964	Unfunded Pension Payments	973
18,983	Expected rate of return	20,405
10,642	Employer contributions	9,349
(51,856)	Closing balance at 31 March	(134,089)

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 a loss of £4.430m (£23.7m return in 2010/11).

SECTION 3 : Statement of Accounts

Note 45: Defined Benefit Pension Schemes

Scheme history

	2007/08 £000s	2008/09 £000s	2009/10 £000s	2010/11 £000s	2011/12 £000s
Present value of liabilities (A)	287,471	254,994	400,384	354,402	430,974
Fair value of scheme assets (B)	231,505	200,291	278,772	302,546	296,885
Surplus/(deficit) in Scheme (B)-(A)	(55,966)	(54,703)	(121,612)	(51,856)	(134,089)
Experience Adjustments on Scheme Assets	(12,144)	(53,067)	64,152	5,472	(24,835)
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 £134.089m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £103.727m. 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 (i.e. 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 31st March, 2012 is £7.843m.

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, 2011.

The principal assumptions used by the actuary have been:

	2010/11	2011/12
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.2%	6.1%
Gilts	4.4%	3.3%
Bonds	5.5%	4.6%
Property	5.4%	4.3%
Cash	3.0%	3.0%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	18.9	19
Women	23	23.1
Longevity at 65 for future pensioners:		
Men	20.9	21
Women	24.9	25
Other assumptions:		
Rate of inflation (RPI)	3.5%	3.3%
Rate of inflation (CPI)	2.7%	2.5%
Rate of increase in salaries	5.0%	4.7%
Rate of increase in pensions	2.7%	2.5%
Rate for discounting scheme liabilities	5.5%	4.6%

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.

SECTION 3 : Statement of Accounts

Note 45: Defined Benefit Pension Schemes

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

	2010/11 %	2011/12 %
Equity investments	84.0	83.0
Gilts	6.0	6.0
Other Bonds	2.0	2.0
Property	4.0	4.0
Cash	4.0	5.0
	100.0	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March, 2012:

	2007/08 %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
Differences between the expected and actual return on assets	(5.25)	(26.49)	23.01	1.81	(8.37)
Experience gains and (losses) on liabilities	4.01	-	(0.99)	2.09	-

SECTION 3 : Statement of Accounts

Note 46: 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 2011/12 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 a number of equal pay claims outstanding. Precise figures cannot be provided at this stage.
- A number of outstanding liabilities incurred but not reported (IBNR) claims currently sit with Mutual Municipal Insurance (MMI). MMI ceased writing insurance in September 1992 and is now in run off with a contingent Scheme of Arrangement in place. The Company will continue to pay claims unless a solvent run off cannot be foreseen, when the Scheme will be triggered. If the Scheme of Arrangement is triggered the amount the Council is liable for is the total carried forward claim payments.
- The Council has undertaken the Compulsory Purchase of 85 properties from which it is seeking legal advice on the extent of this liability for potential compensation costs which will either be concluded by agreement or Land Tribunal. 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.

SECTION 3 : Statement of Accounts

Note 47 : Prior Period Adjustments, Changes in Accounting Policies, 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, i.e. 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

Details of the specific prior period adjustments made on the primary financial statements are shown below.

Heritage Assets: Change in Accounting Policy Required by the Code of Practice for Local Authority Accounting in the United Kingdom

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our accounting policies, the Council now shows Heritage Assets on the balance sheet where practicable at valuation.

Previously, Heritage Assets were either recognised as Community Assets (at cost) in the Property, Plant and Equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. The Council's accounting policies for recognition and measurement of Heritage Assets are set out in the Council's Statement of Accounting Policies.

In applying the new accounting policy, the Council has identified that the assets that were previously held as community assets within Property, Plant and Equipment at £9.938m should now be recognised as heritage assets. These assets relate to Museum Exhibits and Art Collection, the Civic Collection and Sculptures, Monuments and War Memorials which were previously recognised in the Community Assets classification of Property, Plant and Equipment and have been revalued to £14.651m in 2011/12. The 1st April, 2010 and 31st March, 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1st April, 2010 and 31st March, 2011 the carrying amount of the Heritage Assets previously recognised in property, plant and equipment has been reclassified, the carrying value of these assets was £9.938m.
- The 1st April, 2010 and 31st March, 2011 Balance Sheet has been restated. The adjustments that have been made to the Balance Sheet and supporting notes to the accounts over the version published in the 2010/11 Statement of Accounts are as follows:

Consolidated Balance Sheet - 2010/11

	Original		Adjusted		Change	
	31 March 2010 £000s	31 March 2011 £000s	31 March 2010 £000s	31 March 2011 £000s	31 March 2010 £000s	31 March 2011 £000s
Property, Plant and Equipment	277,099	250,151	267,161	240,213	(9,938)	(9,938)
Heritage Assets	-	-	9,938	9,938	9,938	9,938

SECTION 3 : Statement of Accounts

Note 47 : Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Note 14 - Property, Plant and Equipment - 2010/11

	Original		Adjusted		Change	
	31 March 2010	31 March 2011	31 March 2010	31 March 2011	31 March 2010	31 March 2011
	£000s	£000s	£000s	£000s	£000s	£000s
Community Assets	17,200	17,200	7,262	7,262	(9,938)	(9,938)
Total Property, Plant & Equipment	277,101	250,153	267,163	240,215	(9,938)	(9,938)

Confirmation of disclosure of Revenue Grants Received in Advance

The 2011 code confirmed the requirement to disclose grant receipts in advance for revenue grants. Revenue Grant balances were previously disclosed as Income in Advance under Short-term Creditors.

Consolidated Balance Sheet - 2010/11

	Original		Adjusted		Change	
	31 March 2010	31 March 2011	31 March 2010	31 March 2011	31 March 2010	31 March 2011
	£000s	£000s	£000s	£000s	£000s	£000s
Short Term Creditors	29,894	22,674	26,192	19,223	(3,702)	(3,451)
Revenue Grants Receipts in Advance	-	-	3,702	3,451	3,702	3,451

SECTION 3 : Statement of Accounts

Note 47 : Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Changes in accordance with the Service Reporting Code of Practice 2011/12 (SeRCOP)

The SeRCOP 2011/12 replaces the previous Service Expenditure Analysis and Recommended Standard Subjective Analysis. The changes in disclosure as a result of this are within the Comprehensive Income and Expenditure Statement (CIES). Previously Cultural, Environmental, Regulatory and Planning Services were disclosed on one line of the CIES. This is now reported on three separate lines as detailed below.

Original	31 March 2011 Expenditure £000s	31 March 2011 Income £000s	31 March 2011 Net £000s
Cultural, Environmental, Regulatory and Planning Services	48,071	16,278	31,793
Cultural and Related Services	-	-	-
Environmental and Regulatory Services	-	-	-
Planning Services	-	-	-
Adjusted	31 March 2011 Expenditure £000s	31 March 2011 Income £000s	31 March 2011 Net £000s
Cultural, Environmental, Regulatory and Planning Services	-	-	-
Cultural and Related Services	18,524	6,771	11,753
Environmental and Regulatory Services	19,097	4,679	14,418
Planning Services	10,450	4,828	5,622
Change	31 March 2011 Expenditure £000s	31 March 2011 Income £000s	31 March 2011 Net £000s
Cultural, Environmental, Regulatory and Planning Services	(48,071)	(16,278)	(31,793)
Cultural and Related Services	20,840	6,332	14,508
Environmental and Regulatory Services	19,958	6,233	13,725
Planning Services	7,274	3,714	3,560

SECTION 3 : Statement of Accounts

Note 47 : Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Correction of presentational error: Note 7 - Amounts Report for Segmental Reporting

In 2010/11 there was a presentational error within the reconciliation for Amounts Reported within Segmental Reporting. This did not affect the Council's outturn position or the major statements. The following restatement corrects this presentational issue.

Income and Expenditure 2010/11

31 March 2011	Child and Adult Services	Chief Executives	Regeneration & Neighbourhoods	Corporate	Total
Original	£000s	£000s	£000s	£000s	£000s
Total Income	(62,974)	(68,262)	(45,143)	(28,763)	(205,142)
Total Expenditure	186,058	74,007	72,911	25,060	358,036
Net Expenditure	123,084	5,745	27,768	(3,703)	152,894

31 March 2011	Child and Adult Services	Chief Executives	Regeneration & Neighbourhoods	Corporate	Total
Revised	£000s	£000s	£000s	£000s	£000s
Total Income	(64,970)	(71,707)	(48,892)	(12,051)	(197,620)
Total Expenditure	188,311	77,452	76,185	23,904	365,852
Net Expenditure	123,341	5,745	27,293	11,853	168,232

31 March 2011	Child and Adult Services	Chief Executives	Regeneration & Neighbourhoods	Corporate	Total
Change	£000s	£000s	£000s	£000s	£000s
Total Income	(1,996)	(3,445)	(3,749)	16,712	7,522
Total Expenditure	2,253	3,445	3,274	(1,156)	7,816
Net Expenditure	257	-	(475)	15,556	15,338

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

31 March 2011	Original £000s	Revised £000s	Change £000s
Net Expenditure in the Directorate Analysis	152,894	168,232	15,338
Amounts Not Reported in the Directorate Analysis	10,876	(54,250)	(65,126)
Corporate amounts not reported in Management Accounts	(152,894)	-	152,894
In Directorate Analysis not in CI&E	(13,777)	(23,249)	(9,472)
Cost of Services in Comprehensive Income & Expenditure Statement	(2,901)	90,733	93,634

In 2010/11 the table above was reconciled to the Surplus or Deficit on Provision of Services is instead of Cost of Services in the Comprehensive Income & Expenditure Statement.

SECTION 3 : Statement of Accounts

Note 47 : Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Reconciliation to Subjective Analysis

31 March 2011	Directorate Analysis	Amounts not Reported in the Directorate Analysis	In Directorate Analysis not in CI&E	Cost of Service - Continuing Operations	Corporate Amounts	Total
Original	£000s	£000s	£000s	£000s	£000s	£000s
Total Income	(205,142)	(16,305)	15,134	(206,313)	(152,894)	(359,207)
Total Expenditure	358,036	27,181	(28,911)	356,306	-	356,306
Net Expenditure	152,894	10,876	(13,777)	149,993	(152,894)	(2,901)

31 March 2011	Directorate Analysis	Amounts not Reported in the Directorate Analysis	In Directorate Analysis not in CI&E	Cost of Service - Continuing Operations	Corporate Amounts	Total
Revised	£000s	£000s	£000s	£000s	£000s	£000s
Total Income	(197,620)	(71,836)	73,215	(196,241)	(124,256)	(320,497)
Total Expenditure	365,852	17,586	(96,464)	286,974	30,622	317,596
Net Expenditure	168,232	(54,250)	(23,249)	90,733	(93,634)	(2,901)

31 March 2011	Directorate Analysis	Amounts not Reported in the Directorate Analysis	In Directorate Analysis not in CI&E	Cost of Service - Continuing Operations	Corporate Amounts	Total
Change	£000s	£000s	£000s	£000s	£000s	£000s
Total Income	7,522	(55,531)	58,081	10,072	28,638	38,710
Total Expenditure	7,816	(9,595)	(67,553)	(69,332)	30,622	(38,710)
Net Expenditure	15,338	(65,126)	(9,472)	(59,260)	59,260	-

SECTION 3 : Statement of Accounts

COLLECTION FUND

The Collection Fund is an agent's 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.

