

# AUDIT COMMITTEE AGENDA



**21 September 2012**

**at 9.00 am**

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

MEMBERS: AUDIT COMMITTEE:

Councillors Ainslie, C Akers-Belcher, Dawkins, Hall, Shields 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 20 July 2012

**4. MINUTES OF THE AUDIT SUB-COMMITTEE**

- 4.1 To receive the minutes of the Sub-Committee meeting held on 2 July 2012
- 4.2 To receive the minutes of the Sub-Committee meeting held on 30 July 2012
- 4.3 To receive the minutes of the Sub-Committee meeting held on 13 August 2012
- 4.4 To receive the minutes of the Sub-Committee meeting held on 31 August 2012

**5. ITEMS FOR DISCUSSION/DECISION**

- 5.1 Governance and Finance Arrangements Tees Valley Unlimited/Local Enterprise Partnership – *Assistant Director, Regeneration and Planning*
- 5.2 Draft Local Audit Bill – *Chief Finance Officer*
- 5.3 Internal Audit Plan 2013/14 Update – *Head of Audit and Governance*
- 5.4 Approval of 2011/2012 Statement of Accounts – *Chief Finance Officer*

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



# **AUDIT COMMITTEE**

## **MINUTES AND DECISION RECORD**

20 July 2012

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

### **Present:**

Councillor Christopher Akers-Belcher (In the Chair)

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

Officers: Chris Little, Chief Finance Officer  
Noel Adamson, Head of Audit and Governance  
Graham Frankland, Assistant Director, Resources  
Denise Wimpenny, Democratic Services Team

Audit Commission Representative: Diane Harold

### **1. Apologies for Absence**

None

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

None

### **3. Confirmation of the minutes of the meeting held on 16 May and 14 June 2012**

Confirmed

### **4. Matters Arising from the Minutes of the meeting held on 14 June 2012**

In relation to Minute 5 – Role and Remit of the Audit Sub-Committee, the Chair referred to the Committee's request at the last meeting that the Minutes of the Audit Sub-Committee meetings, including the exempt minutes, be distributed to all Members of the Audit Committee. It was agreed that future agendas should include the minutes of the Audit Sub-Committees.

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

The Chief Finance Officer advised that arrangements had been made for a representative from Audit Commission to be in attendance at this meeting to present the content of the Audit Commission's Audit Update report for 2011/12/

The Audit Commission representative submitted a report which provided the Audit Committee with an update on progress made by the Audit Commission in delivering its responsibilities as the Council's external auditors together with an update on the externalisation of the Audit Practice.

The report highlighted key emerging national issues and development which may be of interest to members of the Audit Committee. Details of key questions which the Committee may wish to consider in assessing whether it had received enough assurance on emerging issues were outlined.

The Commission representative highlighted the key messages and salient features included in the report.

### **Decision**

That the report of the Audit Commission, be noted.

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

The Head of Audit and Governance submitted the most recent briefing paper, attached at Appendix A, issued by the CIPFA Better Governance Forum which provided background information and questions relevant to the role of the Audit Committee in relation to Commissioning, procurement and contracting risks.

During the discussion that followed the Head of Audit and Governance and Assistant Director of Resources responded to issues raised by Members. Clarification was provided in relation to the evaluation of contracts process, the key controls in place to minimise risk, monitoring arrangements as well as the professional training available for officers involved in the commissioning, procurement and contracting process.

Members commented on the viability of certain contracts referring to the Mill Housing Master Plan in particular which would be considered under a separate agenda item later in the meeting. In response to concerns regarding the findings referred to in the national report that 50% of contracts were potentially unviable, Members were advised that the purpose of the briefing paper was to assist and remind the Committee and officers of the

key issues and seek assurances that risks had been fully identified, controls were in place to manage the risks and that they were effective in practice.

The Chair reiterated the importance of openness and transparency and ensuring that the correct terminology was utilised when providing and reporting contract information.

### **Decision**

The contents of the briefing paper and the comments of Members, as outlined above, be noted.

## **7. 2011/2012 Financial Report (including the 2011/12 Statement of Accounts) *(Chief Finance Officer)***

To Chief Finance Officer advised that the purpose of the report was to inform Members of the arrangements for approving the Council's Statement of Accounts and provide a copy of the 2011/12 unaudited Statement of Accounts.

The report included the key changes in the accounting arrangements. In previous years Members were required to approve the draft Statement of Accounts prior to audit by the Audit Commission. This requirement had been removed last year. However, Members were still required to approve the audited Statement of Accounts before 30 September and a report would be submitted to Committee on 23 September. The pre-audited Financial report was being presented to the meeting to enable Members to familiarise themselves with the Statement of Accounts and to provide time for Members to ask questions. Should it be necessary to amend the accounts during the course of the audit, any major amendments would be reported to Members.

The Chief Finance Officer outlined the basis for preparing the Statement of Accounts, as set out in Section 3 of the report and highlighted that this document was based on the detailed financial management report submitted during the year. The final outturn strategy had been reported to Cabinet which indicated that in accordance with the amendments made by Council to the constitution regarding the final outturn, the additional underspend of £0.306m had been transferred into the General Fund Reserve. Proposals for using this amount would need to be approved by full Council. It was suggested that any proposed use be considered as part of the 2013/14 budget process.

The Chief Finance Officer advised Members that the outturn strategy was designed to manage the significant financial risks and unavoidable commitments in 2012/13 and future financial years. As this approach earmarked resources for specific unavoidable risks it avoided these issues impacting on the General Fund budget, which would have increased the

level of cuts needed in 2012/13 and future years. The position was therefore reflected in the management accounts and the MTFS report.

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

A detailed analysis of total reserves were included in the report.

The report provided details of how the previously reported outturn position for 2011/12 was reflected in the year end Statutory Accounts. The draft 2011/12 Financial Report would now be audited by the Audit Commission. Following completion of this work the Statement of Accounts and Auditor's Report would be submitted to the Audit Committee in September 2012 to enable Members to approve the Audited Financial Report.

The Chief Finance Officer responded to queries raised by Members in relation to general fund balances, a breakdown of which was included in the report as well as the financial challenges facing schools and the impact on the services provided by the Council.

In response to concerns expressed regarding the significant risks facing the Council as a result of the Government's proposal to localise business rates, the Chief Finance Officer outlined the potential impact on the Council's financial position and indicated that clarification would be provided to Cabinet and Scrutiny Co-ordinating Committee shortly.

### **Decision**

- (i) That the report be noted.
- (ii) That the pre-audit accounts would be subject to independent audit by the Audit Commission and details of any material amendments would be reported to the Committee's September meeting.
- (iii) The Committee noted the opportunity to raise questions/seek clarification of information included in the pre-audit Statement of Accounts in the period up to 23 September 2012 when the Audited Statement of Accounts would be presented to this Committee for final approval.