2010/2011 £000		2011/2012 £000	Notes
<u>INCOME</u>			
Council Tax :			
33,873	Billed to tax payers	34,073	
12,925	Council Tax Benefits transferred from General Fund	12,944	
46,798		47,017	1
22,810	Income Collectable from Business Ratepayers	25,884	2
22,810		25,884	
69,607	TOTAL INCOME	72,901	
<u>EXPENDITURE</u>			
46,435	Precepts	46,736	3
306	Increased Provision for Non-Payment of Council Tax	128	
8	Increased Provision for Non-Payment of NNDR	113	
314		241	
22,676	Non Domestic Rates :		
126	Payment to National Pool	25,646	2
	Cost of Collection Allowance	124	
Contributions for previous years estimated Collection Fund Surplus / (Deficit):			
215	Hartlepool Borough Council	208	
28	Cleveland Police Authority	28	
10	Cleveland Fire Authority	9	
253		245	
69,803	TOTAL EXPENDITURE	72,992	
196	(Surplus)/Deficit for the year	92	
(454)	(Surplus)/Deficit brought forward	(258)	
(258)	(Surplus)/Carried forward	(166)	

SECTION 3 : Statement of Accounts

NOTES TO 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 18/9 .

There were 33,169 Band D equivalents in 2011/12 (32,458 in 2010/11) and the basic amount of council tax for a Band D property was £1,670.51 (£1,670.51 in 2010/11).

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	24,311	16,207	945.80	125.23	42.65	1,113.68	27,075
B	7/9	6,530	5,093	1,103.43	146.10	49.75	1,299.28	8,484
C	8/9	5,778	5,142	1,261.07	166.97	56.86	1,484.90	8,580
D	9/9	2,929	2,929	1,418.70	187.84	63.97	1,670.51	4,893
E	11/9	1,431	1,749	1,733.97	229.58	78.19	2,041.74	2,922
F	13/9	876	1,261	2,049.23	271.32	92.40	2,412.95	2,114
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		42,316	33,169					55,379

The income of £47,017,000 for 2011/12 (£46,797,000 in 2010/11) is receivable from the following sources :

2010/11 £000		2011/12 £000
54,189	Opening Liability	55,379
221	Net increase/(decrease) in liability	(488)
(93)	Disabled Relief	(88)
(5,718)	Discounts	(5,656)
(1,723)	Exemptions	(2,029)
(78)	Write Offs	(101)
46,798		47,017

SECTION 3 : Statement of Accounts

NOTES TO THE COLLECTION FUND

Note 2 - Non Domestic Rates

National Non Domestic Rates (NNDR) is organised on a national basis. The Government specifies two amounts, the Small Business Non Domestic Rate Multiplier which was 42.6p in 2011/12 (40.7p in 2010/11) and the Non Domestic Rate Multiplier which was 43.3p in 2011/12 (41.4p in 2010/11). 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 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 £25.646m (£22.676m in 2010/11).

The total non-domestic rateable value at the year end was £96,690,895.

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

2010/11 £000		2011/12 £000
35,391	Gross Rates payable	41,079
(4,002)	Mandatory Reliefs	(4,182)
(8,387)	Transitional Relief / Surcharge	(10,846)
(93)	Discretionary Reliefs set against NNDR pool	(104)
(71)	Write Offs	(50)
(30)	Interest on Refunds of Overpayments	(13)
22,810	Income Collectable From Ratepayers	25,884
(126)	Cost of Collection	(125)
(8)	(Increase)/Decrease in Bad Debt Provision	(113)
22,676	Contribution to NNDR Pool	25,646

Note 3 - Precepts and Demands on the Collection Fund

2010/11 £000		2011/12		
		Precept / Demand £000	Share of (Deficit) in Year £000	Total £000
39,274	Hartlepool Borough Council	39,695	(78)	39,617
5,196	Cleveland Police Authority	5,252	(10)	5,242
1,770	Cleveland Fire Authority	1,789	(4)	1,785
46,239		46,736	(92)	46,644

SECTION 3 : Statement of Accounts

MEMORANDUM NOTES - TRUST FUNDS

During 2011/12 the Council has acted as trustee for eleven 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.

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.

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

	Balance at 1st April 2011 £000	Income £000	Expenditure £000	Balance at 31st March 2012 £000
Preston Simpson & Sterndale Scholarship in Music	63.3	6.7	6.9	63.1
Education Trust Funds	116.9	4.3	1.8	119.4
Doughty Fund	4.5	0.1	-	4.6
	184.7	11.1	8.7	187.1

The Preston Simpson & Sterndale Scholarship in Music Fund consisted of a cash investment of £63,143 with Hartlepool Borough Council as at 31st March, 2012. The Trust also held two separate external investments valued respectively at £85,367 as at 5th April, 2012 (£86,168 as at 5th April, 2011) and £14,842 as at 31st March, 2012 (£14,886 as at 31st December, 2010).

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

As at 31st March, 2012, the Doughty Fund consisted wholly of a cash balance investment with the Council.

SECTION 4 : Annual Governance Statement

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

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the 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 31st March, 2012 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 2010/11 Statement

Progress has been made over the course of 2011/12 to address weaknesses in the system of governance identified as part of the 2010/11 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

Issue Raised	Action Undertaken
Ensuring effective and comprehensive procurement arrangements	Audit and mapping of current arrangements. Internal audit review. Identification of options for ongoing improvement. Training provided to staff.
Risks involved in managing ongoing budget reductions	Savings Programme elements undertaken at a corporate and department level with savings taken early. Member's seminars and staff communication undertaken. Budgets monitored and defunded at decision point. Project planning and management reports provided to Cabinet, CMT and CMTSG.
Electoral reform and reduction in the number of councillors.	Ongoing review of Constitution through Constitution Working Group and Constitution Committee. Scheme of allowances review to be completed for new municipal year.

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 24th August, 2010 and when guidance is received nationally any necessary action will be taken accordingly to update the agreed code.

The Governance Framework

The key elements of the Council's Governance Framework are as follows:

Hartlepool Borough Council has adopted a constitution, which sets out how the Council operates, how decisions are made, the procedures that are followed to ensure that these decisions are efficient and transparent, and sets out the terms of reference for the Portfolio and Committee structure. The constitution was developed in accordance with the Local Government Act 2000 and it sets out the delegated responsibilities to Key Officers such as the Monitoring Officer and Section 151 Officer.

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

SECTION 4 : Annual Governance Statement

ANNUAL GOVERNANCE STATEMENT

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 25th January, 2012 and referred to Council for approval on 9th February, 2012. 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 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).

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.

Customer and Workforce Services 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 adopted their Community Strategy in 2008 following an extensive consultation process. Public priorities were established and these are a key element of the budget setting process. Following the end of the Local Area Agreement (LAA) in March 2011 it was agreed locally that a Hartlepool Partnership Plan for 2011/12 would be prepared which now forms the delivery plan of the Community Strategy. The outcome framework around which the Plan is formed was reviewed and a more targeted and slimmed down version was prepared for 2011/12. This has been reviewed again and some minor changes have been agreed for implementation from April 2012. The Council adopted the revised outcomes as its own corporate objectives.

They 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 2012/13 are underway. These will take account of local changes to partnership arrangements. 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.

As the environment in which the Council operates continues to evolve, Corporate Governance and Partnerships arrangements and internal controls will need to adapt to meet future requirements. As 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.

SECTION 4 : Annual Governance Statement

ANNUAL GOVERNANCE STATEMENT

To ensure that the Council continues to respond to the challenges effectively, reports as required, will be considered by the appropriate portfolio holder.

All departments produce departmental and service plans using a corporate framework to ensure that they reflect the agreed corporate outcomes. The Corporate Outcome Framework is reviewed annually and agreed by Cabinet, most recently in December 2011. Departments also complete extensive consultation with service users, forums, partners and the Viewpoint panel. 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 outcomes. 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 outcomes 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 Scrutiny Coordinating Committee on a quarterly basis.

A corporate performance management framework approved by CMT and Cabinet is operating across the Council. The framework sets out the process and timetable for reporting on performance. A Data Quality framework is in place with Internal Audit conducting a targeted annual review of PIs. 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. Covalent also includes plans, risks and performance indicators enabling clearer links between corporate, departmental and service planning outcomes, actions, risks and PI's.

Key performance indicators are identified in the corporate and departmental plans. These indicators are monitored throughout the year and quarterly reports are presented to members on the delivery of performance targets.

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.

Fraud Awareness assessments took place during 2011/12 using the CIPFA Red Book 2 - Managing the Risk of Fraud - Actions to Counter Fraud and Corruption; as a basis for good practice and the FRED1 (Fraud Risk Evaluation Diagnostic) assessment tool as a means to assess HBC's awareness of fraud. The Red Book 2 was produced by CIPFA Better Governance Forum Counter Fraud Advisory Panel after consultation with fraud practitioners. As it is aligned to the approach by the National Fraud Authority its use as good practice is recommended by organisations such as ALARM.

The Council agreed a Risk Management Strategy in December 2004 and this has been improved on an annual basis. However in 2011 there has been the approval of a new Risk Management Framework and Guidance Document which outlines a process that will help drive service delivery and improvements. The Framework and Guidance Document is available to all staff via the intranet. Key staff have undergone appropriate training and departmental risk champions lead on communicating the revised process to all relevant staff in their departments.

A revised Risk Management Framework was considered and approved by the Performance Portfolio Holder on 23rd March, 2011. In order to improve the process the structure of the risk registers was changed, a specific risk tolerance level to help prioritise risk activity was introduced.

SECTION 4 : Annual Governance Statement

ANNUAL GOVERNANCE STATEMENT

Risks on the accepted risk register are reported to elected members on an annual basis and they are monitored more regularly within departments. A small number of risks will be on the actively managed risks register and these are the risks that the department/responsible officer plan to take further action/increase control measures to help reduce the likelihood or impact. These risks are reported to elected members quarterly through the service planning process.

The aim is that by restructuring the risk registers it will switch the focus from reporting on risks to more actively managing the risks that are of most concern and hence on the actively managed risk register.

There is corporate support at senior management level for development of Risk Management with risk assessment procedures published and training given to officers. Regular risk introduction/refresher sessions are offered as part of the Council's Learning Management and Development Programme. Training was also given to senior officers in October 2010 by Gallagher Bassett 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 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 actively managed and accepted risk registers. Risk registers are also maintained for significant projects, such as Business Transformation. Officers that manage risks are notified risks need to be reviewed and progress is monitored on a quarterly basis through the service planning process. 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 an Influenza Pandemic Plan has been approved. A future workstream is to integrate the Influenza Pandemic Plan into the new corporate Business Continuity Plan and associated database framework.

The Corporate Business Continuity Group meets monthly and includes lead officers from all departments and the Hartlepool Emergency Planning officer. A revised Business Continuity Plan (BCP) is being developed and a corporate business continuity ICT database has been implemented to record supporting BCP data. New levels of priority / definitions for service restoration have been defined. Population of the new database is complete and a work programme is underway to identify and document new formal decant arrangements for the delivery of priority services in the event of a disruption. Building on previous test exercises of the existing business continuity plan, training exercises on the new plan will be scheduled for 2012/13 to ensure the robustness of the plan, aid familiarity by officers and test communication protocols.

The Equality Act 2010 came into force on 1st October, 2010 and brings together over 116 separate pieces of legislation into one single Act. Combined, they make up a new Act that will provide a legal framework to protect the rights of individuals and advance equality of opportunity for all. The Act covers the 9 protected characteristics - age, disability, gender reassignment, marriage/civil partnership, pregnancy/maternity, race, religion/belief, gender and sexual orientation.

SECTION 4 : Annual Governance Statement

ANNUAL GOVERNANCE STATEMENT

The Public Sector Equality Duty (PSED) is supported by "specific duties" to assist public bodies to achieve the aims of the general duty. Under the specific duties, the Council must:

- Publish equalities information to demonstrate its compliance with the Equality Duty by the 31st January, 2012 and then annually after that; and
- Develop and publish equality objectives by 6th April, 2012 and then every four years.

In order to demonstrate our compliance with the above requirements, we have compiled two equality reports 'Equality Information 2012' and 'Workforce Equalities Information 2012' to demonstrate the progress that the Council has made to date. We are aware that there are gaps in our data and are working to provide more information in an accessible format. On that basis both reports will be regularly updated.

Equality issues must influence the decisions reached by public bodies - in how they act as employers; how they develop, evaluate and review policy; how they design, deliver and evaluate services, and how they commission and procure from others. We do this by undertaking Impact Assessments which are an integral part of our decision-making process.

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 in 2010. 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.
- 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).

SECTION 4 : Annual Governance Statement

ANNUAL GOVERNANCE STATEMENT

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

HBC business continuity group meets quarterly and co-ordinates the Councils business continuity strategy. The group has undertaken testing of the plan within departments.

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.	Ongoing audit and corporate mapping of current arrangements. Internal audit review. Identify options for continuous improvement, communicate and provide targeted training to staff.	2012/2013	CMTSG
2	Risks involved in managing ongoing budget reductions.	Revised Savings Programme encompassing key required programme elements at a corporate and department level. Resources set aside from 2011/12 outturn to deal with future years reductions in 2013/14. Member's seminars and staff communication strategy. Budget monitoring and defunding budgets at decision point process. Project planning and management reporting to Cabinet CMT and CMTSG.	2012 to 2015	CMT
3	Selective Licensing Function	Audit and management review undertaken. Detailed action plan for improvement developed and implemented as confirmed by audit follow up.	2012/2013	Assistant Director, Regen and Planning.

SECTION 4 : Annual Governance Statement

ANNUAL GOVERNANCE STATEMENT

No	Issue	Action	Timescale	Responsible Officer
4	Welfare Reform Act	Review of financial consequences of proposals undertaken. Update reports to Cabinet, CMT and CMTSG.	2012 to 2014	CMT
5	Health and Social Care Act, re transfer of some Public Health responsibilities to the LA	Ongoing review of statutory requirements in place. Update reports to Cabinet, CMT and CMTSG on known issues. Liaison with all relevant parties to shape future delivery proposals.	2012 to 2014	CMT
6	Localism Act	Reports to Council, Portfolio and Cabinet regarding proposed response to Statutory requirements. CMT and CMTSG monitoring of implications of new proposals.	2012 to 2014	CMT
7	Collaborative Working Issues	Ongoing dialogue between officer groups at Councils. Update reports to Council, Portfolio and Cabinet.	2012/2013	CMT
8	Governance arrangements as a result of changes to the council size.	Corporate peer review to be undertaken in September focussing on governance and bedding down of new council structures.	2012/2013	CMT
9	Potential for a Mayoral referendum	Assessment to be undertaken of consequences of potential Mayoral referendum on the governance arrangements for the Council.	2012/2013	CMT

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

Signed:

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

SECTION 5 : Independent Auditor's Report

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

Opinion on the Council Financial Statements

I have audited the financial statements of Hartlepool Borough Council for the year ended 31st March, 2012 under the Audit Commission Act 1998. The financial 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. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on 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 financial statements sufficient to give reasonable assurance that the financial 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 Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword, to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on Financial Statements

In my opinion the financial statements :

- give a true and fair view of the financial position of Hartlepool Borough Council as at 31st March, 2012 and of its expenditure and income for the year ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on Other Matters

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

SECTION 5 : Independent Auditor's Report

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

Matters on which I Report by Exception

I report to you if ;

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

Respective responsibilities of the Council and the Auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council 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 Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, as to whether the Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31st March, 2012.

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 Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

SECTION 5 : Independent Auditor's Report

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, 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 ended 31st March, 2012.

Delay in Certification of Completion of the Audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Mark Kirkham
District Auditor and Officer of the Audit Commission
2nd Floor
Nickalls House
Metro Centre
Gateshead
Tyne & Wear
NE11 9NH

30th September 2012

SECTION 6 : 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.

SECTION 6 : Glossary of Terms

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).

SECTION 6 : Glossary of Terms

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.

SECTION 6 : Glossary of Terms

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.

HERITAGE ASSETS

Assets preserved in trust for future generations because of their cultural, environmental or historical associations. It applies to assets held and maintained by the Authority principally for the contribution of knowledge and culture.

IMPAIRMENT

A reduction in the value of Property, Plant and Equipment below its carrying amount on the Balance Sheet.

SECTION 6 : Glossary of Terms

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.

SECTION 6 : Glossary of Terms

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.

SECTION 6 : Glossary of Terms

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 members 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 members 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.

SECTION 6 : Glossary of Terms

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:

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

SECTION 6 : Glossary of Terms

RELATED PARTY TRANSACTION

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

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

This list is not intended to be comprehensive.

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

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.

SECTION 6 : Glossary of Terms

SETTLEMENT

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

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

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.

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AUDIT COMMITTEE**20.07.12****Report of:** Head of Audit and Governance**Subject:** INTERNAL AUDIT PLAN 2012/13 UPDATE**1. PURPOSE OF REPORT**

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2012/13.

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. PROPOSALS

- 3.1 That members consider the issues within the report in relation to their role in respect of the Councils governance arrangements. Table 1 of the report detailed below, sets out the pieces of work that have been completed and the recommendations made.

Table 1

Audit	Objectives	Recommendations	Agreed
Fraud Awareness	Ensure best practice in place in terms of fraud prevention and detection.	- Make reference in the Anti Fraud Strategy to corporate objectives and how counter fraud and corruption work is important in ensuring resources are not lost, thus supporting the achievement of objectives.	Y

Audit	Objectives	Recommendations	Agreed
		<p>- A training module should be developed for the e-learning suite to enable all staff to receive fraud awareness training. The induction pack and corporate appraisal processes should be developed to make reference to the counter fraud and corruption strategy, fraud awareness and culture of zero tolerance as being a core skill required of all staff. Develop a process/mechanism to assess the awareness of fraud amongst staff periodically to ensure induction, training and appraisal processes are raising awareness, and to enable target zones for refresher information to be identified where any areas of lack of awareness are noted.</p> <p>- The fraud response plan could be improved by including following areas: :follow up to each investigation (to ensure that identified fraud risks or control weaknesses which led to the fraud being able to occur have been adequately and appropriately addressed/corrected), :whether the Audit Committee should receive reports of all fraud investigations and their outcomes, :completing a regular analysis of fraud investigations (type, amounts lost, etc) to enable an assessment to be made of whether the investigations are effective and appropriate, :process to monitor potential and actual losses to fraud and corruption identified as a result of fraud investigations.</p>	<p>Y</p> <p>Y</p>
Budgetary Control	Provide assurance that the processes in place for setting, amending, monitoring and reporting of budgets for Hartlepool Borough Council adequately mitigate the risks identified.	<p>- Budget holders are provided with training to assist them in managing their budgets.</p> <p>- Documentation is developed to enable the consistent recording of the virement approvals obtained, in line with recently agreed limits.</p> <p>- Consideration should be given to producing more timely reports, particularly for high risk areas, to enhance the budget monitoring process.</p>	<p>Y</p> <p>Y</p> <p>Y</p>
Equal Pay	Enable assurance to be provided that the processes currently in place have been evaluated to ensure that they comply with current Equal Pay Legislation.	<p>- Undertaking an Equal Pay Audit would address the issues identified however in the absence of this it is recommended that the process for identifying the issues and subsequent actions is reviewed and documented and an assessment undertaken of the assurance that this process can provide and the potential risks that remain.</p> <p>- The roles, responsibilities and processes for managing the action</p>	<p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>'Continue to develop and apply the SSA' need to be clearly documented and linked to the specific processes in place for identifying sub - actions and managing/monitoring these including evaluating and reporting on the risks of non completion of actions. This process should also evaluate the risks of not completing certain tasks. This links in with the previous recommendation regarding the identification of issues.</p> <p>- The spreadsheets used should be password protected as should individual formula cells.</p>	Y
Direct Payments	Ensure adequate arrangements are in place that ensure all payments are valid, accurate and appropriate.	<p>- The Direct Payments and any amendments should be authorised prior to payment, providing a separation of duties in the process.</p> <p>- Carers payments need to be separately identified in order to ensure that an accurate account of expenditure is given.</p> <p>- The queries in relation to the 4 plus 2 reviews require resolving to enable assurance to be provided that this part of the process is operating effectively. It would also be appropriate to obtain annual assurance that the processes operated via the managed service are working as intended to ensure that the needs of HBC are being met.</p> <p>Development of a risk managed approach to monitoring direct payments will provide additional assurance that resources are focused on the key risk areas.</p>	<p>Y</p> <p>Y</p> <p>Y</p>
Car Park Income	Income received in respect of car parking is collected on a regular basis and banked in full and prompt manner. Effective arrangements are in place the enforcement of traffic contraventions;	<p>- Benchmarking exercises should be undertaken to compare the performance of the service with similar organisations and identify potential areas of improvement, particularly in relation to the recovery of outstanding fines.</p> <p>- Periodic (annual) exercises are undertaken to ensure that staff renew declarations and confirm their salary banding so that the correct amount can be deducted from salary</p> <p>- A request should be made to system administrators to improve IT security on the Parking Gateway system by ensuring that passwords are sufficiently secure (i.e. minimum length, alphanumeric) and that the system enforces password changes on a regular basis. Individuals who have left the authority should be removed from system access.</p> <p>- The service should revisit budget</p>	<p>N</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		setting arrangements to ensure that future budgets are an accurate reflection of expected income. - Appropriate reporting facilities should be obtained which provides meaningful management information to enable effective analysis.	Y
St John Vianney Primary	Ensure school finance and governance arrangements are in line with best practice.	- The school should implement any recommendations arising from the financial analysis of the Community Facility to ensure that it delivers a sustainable service and does not drain school resources.	Y
		- Fees for wraparound care should be collected in advance. Where arrears arise, recovery action should be taken on a consistent basis and services cease until all amounts due are received. Arrears exceeding £50 should be referred to the LEA for recovery action.	Y
		- Income records should be amended to include a reconciliation of income collected to amounts passed to the office for bankings. The register should be signed by person collecting the income and office staff to verify that calculations have been checked and are accurate.	Y
		- The Governing Body should agree the pricing schedule for Starfish and wraparound care activities on an annual basis.	Y
		- Advice should be sought from Hartlepool Borough Council Insurance Section on how the school can comply with the terms and conditions of its insurance policy.	Y
		- Income collected and passed to the school office for banking should be accompanied with registers which record services received, amounts due, amounts paid and balances outstanding. Such records should be checked by office staff to verify their accuracy and provide assurance that all income collected has been banked.	Y
		- Official orders should be raised and committed for budgetary control purposes.	Y
		- The private fund maintained by the school should have a constitution, which is approved by the Governing Body, and details the purpose of the fund and arrangements for its management. Copies of annual audited accounts should be presented to the school. - The list of signatories needs to be	Y