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

The Head of Audit and Governance presented the report which updated on progress made to date completing the internal audit plan for 2012/13. .

Members were referred to Table 1 of the report which detailed the pieces of work that had been completed and recommendations made. Internal Audit staff had also been involved with the following working groups:-

Information Governance Group  
 Procurement Working Group  
 Performance and Risk Management Group

The Audit Section had received notification for the preparation and supply of data matches from the Audit Commission in relation to the National Fraud Initiative for 2012/13 and were in the process of preparing all notifications of the upload of required data.

Table 2 to the report detailed the audits currently ongoing.

In relation to the LSP/Partnerships audit, the Chair requested that the audit should include the Local Enterprise Partnership in view of the Council's memorandum of understanding with the Enterprise Partnership and Tees Valley Unlimited.

### **Decision**

- (i) That the contents of the report be noted.
- (ii) That the LSP/Partnerships audit should include the Local Enterprise Partnership.

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

The Chief Finance Office referred to the background to the statement issued by CIPFA in relation to the role of the Head of Internal Audit in Local Government, as set out in the report together with the key principles in delivering the authority's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and managing of existing risks, commenting on responses to emerging risks and proposed developments and giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

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

### **Decision**

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

## 10. Proposed Amendments to Contract Procedure Rules (Chair of Audit Committee)

The Assistant Director presented the report which sought the 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.

Details of the recent changes were 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

Members were referred to the role and remit of the Audit Sub-Committee as agreed by the Audit Committee at its meeting on 14 June. The Audit Sub-Committee had a direct role to play in the e-procurement process, which included opening of e-tenders, opening of written tenders and management of e-auctions, details of which were outlined the report.

With regard to e-tenders it was reported that the proposed opening process entailed 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 Audit Sub-Committee or a nominee of the Chair, at the Chair's discretion

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

In relation to written tenders, it was proposed that the Audit Sub-Committee would take responsibility for the manual opening process, supported by Council Officers.

In terms of e-auctions, it was proposed that arrangements would be made to accommodate any or all Members of the Sub-Committee at the live auction event. Reports would be submitted to the Sub-Committee in advance of the auction as well as following the e-auction to provide an update on the outcome.

The report included details of the statutory obligations placed upon the Council following the introduction of the Public Services (Social Value) Act 2012.

Members were referred to the changes in the use of technology in procurement processes, as set out in the report which included the role of Officers, public notice provisions, Government Opportunities Portal Changes, the widening of British Standards and that selected tenderers lists should be 4 persons as opposed to the current 3.

In response to a request for clarification, the Assistant Director outlined the e-tendering process and decision making process in relation to the proposed changes. Some concern was expressed in relation to delivery of any low bids given the current economic climate. The Assistant Director explained that unrealistically low bids were challenged in the procurement process. A number of legal changes would be introduced over time by the Government and via EU Regulations. As an example, the aim was to try to reduce the number of Pre Qualifying Questionnaires (PQQ) and the Government were promoting that anything under £100,000 should not be subject to PQQ. It was highlighted that emphasis was placed on quality of bids and the lowest price would not necessarily secure the contract.

The Chair advised that when the role and remit of Audit Committee was considered by Constitution Committee the issue of balance between price and quality should be considered including the rationale for setting those percentages. A Member queried the discretion of officers in disallowing any abnormally low bids to which the Assistant Director of Resources advised that such discretion was taken if considered appropriate. Discussion ensued on the importance of quality of service provision and assurances were sought that arrangements were in place to ensure work could not be transferred to sub-contractors without authorisation. Members were advised of the powers available to the Council to address any issues of this type.

Following discussion regarding how services were procured and the different levels of procurement, the Committee requested that a report be provided outlining the steps taken prior to seeking invitations to tender.

### **Decision**

- (i) That the proposed amendments to the Contract Procedure Rules be agreed to include the Committee's views, as set out above, and submitted to Constitution Committee and Council for final approval and implementation.
- (ii) That a report be submitted to a future meeting of the Audit Committee outlining the steps taken prior to seeking invitations to tender.

## **12. Mill House Master Plan – Verbal Update** *(Chair of Audit Committee)*

The Chair referred Members to a letter to the Acting Chief Executive and subsequent response, attached to the agenda documentation, relating to the proposed Mill House redevelopment which would comprise the potential sale of Victoria Park. The Committee's views were sought as to whether any further information was required and if they were happy to proceed on the basis of the information currently available.

A Member raised concern that the information available relating to the Mill House redevelopment was unclear and the perception from members of the public was that the Council was gifting the land to the football club which was not the case. Given the sensitive nature of this issue, the Chair emphasised the importance of clarity in terms of terminology used as well as providing background information on the process followed and steps taken to date to include clarification as to who carried out the social and economic evaluation, how they were chosen and who carried out the independent evaluation.

A discussion ensued on a way forward. Members went on to highlight that insufficient financial information had been provided in relation to the proposals. The Assistant Director agreed that the Council did not have sufficient information at this stage to consider the proposals and that the developer had been requested to provide a more detailed financial viability assessment. This could then be properly appraised and considered by Members prior to agreeing a way forward. In light of this, the Committee suggested that the matter should be deferred pending receipt of the financial information.

### **Decision**

That the item be deferred pending receipt of the financial information.

The meeting concluded at 10:15 am.

CHAIR

# **AUDIT SUB-COMMITTEE**

## **MINUTES AND DECISION RECORD**

Monday 2 July 2012

The meeting commenced at 4.15 p.m. in the Civic Centre, Hartlepool

**PRESENT:** Councillor Jim Ainslie (Chair);  
Councillors Keith Dawkins and Linda Shields

**OFFICERS:** Karen Burke, Procurement Category Manager  
Gary Winward, Procurement Officer  
Chris Walker, Senior Legal Assistant  
Vicky Bosley, Democratic Services Officer

### **1. Apologies for Absence**

None

### **2. Declarations of Interest**

None

### **3. Minutes of Contract Scrutiny Committee held on 8 May 2012**

Received

### **4. 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 5** – Specialist Vehicles – Precinct Sweepers Ref 634 - 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.

**Minute 6** – Specialist Vehicles – Welfare Buses Ref 635 - 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.

## **5. Specialist Vehicles – Precinct Sweepers (Ref 634)**

– (*Procurement 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.

## **6. Specialist Vehicles – Welfare Buses (Ref 635) –**

(*Procurement 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.

Four 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.