Audit	Objectives	Recommendations	Agreed
		increased from 2 people to 3 or 4 in order to provide cover in the event of sickness. The auditor recognises that due to availability of appropriate persons the school has struggled to identify additional signatories, however, it may consider appointing a member of the Governing Body to audit the accounts in order that the current auditor can become a signatory.	
Benefits	The administration of the service ensures that arrangements in place are performed in accordance with legislation in the most efficient and effective manner.	- Fraud investigation cases should be subject to managerial review with evidence of such reviews documented by means of signature and date. Given that resource issues mean that it would not be practical to review all cases, consideration should be given to reviewing a random sample of cases.	Y
Payroll	Data is only processed where authorised post exists. Salary & related expenditure are incurred only in respect of authorised staff and in accordance with employees' contracts of service.	<p>- Assurance should be sought that minimum criteria for passwords ensure that access to Resourcelink is securely controlled.</p> <p>- A review of all access rights should be undertaken to ensure that operators' security profile remain appropriate given their role. Consideration should be given to ensure that:</p> <ul style="list-style-type: none"> • transactions of those operators who are not employees of Hartlepool Borough Council are subject to regular review to ensure such are valid and authorised; • generic passwords are removed and replace by passwords that enable users to be identified; • supervisor access should be restricted only to those users who need such access as part of their role. <p>- Independent assurance should be obtained to verify that the service provider is complying with the security controls detailed in the contract.</p> <p>- Appropriate measures designed to manage the performance of the payroll service should be developed. These should include the establishment of appropriate performance indicators for monitoring and benchmarking exercises designed to measure performance against similar entities. The auditor recognises that amending agreements with third parties could be damaging to the payroll service, however, a costing exercise to determine the extent to which provision of payroll facilities to these bodies is financially viable should be undertaken in order that informed</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		decisions can be made as to whether agreements require modification.	
Council Tax	Ensure that all taxable properties are identified, assessed and recorded and these records are accurately maintained; All persons liable for council tax and all discounts, exemptions, benefits and other allowances have been identified and correctly recorded. Amounts due in respect of each taxable property have been correctly calculated and promptly demanded from the person(s) liable.	- Formal reviews of accounts with credit balances should be undertaken and documented. Where balances appear legitimate they should be refunded or used to reduce liabilities elsewhere within the system.	Y
		- Sample checking or period reviews should be complete on council tax transfers.	Y
		- Inspections should be carried out on a sample of discounts/exemptions applied for a set period of time.	Y
		- Individual sections should devise and maintain written document retention guidance based on legislation and specific HBC requirements. These procedures should be reviewed and updated regularly.	Y
		- A reconciliation of the number of exemptions/discounts awarded to the number of transactions checked for accuracy should be maintained.	Y
VAT	HBC have registered with HMRC; Effective planning and administration ensures that relevant staff are aware of their responsibilities; there is compliance with VAT legislation; efficient and effective operations maximise cash flow for the organisation.	No recommendations made.	
Jesmond Gardens Primary	Ensure school finance and governance arrangements are in line with best practice.	- The school should follow safer recruitment procedures when completing recruitment exercises. Documentation relating to recruitment exercises should be retained securely for a period of six months.	Y
		- Results of the benchmarking exercises should be reported and discussed with Governors.	Y
		- Income records should be maintained for all income received by the school. This will enable income reconciliations to be complete to confirm there has been no loss/theft of school monies.	N
		- Once school meal debt has exceeded £25 this should be sent to the LA for recovery.	Y
		- Authorised signatories should be kept up to date as a when staff members commence/leave the school.	Y
		- The school should have an ICT strategy in place which provides direction in the use of ICT resources in	Y

Audit	Objectives	Recommendations	Agreed
		<p>the areas of learning, teaching and administration. The strategy should be clearly linked to the schools forward planning budget.</p> <ul style="list-style-type: none"> - 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. - The school should discourage purchases made by staff as it may affect VAT and warranties for goods purchased as well as bypass budgetary controls. The school may consider the use of a purchase card which may eliminate staff reimbursements. VAT can be claimed back were appropriate on all purchases made through the schools bank/purchase card. - Jesmond School should cease immediately from issuing pre signed cheques. A purchase card should be obtained for this expenditure. 	<p>N</p> <p>Y</p> <p>Y</p>
Debtors	Ensure that debts contain sufficient detail to enable effective recovery action to be taken. Ensure invoices and credit notes are accurate, timely and authorised.	<ul style="list-style-type: none"> - The list provided of potential duplicate accounts is reviewed to identify any which are no longer required. Consideration should also be given to reducing the number of debtor accounts for the same person/company by obtaining one contact point for all invoices to go to. - Where low value charges are incurred, consideration should be given to invoicing periodically where possible (i.e. quarterly/annually). Alternatively, the option of income codes should be allocated to the service provider to enable them to include the income via analysis sheets which are uploaded onto the financial system. Issues identified from the low value invoice alerts should be reported to the Heads of Finance Meetings and where possible, income should be received prior to the service being provided as set out in the Authority's Financial Procedure Rules: <i>"...Whenever practicable, departments are required to obtain payment in advance of supplying goods or services as this improves the Council's cashflow and also avoids the time and cost of administering debts and eliminating the risk of bad debts."</i> - Raising credit notes for reasons such as these increases the administrative costs and time allocated to the task and whilst it is acknowledged that errors occur, at a time when resources are 	<p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>stretched, staff should be made aware of the importance of ensuring the accuracy of data.</p> <ul style="list-style-type: none"> - Covalent should be reviewed to ensure that performance indicators reflect data collected and can provide assurance that key processes are working effectively and are updated regularly. - Previous audit report requested that the list of officers provided with outstanding debt reports is reviewed to ensure that the reports are being forwarded to the correct individual. Also that guidance should be issued to departments regarding the reporting of outstanding debt at departmental meetings on a quarterly basis. Through discussion, the auditor was advised that a report has now been produced which shows all departmental aged debt. Once this has been agreed by CMT the reports will be distributed to the relevant staff. This should be in place by the new financial year. - More detailed procedures are required which detail the full requirements of the sundry debtors system. These should be provided to all users. - Access is commensurate to the role being undertaken and that a separation of duties is maintained wherever possible. - Guidance should be issued relating to the charging process to show what charges should be approved and by whom and made available to staff to follow. - A reminder is issued to all staff that has access to raise credit notes stating that supporting documentation is in place for all credit notes. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Performance Management / BVPI	Ensure adequate management information is produced to enable performance monitoring to be undertaken efficiently and effectively.	<ul style="list-style-type: none"> - The Data Quality Policy is reviewed regularly with changes implemented and approved by the relevant Portfolio Holder. In addition, improvements should be implemented to address data quality issues such as those identified in this report. - Where base data is used, this is taken from the relevant source documentation and checks are undertaken to ensure that this has been implemented. Data input for the relevant PI is reviewed and recalculated using data available to better inform the analytical calculation to ensure it reflects a more accurate figure than is currently input into Covalent. - Where spreadsheets are used to 	<p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		record PI data and calculations cells containing formula should be protected to ensure that accidental amendments can not be made.	
NNDR	The authority maintains an accurate list of all properties subject to locally collectable non domestic rates. Liability for NNDR is accurately assessed and timely bills for the correct amount are sent to the occupiers of all rateable properties in the authority's area. All NNDR money collected is promptly posted to the correct account. Prompt and effective recovery action is taken on all overdue unpaid amounts.	<ul style="list-style-type: none"> - Prior to submission to Portfolio and/or the Assistant Chief Financial Officer, write off spreadsheets should be checked for accuracy and updated to reflect the actual accounts and associated debts to be written off. - Checks should be performed on the input to the iWorld system regarding amendments to rateable values and reliefs. 	<p>Y</p> <p>Y</p>
Loans and Investments	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.	No recommendations made.	
Creditors	Supplier accounts are raised promptly, accurately and only when they do not already exist. Official orders are raised to purchase goods and/or services unless in exceptional circumstances. Payment is only made for goods and/or services received with sufficient evidence retained that checks are made to ensure that goods are received in full and of the appropriate quality.	<ul style="list-style-type: none"> - Formulae should be password protected from amendment or alternatively, the process of manually inputting information from one report to another spreadsheet is reviewed and streamlined where possible. For example, the extracts produced may be save in an excel format and could potentially be used as the basis for the calculation spreadsheet. - The transaction should be removed from the February expenditure report and a new correction data file with a name consistent with the original file is published. - Progress towards the implementation of a periodic payments register continues. The implementation of the register would ensure that as many payments as possible and applicable have either an order generated or have 	<p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		a contractual arrangement set up where more appropriate.	Y
		- Further consideration should be given as to how to ensure that staff within the outstanding order process are aware of their responsibilities in monitoring these and should be more pro-active in their approach.	Y
		- Measures should be put in place to ensure that departments are aware of the processes in place relating to goods receiving procedure and that they adhere to these.	

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 notification for the preparation and supply of data matches from the Audit Commission in relation to the National Fraud Initiative (NFI) for 2012/13. The section is in the process of preparing all notifications for the upload of required data.

3.4 Table 2 below details the audits that were ongoing at the time of compiling the report.

Table 2

Audit	Objectives
Clavering Primary	Ensure school finance and governance arrangements are in line with best practice.
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.
LSP/ Partnerships	Ensure that the Hartlepool Partnership is undertaking all the statutory duties required (or is preparing to do so once Governmental directives have been finalised in some areas), the Hartlepool Partnership is not undertaking any activities from which it is prohibited, the governance framework (or that proposed) within which the Hartlepool Partnership operates appears to be in line with any requirements and/or best practice.
Main Accounting	Ensure risks are managed with regard to compliance with legislation, regulation, guidance and accounting standards, ensuring the financial ledger provides the data required to meet the accounting standards, the security of the data held in the financial ledger and supporting documents in either electronic or paper form.
Controcc	Processes in place ensure that there is sufficient control over data input (including amendments) to ensure that it is accurate, complete and reliable.
Insurances	Ensure adequate cover is provided efficiently and effectively.
Holy Trinity Primary	Ensure school finance and governance arrangements are in line with best practice.

Manor College	Ensure school finance and governance arrangements are in line with best practice.
English Martyrs School	Ensure school finance and governance arrangements are in line with best practice.
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.
Earl Retirement/ Voluntary Redundancy	Give assurance that policy / procedures in place are in line with legislation and ensure that events relating to early / voluntary retirement can be processed accurately and completely, in a consistent manner that is fair, transparent and within scheme rules/framework set out in the policy. Effective arrangements are in place to identify and keep up to date with changes in legislation / best practice. Operational activities reflect age equality requirements. The council complies with relevant legislation in respect of its retirement practices. Arrangements in place ensure that all criteria for qualifying for early / voluntary retirement as defined in Policy documents are met. Scheme benefits are calculated accurately. Pension entitlements, are correctly calculated in accordance with scheme requirements.
Officers Expenses	An up to date policy / procedures are in place which define procedures for processing and approving claims for reimbursement of employee expenses incurred. Arrangements are in place to ensure that claims are valid, accurate and appropriately authorised. Effective budgetary control arrangements are in place to ensure that claims are not excessive and lead to overspend in expenses incurred. Claims and allowances are paid where there is a clear entitlement and are in line with the policies and procedures set by HBC. Claims submitted are accurately processed and paid in a prompt manner.
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.
St Josephs Primary	Ensure school finance and governance arrangements are in line with best practice.
Community Safety	Procedures in place ensure the Youth Offending Service operates in accordance with legislation; Effective governance arrangements are in place to control and direct the delivery of the Youth Services function. Rolls and responsibilities of all parties are clearly defined; Optimal use of resources ensure that the Youth Offending Service delivers services in an efficient, effective and economical manner; The service complies with Contract Procedure Rules when commissioning services; Robust arrangements are in place for developing and achieving strategic priorities; Procedures in place are effective in managing young people who commit crime and help those young people who are in danger of getting involved in it and are consistent with national standards; Arrangements for managing the performance of the service ensures the achievement of strategic objectives.
Dyke House School	Ensure school finance and governance arrangements are in line with best practice.
IT Data Security	Review the Information Security Policy and the arrangements in place regarding asset security focusing on mobile devices and the storage of personal or sensitive information.
Asset Register	Adequate arrangements are in place for the transfer of the data on the councils current Fixed Asset Register to IPF software.
Rossmere Primary	Ensure school finance and governance arrangements are in line with best practice.

3.5 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.

4. RECOMMENDATIONS

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

5. BACKGROUND PAPERS

- 5.1 Internal Audit Reports.

6. CONTACT OFFICER

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AUDIT COMMITTEE**20.07.12****Report of:** Chief Finance Officer**Subject:** ROLE OF THE HEAD OF INTERNAL AUDIT IN
LOCAL GOVERNMENT

1. PURPOSE OF REPORT

- 1.1 To inform Members of the CIPFA statement – “The Role of the Head of Internal Audit in Local Government”, and to demonstrate how the Council complies with this guidance.

2. BACKGROUND

- 2.1 The Statement describes the role of the Head of Internal Audit (HIA) in local government. CIPFA believes the HIA occupies a critical position in a local authority, helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance. Local authorities need to know that they have strong arrangements for controlling their resources and for delivering their objectives. CIPFA believes that HIA's have a unique role to play here. They are senior managers whose business is objectively assessing these arrangements and the risks that authorities face and giving appropriate assurances. HIA's must also provide leadership, promoting good governance and helping authorities to address future challenges.
- 2.2 HIA's need to review the whole system of control, both financial and non-financial, and focus on the areas where assurance is most needed. The HIA also has to give an annual opinion on the adequacy and effectiveness of the control environment; this is used by Chief Executives as a primary source of evidence for their annual governance statement.
- 2.3 HIA's must also be able to show that they can meet the needs of stakeholders such as Chief Executives and Audit Committees, adding value by helping to improve services whilst retaining their objectivity. They also need to work well with partners and other auditors. Authorities should see the Statement as best practice and use it to assess their HIA arrangements to drive up audit quality and governance arrangements.

3 THE KEY ROLE PLAYED BY THE HIA

- 3.1 Internal audit is one of the cornerstones of effective governance. The HIA is responsible for reviewing and reporting on the adequacy of the authority's control environment, including the arrangements for achieving value for money. Through the annual internal audit opinion and other reports the HIA gives assurance to the Leadership Team and others, and makes recommendations for improvement.
- 3.2 The HIA's role is a unique one, providing objective challenge and support and acting as a catalyst for positive change and continual improvement in governance in all its aspects. The role is particularly important when authorities are facing uncertain or challenging times. Fulfilling the role requires a range of personal qualities. The HIA has to win the support and trust of others, so that he/she is listened to, and the HIA's role as a critical friend means that sometimes difficult messages must be given and acted on. It is these expectations, combined with the professional, personal and leadership skills required, that have shaped the CIPFA Statement on the role of the HIA in Local Government.
- 3.3 **Primary audience**
The primary audience for this Statement is those who rely on the HIA's assurances – the Leadership Team and the Audit Committee. CIPFA recommends that they should examine their own authority against this Statement to satisfy themselves that they have effective HIA arrangements in place.
- 3.4 **Local government context**
CIPFA has drawn up a separate Statement for local government because of the statutory responsibility of specific post holders regarding internal audit and governance. In local government the 'Section 151' officer (the Chief Financial Officer or CFO) is a statutory post as is the Monitoring Officer (often the Head of Legal Services) and the Head of Paid Service (often the Chief Executive). The HIA needs to work well with these post holders and lines of responsibility need to be clear.
- 3.5 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in local government and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:
- the organisation;
 - the role; and
 - the individual.

For each principle the Statement sets out the governance arrangements required within an authority to ensure that HIAs are able

to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA. Summaries of personal skills and professional standards then detail the leadership skills and technical expertise authorities can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and professional standards to which the HIA as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases support other principles as well.

3.6 **Demonstrating compliance**

The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the Leadership Team of a local authority to benchmark its existing arrangements against a defined framework.

- 3.7 CIPFA recommends that authorities use the Statement as the framework to assess their existing arrangements and that they should report publically on compliance to demonstrate their commitment to good practice. CIPFA also proposes that authorities should report publicly where their arrangements do not conform to the compliance framework in this Statement, explaining the reasons for this, and how they achieve the same impact. CIPFA will consider how to take this forward in the context of the CIPFA/Society of Local Authority Chief Executives (SOLACE) guidance on good governance.

4. **CIPFA STATEMENT ON THE ROLE OF THE HIA IN LOCAL GOVERNMENT**

The Head of Internal Audit in a local authority plays a critical role in delivering the authority's strategic objectives by:

1 – championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and

2 – giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

To perform this role the Head of Internal Audit:

3 – must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee;

4 – must lead and direct an internal audit service that is resourced to be fit for purpose; and

5 – must be professionally qualified and suitably experienced.

5. PROCESS FOLLOWED

- 5.1 The review is undertaken annually in line with best practice requirements. Appendix A of the report details how the Council ensures that the requirements of the statement are met. Details of the requirements of the statement are outlined along with how the arrangements in place at the council satisfy those requirements.

6. RECOMMENDATION

- 6.1 It is recommended that Members
- i) Note that I have reviewed the CIPFA statement – “The Role of the Head of Internal Audit in Local Government” and can advise Members that the Council complies with these requirements as detailed in Appendix A.

7. BACKGROUND PAPERS

- 7.1 CIPFA statement – “The Role of the Head of Internal Audit in Local Government”.

8. CONTACT OFFICER

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How the Five Principles Are Met

Principle 1 – The HIA in a local authority plays a critical role in delivering the authority’s strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Set out the HIA’s role in good governance and how this fits with the role of others, in particular the CFO, the Monitoring Officer and the Head of Paid Service.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual.</i>	Working with others (including the CFO, the Monitoring Officer and the Head of Paid Service) to promote the benefits of good governance throughout the organisation.	<i>Relationships with key officers detailed in agreed protocols i.e. Relationship between CFO and IA.</i>	Provide leadership by giving practical examples of good governance that will inspire others.	<i>HIA undertakes proactive role on relevant working parties and officer groups i.e. Performance and Risk Management Group.</i>
Ensure that the importance of good governance is stressed to all in the authority, through policies, procedures and training.	<i>Code of Corporate Governance agreed by the Audit Committee And adopted by Council. Job descriptions and Management Academy training programme cover governance requirements</i>	Giving advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects.	<i>Regularly report to Audit Committee and Senior Management through CFO and CMTSG on all aspects of governance arrangements.</i>	Deploy effective facilitating and negotiating skills.	<i>HIA undergoes Continuous Professional Development (CPD) tailored to requirements of the role i.e. CIPFA Certificate in Investigatory Practices, Management Academy.</i>
Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.	<i>Protocols in place to ensure regular liaison with key officers and CMTSG.</i>	Promoting the highest standards of ethics and standards across the authority based on the principles of integrity, objectivity, competence and confidentiality.	<i>HIA role as per CIPFA Code of Practice for Internal Audit in Local Government as enshrined in the Audit Manual.</i>	Build and demonstrate commitment to continuous improvement.	<i>As above</i>
Require staff to	<i>Corporate Anti-Fraud</i>	Demonstrating the	<i>HIA undertakes proactive</i>	Demonstrate consultancy	<i>As above</i>

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
report suspected or detected fraud, corruption or impropriety to the HIA.	<i>and Corruption Strategy agreed by Audit Committee</i>	benefits of good governance for effective public service delivery and how the HIA can help.	<i>role on relevant working parties and officer groups i.e. Performance and Risk Management Group.</i>	skills as appropriate – analytical, problem solving, influencing and communicating.	
		Offering consultancy advice where the HIA considers that it is appropriate, drawing up clear terms of reference for such assignments.	<i>Resource built into Audit Plan for advice and guidance to be provided, within strictly agreed scope, terms of reference and outcomes.</i>		