The meeting concluded at: 4.35 pm

CHAIR

# **AUDIT SUB-COMMITTEE**

## **MINUTES AND DECISION RECORD**

30 July 2012

The meeting commenced at 4.15 p.m. in the Civic Centre, Hartlepool

**PRESENT:** Councillor Jim Ainslie (Chair);  
Councillors Keith Dawkins and Linda Shields

**OFFICERS:** Kate McCusker, Commercial Solicitor  
Brendon Colarossi, Senior Engineer (Construction)  
Sally Scott, Procurement Officer  
Vicky Bosley, Democratic Services Officer

### **7. Apologies for Absence**

None

### **8. Declarations of Interest**

None

### **9. Minutes of the meeting held on 2 July 2012**

Confirmed

### **10. 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 11** – Seaton Carew MA13.1B to Enabling Works Contract Ref: 637 - 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.

## **11. Seaton Carew MA13.1B to Enabling Works**

### **Contract Ref: 637** – *(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.

Four 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.

The meeting concluded at 4.25 pm

CHAIR

# **AUDIT SUB-COMMITTEE**

## **MINUTES AND DECISION RECORD**

13 August 2012

The meeting commenced at 4.15 p.m. in the Civic Centre, Hartlepool

**PRESENT:** Councillor Jim Ainslie (Chair);  
Councillors Keith Dawkins and Linda Shields

**OFFICERS:** Philip Timmins, Principal Estates Surveyor  
Sally Scott, Procurement Officer  
Kate McCusker, Commercial Solicitor  
Vicky Bosley, Democratic Services Officer

### **12. Apologies for Absence**

None

### **13. Declarations of Interest**

None

### **14. Minutes of the meeting held on 30 July 2012**

Confirmed

### **15. 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.

### **16. Start Time of Future Audit Sub-Committee Meetings**

The Chair requested an alternative start time for future meetings of Audit Sub-Committee of 3.00 pm, with the exception of meetings scheduled for 5 November 2012 and 3 December 2012 which were to remain unchanged and start at 4.15 pm.

## 17. 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 18** – Tenders for sale of Former Henry Smith School Site King Oswy Drive, Ref: 631 - 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.

## 18. Tenders for sale of Former Henry Smith School Site King Oswy Drive Ref: 631 – *(Principal Estates Surveyor)*

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.

Two 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.

The meeting concluded at 4.30 pm

CHAIR

# **AUDIT SUB-COMMITTEE**

## **MINUTES AND DECISION RECORD**

31 August 2012

The meeting commenced at 3.00 pm in the Civic Centre, Hartlepool

- PRESENT:** Councillor Jim Ainslie (Chair)  
Councillors Keith Dawkins and Linda Shields
- OFFICERS:** David Hart, Strategic Procurement Manager  
Ursula Larkin, Procurement Category Manager  
Chris Walker, Legal Assistant  
Angela Armstrong, Principal Democratic Services Officer

### **19. Apologies for Absence**

None.

### **20. Declarations of Interest**

None.

### **21. Minutes of the meeting held on 13 August 2012**

Confirmed

### **22. Any Other Items which the Chairman Considers are Urgent**

None.

### **23. 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 24** – A179 Easington Road Roundabout Improvements Ref 641  
- 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.

**Minute 25** – Appointment of a Technical Advisor (Including Procurement Evaluation and Support) Relating to the Procurement of Hartlepool Borough Council's ICT Managed 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.

## **24. A179 Easington Road Roundabout Improvements**

**Ref 641** (*Senior Design Officer* 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.

Three 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.

## **25. Appointment of a Technical Advisor (Including Procurement Evaluation and Support**

(*Strategic Procurement 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.

Eight 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.

## **26. Any Other Confidential Items which the Chairman Considers are Urgent**

None.

The meeting concluded at 3.18 pm

CHAIR

# AUDIT COMMITTEE

21<sup>ST</sup> September 2012



**Report of:** Assistant Director (Regeneration and Planning)

**Subject:** GOVERNANCE AND FINANCE ARRANGEMENTS –  
TEES VALLEY UNLIMITED/LOCAL ENTERPRISE  
PARTNERSHIP

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## 1. PURPOSE OF REPORT

- 1.1 To provide details on the existing governance and financial arrangements for Tees Valley Unlimited [TVU] host of the Tees Valley Local Enterprise Partnership [LEP] with a diagrammatic structure shown in **Appendix 1**.

## 2. BACKGROUND

- 2.1 TVU was formed in 2010, to strategically link the five Local Authorities of the Tees Valley, largely dealing with strategic sub regional issues around transport, housing and economic growth. TVU built on the work and strong partnership arrangements that were established initially by the Joint Strategy Unit, Tees Valley Development Company and subsequently Tees Valley Regeneration which were formed at various stages post 1996 on the completion of the Local Government reorganisation. Stockton Borough Council acts as the Accountable body for TVU.
- 2.2 The current Government introduced LEPs as part of its pro growth agenda and TVU was successful in gaining LEP status largely as a result of the demonstrably strong partnership work within the Tees Valley and the key priorities of the partnership in terms of the potential for significant future economic growth.

## 3. CURRENT GOVERNANCE ARRANGEMENTS

- 3.1 The current governance arrangements take into account the need for each Local Authority area to represent its key priorities, to progress overarching sub regional issues but also to ensure that the private sector is properly represented. The role of the private sector in these arrangements is critical as Government has stressed the importance of LEP's being business led.

The structure has been designed to produce appropriate strategies and subsequent action plans to drive forward economic growth. An overarching Statement of Ambition has been published with two key aims;

- Drive the transition to a high value, low carbon economy.
- Create a more diversified and inclusive economy.

The Statement of Ambition is underpinned by the current Business Plan. The Business plan runs for 15 years and the action plan is designed for a four year implementation period. In addition a detailed investment plan identifies the key regeneration priorities for each local authority subject to securing appropriate financial resources.

3.2 The governance structure is represented in diagrammatic form in **Appendix 1** and the functions of each group is noted below;

- **Leadership Board**

This sits at the heart of the structure with overall responsibility for strategic decision making. The Board is made up of thirteen members including the elected Mayors of Hartlepool and Middlesbrough, Leaders of Stockton Council, Darlington and Redcar, Vice Chancellor of Teesside University, five private sector representatives, Fabrick Housing Group and a private sector chair.

3.3 The following are sub groups of the Leadership Board and have responsibility for specific TVU Business Plan actions. The chair of each group is a private sector Board Member. The membership is a mix of public and private sectors and membership can be altered to suit particular circumstances as the need arises.

- **Place Group**

This group is tasked with taking forward the housing and regeneration agenda.