Principle 2 – The HIA in a local authority plays a critical role in delivering the authority’s strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Set out the responsibilities of the HIA, which should not include the management of operational areas	<i>Job Description in place. Audit Strategy and Charter sets out terms of reference as agreed by Audit Committee.</i>	Giving assurance on the control environment. This includes risk and information management and internal controls across all systems.	<i>Annual opinion provided to Audit Committee in line with Code of Practice for Internal Audit in Local Government, covering all aspects of governance arrangements.</i>	Give clear, professional and objective advice.	<i>Reporting arrangements agreed with management based on a shared understanding of requirements.</i>
Ensure that internal audit is independent of external audit.	<i>Internal and External Audit protocol in place.</i>	Reviewing the adequacy of key corporate arrangements including e.g. risk strategy, risk register, anti fraud and corruption strategy, corporate plan.	<i>All aspects of governance arrangements covered in the annual Internal Audit Plan as agreed by management and the Audit Committee.</i>	Report on what is found, without fear or favour.	<i>Reporting arrangements enshrined within the Audit Strategy and Charter as reflected in the Audit Manual in line with best practice.</i>
Where the HIA does have operational responsibilities the HIA’s line manager	<i>Not Applicable.</i>	Producing evidence based annual internal audit opinion on the authority’s control	<i>Annual opinion report HIA is produced and presented to the Audit Committee by the HIA.</i>	Demonstrate integrity to staff and others in the authority.	<i>HIA undergoes CPD tailored to requirements of the role i.e. CIPFA Certificate in</i>

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
and the Audit Committee should specifically approve the IA strategy for these and associated plans and reports and ensure the work is independently managed.		environment.			<i>Investigatory Practices, Management Academy.</i>
Establish clear lines of responsibility for those with an interest in governance (e.g. Head of Paid Service, Monitoring Officer, Head of Paid Service, Audit Committee, Members). This covers responsibilities for drawing up and reviewing key corporate strategies, statements and policies.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual. Code of Corporate Governance outlines responsibilities with regard to governance arrangements.</i>	Working closely with others to ensure that sufficient and relevant evidence is used. Where relying on others, clarifying the degree and basis for the reliance.	<i>Reporting arrangements compliant with Code of Practice for Internal Audit in Local Government.</i>	Exercise sound judgement in identifying weaknesses in the authority's control environment and a balanced view on how significant these are.	<i>Experience gained over 19 year Internal Audit career. Professional guidance followed in relation to risk measurement.</i>
Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has significant concerns.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual. Rights of access to key members and officers detailed.</i>	Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect the authority's interests. Assessing whether lines	<i>Internal Audit plan encompasses partnership arrangements and highlighted as key area of concern of Audit Committee.</i>	Work well with others with specific responsibilities for internal control, risk management and governance including the Head of Paid Service, the Monitoring Officer, the CFO, Audit Committee and Members.	<i>Relationships with key officers detailed in agreed protocols i.e. Relationship between CFO and IA. Relationships built up over a number of years.</i>

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		of responsibility and assurance are clear.			
Agree the terms of reference for internal audit with the HIA, the Audit Committee and the CFO, as well as with the Leadership Team.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual.</i>	Liaising closely with the external auditor to share knowledge and to use audit resources most effectively.	<i>Protocol in place for joint working with External Audit.</i>	Be concerned for action - influencing the Leadership Team, Audit Committee and others to ensure that the HIA's recommendations are implemented.	<i>As above</i>
Set out the basis on which the HIA can give assurances to other organisations and the basis on which the HIA can place reliance on assurances from others.	<i>Audit Manual sets out roles and levels of assurances.</i>	Producing an internal audit strategy that fits with and supports the authority's objectives.	<i>Strategy produced and agreed by management and Audit Committee.</i>	Be a role model, dynamic, determined, positive, robust and with resilient leadership, able to inspire confidence and respect and exemplify high standards of conduct.	<i>Experience gained over 19 year Internal Audit career. HIA CPD tailored to requirements of the role.</i>
Ensure that comprehensive governance arrangements are in place, with supporting documents covering e.g. risk management, corporate planning, anti fraud and corruption and whistle blowing.	<i>Production of Annual Governance Statement in line with best practice covering all aspects of the governance framework and supporting documentation in place.</i>	Reviewing the authority's risk maturity (including the authority's own assessment) and reflecting this in the strategy.	<i>Key member of Performance and Risk Management Group reviewing risk strategy, maturity and tolerance.</i>		
Ensure that the annual internal audit opinion and report are issued in the name of the HIA.	<i>Reported independently by the HIA to the Audit Committee.</i>	Consulting stakeholders, including senior managers and Members on the internal audit strategy.	<i>Internal Audit Strategy agreed by senior management before approval sought from the Audit Committee.</i>		
Include awareness	<i>Job descriptions and</i>	Setting out how the HIA	<i>Internal Audit Strategy</i>		

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
of governance in the competencies required by members of the Leadership Team.	<i>Management Academy training programme cover governance requirements</i>	plans to rely on others for assurance on the authority's controls and risks and taking account of any limitations in assurance given by others.	<i>and Charter in place with Code of Practice for Internal Audit in Local Government detailing day to day arrangements.</i>		
Set out the framework of assurance that supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for preparing the report.	<i>Included in the Annual Governance Statement which is produced by senior management.</i>	Liaising with external inspectors and review agencies where appropriate when drawing up the internal audit strategy.	<i>The process followed is recorded in the Audit Manual.</i>		
Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team.	<i>Internal Audit Strategy agreed by senior management before approval by the Audit Committee.</i>	Liaising with the external audit on the internal audit strategy, but not being driven by external audit's own priorities.	<i>Protocol in place for joint working with External Audit.</i>		

Principle 3 – The HIA in a local authority must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee.

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Designate a named individual as HIA in line with the principles in this	<i>HIA designated individual employed within the Authority.</i>	Escalating any concerns through the line manager, CFO, Monitoring Officer, Head	<i>Protocols in place and enshrined in Internal Audit Charter and Strategy for escalation of concerns.</i>	Network effectively to raise the profile and status of internal audit.	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with</i>

4.5

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contract or agreement.		of Paid Service, Audit Committee, Leadership Team and external auditor as appropriate.			key officers.
Ensure that where the HIA is an employee that they are sufficiently senior and independent within the authority's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team.	<i>HIA senior manager within the Finance function reporting directly to the CFO with access to key officers as detailed in the Internal Audit Strategy Charter and Councils Constitution.</i>	Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements.	<i>Audit Committee provided with advice and guidance to enable it to fulfil its function.</i>	Adopt a flexible style, being able to collaborate and advise but also able to challenge as appropriate.	<i>Experience gained over 19 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with CFO in order to support development in all areas.</i>
Ensure that where the HIA is an employee the HIA is line managed by a member of the Management Team. Where the HIA is not an employee then the reporting line	<i>HIA senior manager within the Finance function reporting directly to the CFO.</i>	Consulting stakeholders, including senior managers and Members on the internal audit strategy.	<i>Internal Audit Strategy agreed by senior management before approval by the Audit Committee.</i>	Deploy effective facilitation and meeting skills.	As above

4.5

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
must be clearly set out in the contract or agreement with the internal audit supplier.					
Establish an Audit Committee in line with guidance and good practice.	<i>Audit Committee established in line with CIPFA guidelines.</i>			Build and demonstrate commitment to continuous improvement and innovative, but risk-aware, solutions.	<i>As above</i>
Set out the HIA's relationship with the Audit Committee and its Chair.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual.</i>			Place stewardship and probity as the bedrock for management of the organisation's finances.	<i>Leads by example in approach with Directors and other senior managers that Internal Audit function role is to help achieve organisations objectives, whilst ensuring compliance with best practice and legislative requirements.</i>
Ensure that the authority's governance arrangements allow the HIA: <input type="checkbox"/> to bring influence to bear on material decisions reflecting governance <input type="checkbox"/> direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit <input type="checkbox"/> to attend meetings	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual. Rights of access to key members and officers detailed.</i>			Build productive relationships both internally and externally.	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with key officers.</i>

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
of the Leadership Team and Management Team where the HIA considers this to be appropriate.					
Set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in (significant) partner organisations.	<i>Councils Constitution details access arrangements for Internal Audit, reflected in the Audit Manual.</i>			Work effectively with the Leadership Team and Audit Committee with political awareness and sensitivity.	<i>Experience gained over 19 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with CFO in order to support development in all areas.</i>
Set out the HIA's responsibilities relating to partners including joint ventures and outsourced and shared services.	<i>Major ventures undertaken detail rights of access to Internal Audit for governance opinion purposes.</i>			Be seen to be objective and independent but also pragmatic where appropriate.	<i>As above</i>

Principle 4 – The HIA in a local authority must lead and direct an internal audit service that is resourced to be fit for purpose.

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Provide the HIA with the resources, expertise and systems necessary to perform their role effectively.	<i>Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met.</i>	Leading and directing the internal audit service so that it makes a full contribution to and meets the needs of the authority and external	<i>Approval and consultation process for the Internal Audit plan ensures that it adds value to the organisation. HIA responsible for facilitating</i>	Demonstrate leadership and be an ambassador for internal audit.	<i>HIA undergoes CPD tailored to requirements of the role i.e. CIPFA Certificate in Investigatory Practices, Management Academy.</i>

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		stakeholders.	<i>this process.</i>		
Ensure that the Audit Committee sets out a performance framework for the HIA and their team and assesses performance and takes action as appropriate.	<i>Internal Audit report annually to the Audit Committee on a wide range of performance measures.</i>	Determining the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives; using a full range of resourcing options including consultancy, working with others and buying in where appropriate.	<i>Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met.</i>	Create, communicate and implement a vision for the internal audit service.	<i>HIA has a clear understanding of these issues and is committed to continuous improvements. These issues addressed through performance appraisal.</i>
Ensure that there is a regular external review of internal audit quality.	<i>Three yearly review carried out by External Audit, Constant review by CFO via performance monitoring and appraisal system.</i>	Informing the CFO, the Leadership Team and Audit Committee if there are insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given.	<i>Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met and reporting arrangements if shortfalls are anticipated.</i>	Create a customer focused internal audit service	<i>HIA has a clear understanding of these issues and is committed to continuous improvements.</i>
Ensure that where the HIA is from another organisation that they do not also provide the external audit service.	<i>Not Applicable.</i>	Implementing robust processes for recruitment of internal audit staff and/or the procurement of internal audit services from external suppliers.	<i>Corporate recruitment process followed for any appointments made.</i>	Establish an open culture, built on effective coaching and a constructive approach.	<i>HIA undergoes CPD tailored to requirements of the role.</i>
		Ensuring that the professional and personal training needs for staff are assessed and seeing that these needs are met.	<i>Professional guidance implemented in respect of training needs and development issues are addressed.</i>	Promote effective communication within internal audit, across the broader organisation and with external stakeholders.	<i>HIA has a clear understanding of these issues and is committed to continuous improvements.</i>

4.5

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		Developing succession plans and helping staff with their career progression.	<i>As above</i>	Set and monitor meaningful performance objectives for staff.	<i>CIPFA “Excellent Auditor Framework” implemented within section for all training and development needs.</i>
		Establishing a quality assurance and improvement programme that includes: ensuring that professional internal audit standards are complied with; reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and needs of its stakeholders; providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievements against targets; putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that	<i>CIPFA guidance in relation to continuous improvement followed.</i>	Manage and coach staff effectively	<i>As above.</i>

4.5

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		audit plans, work and reports are evidence based and of good quality; ensuring that any internal auditors declare any interests that they have; seeking continuous improvement in the internal audit service.			
		Keeping up to date with developments in governance, risk management, control and internal auditing, including networking with other HIA's and learning from them, implementing improvements where appropriate.	<i>Member of Better Governance Forum, Technical Information Service, CIPFA NE IA Group, North East Fraud Forum in order to ensure up to date with current best practice and ideas.</i>	Comply with professional standards and ethics	<i>Professional standards and ethics outlined within Audit Manual and also bound by CIPFA standards.</i>
		Demonstrating how internal audit adds value to the authority.	<i>Annual report to the Audit Committee.</i>	Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality. In particular, ensuring that internal auditors identify and report any conflicts of interest and act appropriately	<i>As above as well as procedures for the identification and recording of conflicts of interest are detailed in the Audit Manual.</i>
				Ensure, when necessary, that outside expertise is called upon for specialist advice not available within	<i>Arrangements in place to ensure specialist services can be procured as and when</i>

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				the internal audit service. Promote discussion on current governance and professional issues and their implications.	<i>necessary.</i> <i>HIA mentors audit staff and undertakes regular team meetings to facilitate discussion.</i> <i>Role on various working groups ensures topics are discussed and disseminated.</i>

Principle 5 – The HIA in a local authority must be professionally qualified and suitably experienced

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Appoint a professionally qualified HIA whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.	<i>Job description and recruitment process ensure only appropriately qualified and experienced individuals considered.</i>			Be a full member of an appropriate professional body and have an active programme for personal professional development.	<i>HIA qualified with CIPFA in 1997 and actively participates in mandatory CPD scheme</i>
Ensure that the HIA has the skills, knowledge, experience and resources to perform	<i>As above, monitoring and mentoring role undertaken by CFO in his role as Section 151 officer ensures compliance.</i>			Adhere to professional internal auditing (and where appropriate accounting and auditing) standards.	<i>HIA member of CIPFA for 15 years and is bound by all relevant professional and personal requirements.</i>

4.5

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
effectively in his or her role.					
				Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consultancy.	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by CFO.</i>
				Have prior experience of working in internal audit.	<i>HIA has held a variety of position within Local Government, before appointment as HIA in 2008, including Group Auditor at HBC and Head of Audit at a district council.</i>
				Understand and have experience of strategic objective setting and management.	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by CFO.</i>
				Understand the internal audit and regulatory environment applicable to public service organisations.	<i>HIA has 15 years post qualification experience and sound understanding of public service governance arrangements and its regulatory environment.</i>
				Demonstrate a comprehensive understanding of governance, risk management and internal control.	<i>Regularly advises management on these issues and is a key member of the Performance and risk Management Group.</i>
				Undertake appropriate development or obtain relevant experience as appropriate in order to	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by CFO.</i>

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				demonstrate an understanding of the full range of the authority's activities and processes.	

AUDIT COMMITTEE

20th July 2012



Report of: Assistant Director (Resources) and Chief Solicitor

Subject: PROPOSED AMENDMENTS TO CONTRACT PROCEDURE RULES

1. PURPOSE OF REPORT

- 1.1 To seek Audit Committee's views and endorsement of proposed changes to the Contract Procedure Rules (CPRs) and subsequent submission of those changes to Constitution Committee and ultimately Council for approval and implementation.

2. BACKGROUND

- 2.1 There have been a number of recent changes, constitutionally, statutorily and in relation to new technology, which have impacted on the Council's procurement processes and practices and which have necessitated a review of the Council's Contract Procedure Rules (CPR's). Following this review it has become apparent that a number of changes are required to ensure that the CPR's accurately reflect these new and amended requirements.
- 2.2 To be more specific, details of these recent changes are described below:
- i) Removal of the Contract Scrutiny Committee and the creation of a Sub-Committee of the Audit Committee
 - ii) Introduction of the Public Services (Social Value) Act 2012
 - iii) A variety of changes in the use of technology in procurement processes
- 2.3 Some of these issues were highlighted at the Audit Committee's meeting on 14th June 2012.

3. INTRODUCTION OF THE AUDIT SUB-COMMITTEE

3.1 The role and remit of the Audit Sub-Committee has been agreed by the Audit Committee at its 14 June 2012 meeting. The Sub-Committee is made up of three Members and has the responsibility of:

- i) Receiving and examining tender lists
- ii) Opening and recording tenders
- iii) Periodically reviewing its effectiveness and reporting its findings to the Audit Committee

3.2 The predecessor to the Audit Sub-Committee, i.e. Contract Scrutiny Committee, is referred to on a significant number of occasions in the CPR's and as a result, all of these references require correcting in the document.

3.3 In addition to correcting the above invalid references, a number of elements have been added to the CPR's which relate to the implementation of e-procurement. Whilst the practicalities of these are described later in this report, there are a number of issues where the Audit Sub-Committee has a direct role to play in the e-procurement process. These are described in the following paragraphs:

- i) **Opening of e-tenders** – It is proposed that a change be made to the process of opening tenders to accommodate the new Sub-Committee and the corporate adoption of e-procurement processes.

The proposed opening process entails e-tenders being opened in the presence of the following:

A representative of the Corporate Procurement Team
A representative of the Service area involved in the procurement
The Chair of the Audit Sub-Committee or a nominee of the Chair, at the Chair's discretion

This is a similar process to that which the Chief Solicitor has advised upon for the Cleveland Fire Authority.

Following this opening it is proposed that a report detailing the outcome of the tender opening be compiled and presented to the Audit Sub-Committee for formal receipt and recording in line with its remit.

- ii) **Opening of written tenders** – Although now in the minority, there are some occasions where an e-tender is not a suitable process and a traditional non-electronic process is required.

In such circumstances, it is proposed that the Audit Sub-Committee take responsibility for the manual opening process (supported by Council officers) in line with its remit.

- iii) **Management of e-auctions** – An E-auction is an electronic procurement process which seeks to maximise value for money through creating an ‘event’ or ‘auction’ lasting a period of time at which Bidders are encouraged to submit increasingly low prices in order to win ‘lots’. Due to the dynamic nature of this process, it is potentially problematic to apply the e-tender opening process (described at i) above, given the demands this can make on Audit Sub-Committee Members’ time.

In order to address this, the following process is proposed:

- The Audit Sub-Committee will be advised of the e-auction event dates and times and arrangements made to accommodate any or all Members of the Sub-Committee at the live auction event.
- At an Audit Sub-Committee meeting in advance of the e-auction event, a report will be presented to the Sub-Committee which explains the structure of the e-auction event and the evaluation criteria which will be implemented.
- Following the e-auction event, a summary report will be compiled and presented at the next meeting of the Audit Sub-Committee to ensure the Sub-Committee formally receive and record the outcome of the e auction process.

4. INTRODUCTION OF THE PUBLIC SERVICES (SOCIAL VALUE) ACT 2012

- 4.1 The Public Services (Social Value) Act places a number of statutory obligations on the Council, in relation to certain elements of its procurement practices.
- 4.2 The Act applies to all contracts for services and framework agreements to which the Public Contracts Regulations 2006 (‘the Regulations’) apply, but not call-offs under those frameworks. In real terms this means that the Act only applies to services contracts with a value in excess of the current EU Public Procurement thresholds (currently £173,934 excl. VAT).
- 4.3 The Act does not apply to below threshold contracts or any works or supplies contracts. However, it is likely that ‘mixed’ contracts involving services will be subject to similar analysis as is currently undertaken in terms of the dominant value test.
- 4.4 The Act also includes an amendment to section 17 of the Local Government Act 1988 (exclusion of non-commercial considerations in the case of local and other public authority contracts) which basically

enables the Council to consider non-commercial matters when awarding business, provided this is done in pursuit of the duties imposed by the Public Services (Social Value) Act 2012.

4.5 The obligations placed on the Council in respect of the procurement activities identified above are that Councils must consider the following when they ‘propose to procure or make arrangement for procuring services:

- How what is being proposed to be procured might improve the economic, social and environmental wellbeing of the relevant area (and this is the Authority’s own area (or combined areas if it is a joint procurement) in which it ‘primarily exercised its functions’)
- How, in conducting the procurement process, it might act with a view to securing that improvement (although the Act makes it clear, in order to remain inline with EU law, that anything under this limb must be relevant and proportionate in respect of the proposed contract);
- Whether they need to undertake any consultation about the two limbs of the duty as set out above.

4.6 Unfortunately there is currently no universal definition of ‘social value’ but Social Enterprise UK defines it as follows:

‘It involves looking beyond the price of each individual contract and looking at what the collective benefit to a community is when a public body chooses to award contract. Social value asks the question: ‘if £1 is spent on the delivery of services, can that same £1 be used, to also produce a wider benefit to the community.’

4.7 In other words, what are the additional benefits to the community, be they social, economic or environmental, which can come from this procurement process over and above the direct purchasing of the services?

4.8 In their ‘Public Services (Social Value) 2012 – a brief guide’, Social Enterprise UK provide a case study by way of an example of compliance with the Act. In this example, the London Borough of Waltham included a question in one of their tenders where they asked bidders to demonstrate how their operational model could contribute to the efficiencies and give added value to the service. The response to this question had a value of 10% of the available marks. This question gave bidders the space to set out the additional social impact of their approach, thereby allowing them to score highly on that section and satisfying the requirements of the Act.

4.9 This is a straightforward example and similar to questions the Corporate Procurement Team include in some of their tenders already. On that basis, compliance with the Act should not be unduly difficult.

- 4.10 In terms of the CPR's it is proposed that a new section be included which outlines the Council's approach to addressing the requirements of the Act. This proposed section would include the following:
- i) Reference to the Council's Key Social Values, as described in the Community Strategy
 - ii) Confirmation that the Council will consider the issues outlined in the Act (see 4.5)
 - iii) Confirmation that, where appropriate, procurement processes will include the facility to score added 'Social Value' as part of the evaluation criteria.

5. CHANGES IN THE USE OF TECHNOLOGY IN PROCUREMENT PROCESSES

- 5.1 There are a number of additional proposed changes to the CPR's which revolve around changes in the use of technology.

Details of these changes and proposed amendments are provided below:

5.2 The role of Officers – The Chief Officer/Officer Team

It is proposed that an additional responsibility be added to this section of the CPR's, namely:

- To open electronic tenders

The above is not currently included and given the Council's move to electronic procurement it would be appropriate to make such a change and links with the change proposed in Paragraph 3.3 (i) of this report..