- **Transport and Infrastructure Group**

This group is tasked with delivering the Tees Valley Infrastructure Plan including the Tees Metro and Tees Valley Bus Network plan to enhance connectivity within the sub region and beyond.

- **Economic Development Group**

This group is charged with taking forward the competitiveness agenda , transition to a low carbon economy, inward investment, indigenous business growth, sector action plans and to influence business support providers to meet the needs of the local economy.

- **Employment, Learning and Skills Group**

Finally this group is responsible for delivering the skills agenda around growth sectors and to secure learning and skills provision to meet the needs of current and future employers.

3.4 To ensure that cross cutting issues are effectively dealt with the above groups are supported by four groups noted below;

- **TVU Investment Panel**

The Investment Panel has responsibility for Business Plan Action 11; Identify, develop and access appropriate investment to unlock and attract economic activity in the Tees Valley. As a result the group helps formulate and deliver the TVU Investment Plan. The group comprises a mix of local authority, private sector and partner organisations.

- **TVU Communications Panel**

The key activity for this Group is to support the delivery of Business Plan Action 10; Develop and implement a marketing and communications plan to promote the Tees Valley as a location for business and enterprise and to raise awareness of the role of Tees Valley Unlimited.

- **Private Sector Representative Panel**

This Group is primarily a consultative forum to engage the private sector to help shape all elements of the Business Plan.

- **LA Leaders And Mayors Panel**

This represents the main political input from the Local Authorities, as well as representation on the Board. The group has responsibility for political clearance and to identify cross cutting themes, coordinate local authority input and identification of appropriate resources.

3.5 Key to delivery of the strategies and action plans is the work of the Task and Finish groups which are set up for specific pieces of work and whose membership is formulated on the basis of specific tasks required. An example of this was the development of the Tees Valley Enterprise Task and Finish Group. The group had responsibility for developing the Tees Valley Enterprise Zone proposal and subsequent Implementation Plan. This proved successful with the Government approving the Tees Valley proposal in first wave of Enterprise Zones. Some success has been achieved in Hartlepool with 3 projects implemented including Propipe and Omega Plastics at Queens Meadow.

## 4. RISK IMPLICATIONS

4.1 The main risks are associated with ensuring that Hartlepool's interests and priorities are incorporated into the various TVU strategies and associated action plans. To minimise risk Hartlepool is strongly represented on the various TVU groups and has been actively involved in the formulation of strategy and importantly has been actively involved in the Task and Finish Groups. Examples of Hartlepool's success through partnership work with TVU are as follows,

- The implementation of the Tees Valley Enterprise Zone initiative where Hartlepool achieved around 33% of the overall Tees Valley land allocation.
- Five successful RGF Round 2 bids totalling approximately £25m out of a total of £40m awarded to Tees Valley.
- The inclusion of Carr/Hopps Housing Market Renewal (HMR) project in the Tees Valley submission for HMR transition funding and the subsequent awarding of £2m out of a total pot nationally of £30m.
- Inclusion of Hartlepool as one of the nationally recognised Centres for Offshore Renewable Engineering (CORE).

## 5. FINANCIAL CONSIDERATIONS

- 5.1 The table below details the overall funding provided by the five Tees Valley local authorities together with Hartlepool's contribution, which comprises part of the Economic Regeneration Team budget. The contribution from each Tees Valley local authority is based on population levels.

### LA Contributions to TVU

	<u>Total 2011/12</u>	<u>Total 2012/13</u>	<u>HBC 2012/13 14.6678%</u>
Core	1,513,547	1,363,896	200,053.54
Business Investment	528,000	502,949	73,771.55
Delivery & Strategy	342,000	328,166	48,134.73
Tourism	179,516	0	0
Community & Safety	19,261	0	0
<b>Total</b>	<b>2,582,324</b>	<b>2,195,011</b>	<b>321,959.82</b>
<b>HBC Contribution</b>	<b>378,776</b>	<b>321,960</b>	<b>Reduction of 15% from 2011/12</b>

## 6. SECTION 17

- 6.1 Regeneration and infrastructure projects are designed and delivered to all appropriate standards including consultation on designing out crime. In addition employability programmes that are developed or influenced through

TVU take into account the need to engage those most removed from the labour market including ex offenders.

## **7. IMPACT OF CHILD/FAMILY POVERTY**

- 7.1 TVU has responsibility for driving forward economic growth on a sub regional basis and the creation of jobs through encouraging private sector investment. The Employment, Learning and Skills Group is tasked with developing and influencing programmes to ensure that economic inclusion of local residents is a key priority.

## **8. EQUALITY AND DIVERSITY**

- 8.1 The Statement of Ambition states that one of its key aims is to create a more diversified and inclusive economy. Equality and diversity are considered in the development of activities and particularly in the design of employability programmes and TVU seeks to influence key partners in this agenda to meet the needs of local residents.

## **9. RECOMMENDATIONS**

- 9.1 That Members receive the report for information.

## **10. APPENDICES AVAILABLE ON REQUEST, IN THE MEMBERS LIBRARY AND ON-LINE**

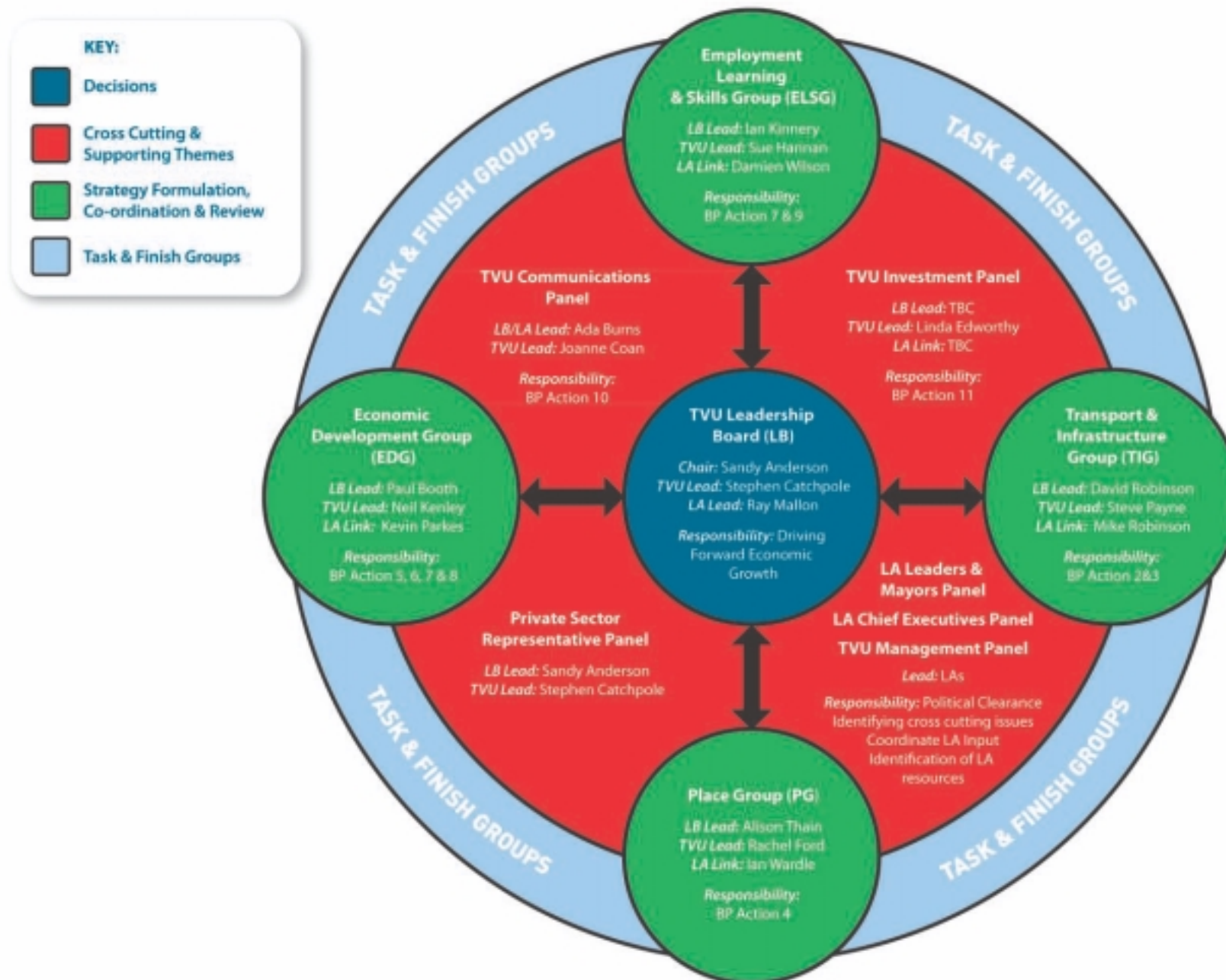
- 10.1 **Appendix 1** – Diagrammatic structure.

## **11. BACKGROUND PAPERS**

- 11.1 None.

## **12. CONTACT OFFICER**

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# AUDIT COMMITTEE

21.09.12



**Report of:** Chief Finance Officer

**Subject:** DRAFT LOCAL AUDIT BILL

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## 1. PURPOSE OF REPORT

- 1.1 To update Members on proposals for new local audit arrangements as published in the Draft Local Audit Bill published by the Department for Communities and Local Government.

## 2. BACKGROUND

- 2.1 In August 2010 the Government announced its intention to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice to the private sector and put in place a new local audit framework. In this framework, local bodies would be able to appoint their own auditors from an open and competitive market.
- 2.2 The draft Local Audit Bill abolishes the existing regime and sets out the proposed new audit framework for local public bodies which were previously covered by the Audit Commission regime. It sets out the process for the appointment of auditors, and the regulatory framework for local public audit. The draft Bill sets out the Government's vision for this new local audit framework, where bodies will be able to appoint their own auditors from an open and competitive market, on the advice of an independent auditor appointment panel. The Bill gives new responsibilities to the Financial Reporting Council, which will act as the overall regulator for auditors; the National Audit Office, which will set the code of audit practice; and the professional audit bodies will also have a role in regulating and monitoring auditors.

## 3. GOVERNMENT PROPOSALS

- 3.1 As well as setting out the Government's proposals, the draft Bill also asks a number of questions, to which the Government has indicated it would welcome responses from any interested parties during the process of prelegislative scrutiny.
- 3.2 The questions were quite technical in nature centered around the winding down of the Audit Commission, eligibility and conduct of

auditors, inspection studies and information and the audit of smaller bodies. One area that the Audit Committee highlighted in previous responses to the consultation on the abolition of the Audit Commission was the process the Government proposed to appoint new external auditors.

#### **4. RESPONSE TO THE DRAFT BILL**

- 4.1 Given the short timescale for response it was not possible to provide a report to the Audit Committee prior to the deadline for response the Government set. It was therefore decided that following consultation with the Chair of the Audit Committee and his subsequent agreement, a response would be sent as agreed by the Chair and reported to the full Audit Committee for information at its next meeting.
- 4.2 The letter sent to the DCLG is attached as Appendix A. The letter reflects on issues previously raised by the Audit Committee in relation to the role of the independent auditor panel in the appointment process and how this proposed role fits in with current governance arrangements already in place at local councils.

#### **5 RECOMMENDATION**

- 5.1 It is recommended that Members note the contents of the letter attached as Appendix A to the report and that members are kept fully apprised of any future developments in relation to the provision of local audit arrangements.

#### **6. BACKGROUND PAPERS**

- 6.1 Draft Local Audit Bill.

#### **7. CONTACT OFFICER**

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15.08.12

Future of Local Audit  
Department for Communities and Local Government  
3/J5  
Eland House  
Bressenden Place  
London SW1E 5DU

Dear Sir/Madam

### **Response to Draft Local Audit Bill.**

Please find below general comments regarding the proposals outlined in your recent Draft Local Audit Bill document.

As I have outlined in previous responses to your consultation, we accept that the role of the Audit Commission transformed from its original remit of traditional external auditor, giving an opinion on the financial affairs of the audited body, to play a much more all encompassing role giving views on corporate performance management and area assessments. This inevitably led to a greater administrative burden placed on the Council in terms of the administrative resource it needed to provide the Audit Commission with all the information it demanded to enable it to fulfil its new role. The scaling back of this requirement is to be welcomed.

The Governments chosen course to rectify this issue however, does raise a number of concerns that we believe need to be addressed.

We agree with the Local Government Association stance that it is simply not appropriate for the NAO to undertake studies to identify improvement that may be made by local authorities in the economy, efficiency and effectiveness with which they use their resources. The sector itself is better suited to do this, working with the LGA. Therefore we believe that this proposed new power described in section 2) above (Clause 94(1)(3)(b)) should be deleted from the bill.

The consultation proposes the setting up of an independent auditor appointment panel to advise the Council on the future appointment of external auditors with a majority of independent members of the public to both chair and sit on this panel. Given the constitutional arrangements of a mayoral authority we believe that non executive back bench

members are best placed to play this independent role as they have the knowledge of governance arrangements that are in place at the Council.