5.3 Public Notice provisions

It is proposed that the requirement for 28 days public notice be amended to 14 days. The rationale for this request is:

- Electronic communications and the wholesale movement of the Council to e-procurement has enabled a faster procurement process (EU procurement timescales are reduced when procurement is undertaken electronically),
- Also, increased availability of opportunity information to suppliers and;
- increased speed in responding to opportunities.

In addition to these changes, there is a central government drive to reduce the time taken in procurement activities and, as we have the technology to support this, we should consider reducing our timescales

in a similar manner to the EU procurement regulations (described above).

5.4 **Reference to the Government Opportunities Portal – Supply2.gov.uk**

The above mentioned Government Portal has ceased to exist. As all tenders are now advertised across the North East via the NEPO Portal there is already significant publicity given to our contract opportunities.

It is proposed that all references to 'Supply2.gov.uk' be removed from the CPR's.

5.5 **British Standards**

It is proposed that references to 'British standards' be widened, in order to accommodate organisations which have different accreditations or adopted other equivalent international standards.

5.6 **Selected Tenderers Lists**

It is proposed that the minimum size of a select list should be four 'persons' where practicable as opposed to the current three. Similarly, it is proposed that a minimum of four 'persons' where practicable are invited to quote in relation to work covered by a select list as opposed to the current three.

The rationale for these proposed changes is that due to the introduction of the Quick Quotes electronic quotation gathering system, the process of quotation gathering has been improved and it is now easier for officers to generate greater competition when securing quotes.

Greater competition should provide improved pricing for the Council.

In addition, the involvement of more suppliers in select list quotations will encourage suppliers to take part in our select list arrangements, on the basis that they will have a greater opportunity to win business once on the list.

5.7 **Bribery Act 2010**

It is proposed to change the reference to the Prevention of Corruption Acts 1889 to 1916 to the Bribery Act 2012 in line with changes in legislation.

6. **RECOMMENDATIONS**

- 6.1 That the Audit Committee considers the proposed amendments to the Contract Procedure Rules.

- 6.2 That the Audit Committee endorses the submission of the draft Contract Procedure Rules with the Committee's views incorporated, to Constitution Committee and ultimately to Council for final approval and implementation.

Christopher Akers-Belcher
Councillor

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4.7

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Our Ref: CEMS/CAB/
Your Ref:

15th June 2012

Nicola Bailey
Acting Chief Executive

Dear Nicola

At a meeting of the Council's Audit Committee held yesterday it was discussed with fellow Committee Members the proposed Mill House redevelopment, which would comprise the potential sale of Victoria Park to Hartlepool United Football Club. As you will be aware a "briefing" meeting is scheduled this coming Monday (18th June, 2012) and it was proposed the calling of an Extraordinary Council meeting on 28th June, 2012.

The Audit Committee as you are aware has as its remit, the obligation to consider the "overall effectiveness" of the Council's corporate governance arrangements, which incorporates risk management and the various systems of internal controls to ensure that the Council acts with propriety in its decision making and does not leave itself open to formal legal challenge or criticism thereby undermining its reputation and standing. Previous reports to the Council's Executive have indicated that the Council has a discretion over disposal of land and that it should generally not proceed with any disposal "*for a consideration less than the best that can reasonably be obtained*" unless prescribed procedures are followed. 'Circular 06/03: Local Government Act 1972' does provide for a general disposal consent, otherwise than through the Secretary of State, in relation to land with a valuation below £2 million. The specific consent of the Secretary of State would not be required where a local authority considers that a disposal "*will help it to secure the promotion or improvement of the economic, social or environmental wellbeing of its area.*" Local authorities should also have regard to their sustainable community strategy, in this regard. A local authority is required to consider whether an asset is surplus to their requirements and it should also secure a professional valuation as to the extent of any "undervalue". The circular also advises that it is prudent to obtain the opinion of an appointed Auditor of proposed action it wishes to take and the Auditor has a related duty to consider whether or not a local authority is acting lawfully, in any particular case.

I am presently unaware, of what, if any, opinion has been volunteered through the District Audit and also the integrity of any valuation upon this particular Council asset. Members of the Committee did recall that the valuation of the "Tanfield" site was considerable. The Council's 'Annual Governance Statement' obligates and aligns the Council's responsibility towards its community in safeguarding assets and disposing only where required in full compliance with any statutory requirements.

It appears that the rental value of some £18,000 has not increased in the last five years and it also appears that the current valuation of the Victoria Ground is around £600,000 and the land adjoining could approximate to more than £1.4 million. It occurs to the Committee that the Council may not be in receipt of a commercially based rental payment, particularly in comparison with other commercial concerns in this locality. Further, a previous offer to purchase the ground in the amount of £50,000 was properly considered to be "derisory"

Through the overall regeneration of this particular area it would seem that Members have been invited to effectively "gift" Victoria Park to facilitate the delivery of the Mill House Master Plan. This is a matter of significant public interest and concern and the local authority through the above mentioned circular owes a "duty" to tax payers to ensure that any disposal does not infringe any statutory requirements, including applicable guidance. Members of the Audit Committee were not convinced that this is necessarily the case. Whilst appreciating that further information and/or advice may become available, not least from the District Auditor, it appears to be somewhat premature for the Council to move to any consideration as to the disposal of this particular parcel of land and consequently upon the successful delivery of the Master Plan for the Mill House area.

I would therefore ask that you give due consideration to the concerns expressed in this correspondence on behalf of Audit Committee, that the same can be relayed back to the Committee for their observations. Furthermore, whilst Members do harbour such concerns I would strongly suggest that and any decisions (or the intimation of such) are not contemplated or otherwise progressed, until some certainty over the propriety of the Council's position has been firmly established.

Yours sincerely

Christopher Akers-Belcher
Chair of Audit

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Our Ref: CEX/NB

26 June 2012

Councillor Christopher Akers-Belcher
101 Westbrooke Avenue
HARTLEPOOL
TS25 5HY

Dear Christopher

Potential Sale of Victoria Park and Hartlepool United Football Club

I refer to your letter of 15 June 2012 highlighting concerns raised by the Councils Audit Committee members in relation to the potential sale of Victoria Park to Hartlepool United Football Club.

I acknowledge the remit of the Audit Committee and the Councils Statutory obligations in relation to S123 Local Government Act 1972.

In relation to the specific points that you raise I would comment as follows:

- 1) By way of good practice we have discussed the potential transfer of land and the wider masterplan with the Audit Commission and they confirm that it is the Council's responsibility to demonstrate it is acting reasonably. With a matter of such public interest the Audit Commission expects the Council to consider advice and to obtain, where appropriate, professional and independent legal, financial and valuation advice to inform their decision and to have a full option appraisal aiming for the lawful, affordable, value for money solution. The Audit Commission has also indicated that they need to remain independent from the Council's decision making process to ensure that in the event of any decisions being challenged they remain able to review the decision made and discharged their statutory responsibilities.
- 2) It is acknowledged that the rental of £18K is less than the current assessment of market value. Both Dale Clarke the Councils Estates Manager and Sanderson Weatherall an independent firm of Chartered Surveyors have as part of reviewing the value of the Council's interest in Victoria Park considered the current rental value to be £25K per annum.

This higher rental value has been used as the basis upon which the assessment of the council's current interest (subject to the existing lease to the football club) has been calculated.

It is important to be aware that the values you quote of £600K and £1.4M have been calculated using different criteria. Currently the Council has a lease to the Football Club with 55 years un-expired subject to terms and conditions within the lease. A key covenant restricts the use to that as 'a football ground facility and club premises for leisure, recreation conference and social purposes all ancillary to the use of the football ground'. The rental has to be assessed using similar comparable football grounds as evidence. In addition the Council's interest is restricted to the site itself not the stands and other structures as these have been largely installed by the football club and are

treated as tenant's improvements for which any value is discounted in terms of assessing the rent.

As I am sure you will appreciate as a result of the restrictions the valuation has to be specific to the football ground and its lease covenants and cannot be compared to 'other commercial concerns in the area'.

The professional advice that I have received from the in house valuers and external valuation on the basis of the current value of Victoria park subject to the existing lease is between £500K & £625K. This takes account of the value of the rental stream during the term plus the value of the reversion at the end of the lease. Importantly from the Audit Committee's perspective the capital value has been derived assuming the rental value of £25K and not the passing rent. As such it assesses the current value not a reduced value as you suggest. Furthermore depending on the outcome of current negotiations if the sale does not proceed the Council can retrospectively review the rent back to the last review date and capture any back rent so overall the Council's finances will not be affected.

In comparison an assessment has been undertaken as to the value of the site assuming the football ground was cleared and the land used for alternate commercial/residential use. This has been assessed currently at a figure of £1.6M less demolition and remediation works. In order to facilitate achieving a higher value, the football club would have to surrender their lease and as such they would need to share in any additional development value as an incentive to terminate their interest. As the football club wish to remain in occupation it is unlikely that this higher value will be achieved but it is important to consider if the land were to be transferred at nil value and the football club subsequently sold the site what would be the likely sale price.

Taking account of the cost of any demolition and remediation work (costs of which need to be fully assessed) together with the normal method of sharing any uplift in value with the tenant the value to the Council on the basis of site clearance and redevelopment for an alternate use would be in the region of £800K.

Safeguards would be put in place in relation to overage clauses and restrictive covenants to ensure that if the land was sold in the future the Council captured any uplift in value at this time and therefore the financial interests of the tax payer would be protected.

The Council as you rightly state has a duty to achieve best value for the sale of its assets but it can, if it so chooses, transfer assets at less than best consideration up to a value of £2M provided it can demonstrate that by so doing it will 'help it to secure the promotion or improvement of the economic, social or wellbeing of its area'.

The Council also has a fiduciary duty to be able to clearly identify the 'benefit in kind' and as part of this process an Economic Impact Assessment has been commissioned from consultants which considers the economic social and well-being issues and provides an external perspective of the relative benefits that the football club bring to the town.

I understand from the meeting that Members did not consider that the 'benefits in kind' highlighted in the study were adequate justification to promote a transfer of the land to the football club at nil consideration. Although the wider regeneration proposals in principle were welcomed, the linkages between the need to transfer the land to the football club and the achievement of the wider proposals for the site were questioned. Additional work by officers was suggested to review the viability and deliverability of the project and explore options to link any transfer of the football club (if this was critical to overall project) to deliverable outcomes which can be justified in terms of the requirements under S123 Local Government Act.

I acknowledge the concerns that you raise and trust that the information as set out above demonstrates the robustness of the valuation approaches.

I also understand the wider concerns and requirements to link any proposed transfer to deliverable quantifiable outcomes that can be assessed in the wider obligations to tax payers in relation to the Council making use of its powers under S123.

I have instructed the Director of Regeneration and Neighbourhoods in conjunction with the Chief Solicitor to further review the Mill House development proposals to further assess the viability and deliverability of the scheme and provide a more detailed assessment of options linked if appropriate to a conditional transfer of the ground for further consideration.

Yours sincerely

Nicola Bailey
ACTING CHIEF EXECUTIVE