The need for the appointment and remuneration of an independent panel of the public is questioned when current arrangements in respect of Audit Committees could adequately undertake this role without additional expense whilst retaining independence from the executive. We believe that Local Authorities should be given the opportunity to decide whether existing governance arrangements in place could adequately perform the role of the panel.

In summary we agree the role of the Audit Commission needed to be reviewed but we believe that due to the nature of the proposed appointment process these proposals do not in fact lessen the administrative burden placed on local authorities.

Yours faithfully

**Councillor Christopher Akers-Belcher**  
*Audit Committee Chair*

# AUDIT COMMITTEE

21.09.12



**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
Clavering Primary	Ensure school finance and governance arrangements are in line with best practice.	- The auditor will undertake all required testing of the recruitment process once the process has been completed and an appointment made by the school.	Y
		- CRB clearances are obtained for the governors identified.	Y
		- Payments to staff should be kept to a minimum and where online purchases are being made on behalf of the school, the school purchase card is utilised.	Y

## 5.3

Audit	Objectives	Recommendations	Agreed
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.	<ul style="list-style-type: none"> <li>- CRB list of disclosure numbers and expiry dates is to be kept up to date at all times.</li> <li>- Chatham's inventory should hold sufficient details i.e. serial numbers etc. Annual stock checks should be completed.</li> </ul>	Y  Y
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.	- The Chief Finance Officer should determine what level of assurance is required from Northgate regarding the restoration of back ups and ensure that this equates to the level of assurance currently provided or request further assurance (or assurance more frequently) if this is needed.	Y
Controcc	Processes in place ensure that there is sufficient control over data input (including amendments) to ensure that it is accurate, complete and reliable.	<ul style="list-style-type: none"> <li>- The access levels for authorising Care Package Line Items should be reviewed to ensure that these are set at an appropriate level.</li> <li>- Assurance should be provided that leavers would be identified through the removal of access to the network, if this is not the case appropriate controls should be put in place to ensure that only current staff have access to Controcc. In addition regular reviews of access should be undertaken to ensure that an individual has the correct access for their role and that an appropriate division of duties is being maintained.</li> <li>- Without a division of duties being enforced by the system controls it is recommended that a separate review is undertaken of those transactions that are input and authorised by the same individual. Access to authorise transactions within the Carefirst system should be reviewed to ensure that it is set at an appropriate level.</li> </ul>	Y  Y  Y
Holy Trinity Primary	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> <li>- A register of business interests (including 'nil' returns) should be maintained for all governors and updated on an annual basis. The schools should also consider requesting those staff who can influence purchasing decisions to complete similar declarations.</li> <li>- The Governing Body should formally adopt a scale of charges for wraparound care which should be reviewed on an annual basis.</li> <li>- Independent checks to ensure that</li> </ul>	Y  Y  Y

## 5.3

Audit	Objectives	Recommendations	Agreed
		<p>unauthorised software has not been installed on machines and that the number of software licences retained agrees to the software loaded onto machines should be undertaken. Such exercises should be undertaken on a regular (annual) basis.</p> <p>- All staff with access to IT systems should complete a data protection form of undertaking.</p>	Y
English Martyrs School	Ensure school finance and governance arrangements are in line with best practice.	<p>- Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending.</p> <p>- The school should consider reviewing arrangements for collecting and banking income to enable adequate income records to be maintained. Such records should record all income received by the school, the date on which it was banked and entered on to the school's financial system.</p> <p>- Inventory records should be brought up to date to include all items of equipment costing in excess of £500 or of a portable and attractive nature. Stock checks should be undertaken on an annual basis. The person undertaking the stock take should be independent of the day to day maintenance of the inventory records.</p> <p>- Records should be maintained by the school of all software loaded onto desktop machines / laptops etc. Regular software audits should be undertaken by the school to ensure that unauthorised software has not been installed on machines and that the number of software licences retained agrees to the software loaded onto machines.</p> <p>- The Governing Body should formally adopt the model publication scheme which outlines the information it will routinely make available to the public.</p> <p>- The school's information security policy framework should be updated to include essential information such as:</p> <ul style="list-style-type: none"> <li>• password management;</li> <li>• clear desk policy;</li> <li>• encryption of mobile devices;</li> <li>• secure handling of documents / IT equipment etc.</li> </ul> <p>The policy framework should clearly detail disciplinary arrangements in the event policies are breached.</p> <p>- The school should consider reducing the number of private funds in order to reduce the administrative burden.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

## 5.3

Audit	Objectives	Recommendations	Agreed
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.	<ul style="list-style-type: none"> <li>- For future advertisements income generated should be collected prior to printing the leaflets.</li> <li>- Invoices raised and income due to the authority should be reconciled to ensure all income due is paid and received.</li> <li>- The roundabout contract should be reviewed on a regular basis.</li> </ul>	Y  Y  Y
Bribery Act	Ensure adequate arrangements are in place in order to comply with the Bribery Act.	<ul style="list-style-type: none"> <li>- The Anti-Fraud and Anti-Corruption Policy and other associated literature should be updated to reflect the new Bribery Act.</li> <li>- Guidance on the Bribery Act should be provided to Departmental Management Teams along with a request that a review of activities be undertaken across each department to identify potential bribery risks. Such reviews should be documented to provide evidence that an assessment of risks across all areas has been undertaken and appropriate strategies / procedures have been developed to manage such risks.</li> <li>- Following an assessment of risk areas, training / awareness exercises should be undertaken to ensure that staff within such areas are aware of their responsibilities with respect to anti-bribery procedures. Anti Bribery measures should be included in employee induction training and refreshed periodically by communicating relevant documentation to all employees by the Council intranet, email and other relevant media.</li> </ul>	Y  Y  Y
Fens Primary	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> <li>- The school are to provide the relevant documentation to enable the testing to be completed for the unsuccessful applicants relating to the Classroom Teacher post.</li> <li>- Staff mileage should be claimed via the corporate payroll mileage claim system. The school should also obtain evidence that staff have business use insurance cover.</li> </ul>	Y  Y
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.	<ul style="list-style-type: none"> <li>- 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.</li> <li>- The classification policy should be reviewed and new classification scheme be piloted on high risk areas. Once the scheme has been finally approved this should be distributed to all staff and training provided where required.</li> </ul>	Y  Y
Asset Register	Adequate arrangements are in place for the transfer	No Recommendations	

## 5.3

Audit	Objectives	Recommendations	Agreed
	of the data on the councils current Fixed Asset Register to IPF software.		
Highways Capital Grant	Ensure grant spent in line with terms and conditions.	No Recommendations	
St Josephs Primary	Ensure school finance and governance arrangements are in line with best practice.	- In order to demonstrate that the Governing Body is providing a 'critical friend' role, minutes of the Finance and General Purposes Committee should include sufficient detail. The school may consider adopting the same format as those minutes used for recording full Governing Body meetings. Clerking arrangements should also be reviewed and in appointing a clerk to the committee, consideration should be given to part 4 of the Statutory Guidance on the School Governance (Procedures) (England) Regulations 2003 which states that the whilst the Headteacher cannot be a clerk, a governor can be appointed.	Y
		- Governors should be provided with copies of budget monitoring statements produced from SIMS. Copies of such reports should be retained with minutes of meetings.	Y
		- The school should follow HBC Contract Procedure Rules when awarding contracts for services in excess of defined value. Copies of all quotations received should be retained in a secure manner.	Y
		- Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending.	Y
		- The school should have an ICT strategy in place which provides direction in the use of ICT resources in the areas of learning, teaching and administration. The strategy should include analysis of the actions to be taken, timescales and associated resources to deliver the school's vision	Y
		- The register of software licences held should be updated with details of checks undertaken, recording date of checks and person undertaken the exercise. Discrepancies between records held and actual software loaded onto machines should be investigated and appropriate action taken.	Y
		- The school should consider purchasing the SIMS in the classroom service provided by Northgate to ensure that SIMS data is backed up in a secure manner and subject to regular testing.	Y

## 5.3

Audit	Objectives	Recommendations	Agreed
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.	- All documentation (Onset Assessments, Intervention Plan and associated reviews) should be subject to independent quality assurance checks by Senior Managers. Such checks should be evidenced by inputting the details on the contacts screen of Careworks.	Y
		- All post court procedures should be subject to quality assurance checks to ensure that all relevant plans are developed and meet necessary standards. Such reviews should be recorded on Careworks.	Y
		- A formal benchmarking exercise should be undertaken to enable the service to compare itself to similar organisations. Results should be presented to the Management Board for consideration.	Y

3.2 In order to continually improve the Internal Audit Service a review of the current process of reporting was carried out. In order to address areas for improvement the following changes to current reporting arrangements have been undertaken:

- Instead of Internal Audit providing recommendations to be agreed, the draft report will include a list of risks currently faced by the client in the area audited. It will be the responsibility of the client to complete an action plan with details of the actions proposed to mitigate those risks identified.
- Once the action plan has been provided to Internal Audit, it will be the responsibility of the client to provide Internal Audit with evidence that any action has been implemented by an agreed date. The level of outstanding risk in each area audited will be reported to the Audit Committee.

3.3 The benefits of the new arrangements are that:

- Ownership of both the internal audit report and any resulting actions lie with the client. This reflects the fact that it is the responsibility of management to ensure adequate procedures are in place to manage risk within their areas of operation. The new approach is much more focussed on risk and will make managers more risk aware in the performance of their duties.
- Greater assurance is gained that actions necessary to mitigate risk are implemented. Less time is spent by both Internal Audit and management in ensuring audit reports are agreed. Greater breadth of assurance is given to management with the same Internal Audit resource. The approach to risk assessment mirrors the corporate approach to risk classification as recorded in covalent.

## 5.3

- 3.4 All audits for 2012/13, other than schools, have been undertaken using the new process with management embracing the changes and compiling their own action plans to mitigate risks identified. Table 2 below summarises the assurance placed on those audits completed using the new process. More detail regarding each audit and the risks identified and action plans agreed is provided in Appendix A.

Table 2

<b>Audit</b>	<b>Assurance Level</b>
Energy Management	Reasonable
Early Retirement/ Voluntary Redundancy Policy	Reasonable
Agency Worker Regulations	Reasonable
Free School Meals	Reasonable

- 3.5 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.
- 3.6 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.
- 3.7 Table 3 below details the audits that were ongoing at the time of compiling the report.

Table 3

<b>Audit</b>	<b>Objectives</b>
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.
Insurances	Ensure adequate cover is provided efficiently and effectively.
Manor College	Ensure school finance and governance arrangements are in line with best practice.
Information Security Policy	Assess the risks faced by the Council of breaches of security, particularly losing data and ensuring that appropriate mitigating strategies are in place to minimise those risks.
Rossmere Primary	Ensure school finance and governance arrangements are in line with best practice.

**5.3**

Computer Audit – Environmental Controls	Ensure the following areas are adequately controlled: Physical entry controls, Siting and protection of equipment, Maintenance of equipment, Third party usage.
Building Maintenance Protocols	Ensure time recording procedures are adequate.
Risk Management	Ensure arrangements are in place for identifying, evaluating, monitoring and reporting on the risks identified and the arrangements in place for mitigating the risks where this is required.
Manor College	Ensure school finance and governance arrangements are in line with best practice.
Procurement	Ensure adequate procedures are in place to deliver the procurement function.
Continuous Audit	Ongoing testing of fundamental systems.
St Peters Elwick School	Ensure school finance and governance arrangements are in line with best practice.
Localism Act	Arrangements are in place to ensure compliance with requirements.
Owton Manor Primary School	Ensure school finance and governance arrangements are in line with best practice.
Hart Primary School	Ensure school finance and governance arrangements are in line with best practice.
Troubled Families	Audit testing focussed on governance arrangements established to deliver the programme and manage performance, the analysis of data and compilation of lists of troubled families, data security, and the development of procedures to deliver services and report outcomes.
Fraud Awareness Training	Investigate the provision of corporate fraud awareness training.
High Tunstall School	Ensure school finance and governance arrangements are in line with best practice.
Dyke House School	Ensure school finance and governance arrangements are in line with best practice.

- 3.8 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**

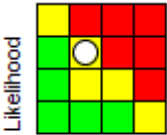
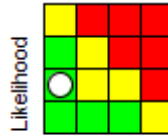
- 6.1 Noel Adamson  
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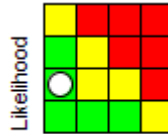
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## 5.3

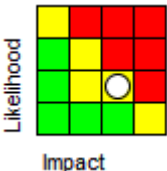
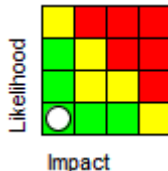
## Appendix A

Audit	Objective			Assurance Level
Free School Meals	To ensure free meals are provided in line with legislative requirements.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Census Regulations are not adhered to resulting in incorrect pupil premium.		 <p>Likelihood</p> <p>Impact</p>	Liaison is taking place with the other Tees Valley Authorities to change working arrangements, however, this is a long standing practice and is proving difficult to change. There are a small number of cases affected by this.	 <p>Likelihood</p> <p>Impact</p>



Audit	Objective			Assurance Level
Early Retirement/ Voluntary Redundancy 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.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Payments may be miscalculated and any debts owing to the Authority are not deducted prior to payment being made resulting in a loss of income.		 <p>Likelihood</p> <p>Impact</p>	HR Business Partners will provide a report with recommendations to the Corporate Management Team Support Group for a view on whether or not to include adjustments to the redundancy payment during the notice period and to determine future actions. Once the decision has been made by Corporate Management Team Support Group, HR staff will be	 <p>Likelihood</p> <p>Impact</p>

### 5.3

		informed of the decision and the procedure that needs to be followed. When the Reorganisation & Redundancy policy is updated this part of the procedure will be included in the policy and then ratified via the relevant avenues (i.e. Single Table, CMT and Portfolio).	
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Audit	Objective			Assurance Level
Agency Worker Regulations	Ensure compliance with the agency workers legislation.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
The Council does not comply with the requirements of the Agency Worker Regulations resulting in payment of financial compensation this will be a minimum of 2 weeks pay but there is no maximum, if anti-avoidance practices have been determined the penalty is a £5000 fine. There are the added risks of tribunal costs being incurred and adverse publicity.			<ol style="list-style-type: none"> <li>1. A Management Newsletter will be issued informing Managers of the Day 1 and 12 week requirements, this will also provide a link to the Agency Worker User Guide.</li> <li>2. The Terms and Conditions information that is sent to Contract Agencies will be sent to Non Contract Agencies - these will be identified from the work undertaken during this audit and on an ongoing basis through use of the supplier alerts that the Procurement Unit receives when a new supplier is requested.</li> <li>3. The Agency Worker User Guide will be updated to include information on the Agency Worker Regulations.</li> <li>4. Business Partners will raise awareness of the revised user guide at C&amp;A and R&amp;M CMT meetings - Business Partners Responsibility</li> </ol>	

### 5.3

<p>The Council does not comply with the requirements of the Agency Worker Regulations resulting in payment of financial compensation this will be a minimum of 2 weeks pay but there is no maximum, if anti - avoidance practices have been determined the penalty is a £5000 fine. There are the added risks of tribunal costs being incurred and adverse publicity.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>The actions identified in ISS1 will also assist to mitigate the risks in relation to Day 1 requirements, in addition the terms and conditions will be updated to include Day 1 requirements. Clarification of the difference between consultants and agency will be undertaken - this will be added to the management new sletter and user guide - Wally Stagg is responsible officer for this part of the action.</p>	 <p>Likelihood</p> <p>Impact</p>
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Audit	Objective	Assurance Level		
Energy Management	To ensure energy payments made are accurate and timely.			Reasonable
Risk Identified	Risk Level prior to action implemented	Action Agreed		Risk Level after action implemented
No outstanding risk identified	N/A	N/A		N/A

# AUDIT COMMITTEE

21 September, 2012



**Report of:** Chief Finance Officer

**Subject:** APPROVAL OF 2011/2012 STATEMENT OF ACCOUNTS

## 1. PURPOSE OF REPORT

1.1 The purposes of this report are to: -

- i) present the Audit Commission's Annual Governance Report; and,
- ii) enable Members to approve the final 2011/2012 Statement of Accounts.

## 2. BACKGROUND

2.1 This Committee were presented with the draft accounts on 19<sup>th</sup> July 2012. The July 2012 report indicated the draft Statement of Accounts would be subject to review by the Audit Commission. The Audit Committee would then need to approve the final accounts by 30<sup>th</sup> September, 2012.

2.2 The July report reminded Members that as the timescale for completing the audit process by the end of September is tight that if they had any questions on the draft Statement of Accounts they should raise these issues during July and August. This would enable any issues to be addressed before the September meeting of the Audit Committee. For Members' information no issues have been brought to my attention by Members of the Committee.

2.3 The July report also advised Members that the Statement of Accounts reflects the provisional 2011/2012 Outturn Strategy approved by Council in February, 2012 and the final 2011/2012 Outturn Strategy approved by Cabinet in June, 2012. This strategy allocated one-off benefits to manage one-off risks.

### **3. ANNUAL GOVERNANCE REPORT**

3.1 The principle purpose of the Annual Governance Report is:

- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the Auditor and those charged with governance;
- to share information to assist both the Auditor and those charged with Governance to fulfil their respective responsibilities; and,
- to highlight opportunities for improvements to the Authority's financial statements/processes.

3.2 The Annual Governance report is attached at Appendix A. This document is self explanatory and Members are asked to consider this document before approving the Statement of Accounts. The Auditor will attend your meeting to present this report and to answer any questions from Members.

3.3 Key positive issues reported in the Annual Governance Report include:

- i) the audit opinion on the financial statements which is an unqualified opinion on the accounts (subject to clearance of residual work)
- ii) an unqualified Value for Money conclusion stating 'the Council has again managed the significant financial challenges it has faced and has successfully delivered planned savings and efficiencies'.

### **4. FINAL 2011/12 STATEMENT OF ACCOUNTS**

4.1 The audit identified no material errors in the financial statements and only a few disclosure errors. There were only two errors totalling £1.3m that would impact on reserves that I propose not to correct as the Council has specifically set aside funds for these liabilities within Earmarked Reserves and the auditor does not consider these to be significant. The auditors report states 'this positive message reflects the work the finance team have done this year to improve the quality of the financial statements'.

4.2 A small number of errors were identified by the Auditor during the audit and I have agreed to amend the Accounts to reflect the issues detailed in Appendix 3 of the Annual Governance Report. These errors were amended in the disclosure notes and did not impact upon the primary statements.

4.3 The Auditor also identified a number of other proposed changes which I am recommending are not implemented as these issues are not

material and therefore do not impact on the position reported in the Accounts, or the level of General Fund Balances.

- 4.4 These issues and the reason I am proposing they are not implemented are detailed in the table below and also the Letter of Representation attached at Appendix B to this report. The details below have been discussed with the external auditors and they will issue an unqualified opinion on the basis of the information provided in the Letter of Representation. Members need to formally consider these issues and my recommendation that these issues do not need to be amended.

Proposed changes not amended as detailed in Appendix 2 of the Annual Governance Report		
	Issue not Amended	Reasons for not Amending
1.	Omitted provision in respect of land remediation at the former Leathers chemical Site.	The Council has set aside £0.634m in an Earmarked Reserve as part of the One Off Strategic Costs identified in the Medium Term Financial Strategy. The transfer will be actioned in 2012/13.
2.	Omitted provision in respect of Mutual Municipal Insurance claims.	The monies are already set aside within the Councils Insurance Fund Earmarked Reserve. The transfer will be actioned in 2012/13.
4.	Double- counting of Property, Plant and Equipment (PPE) boiler component – Mill House Leisure Centre. £0.095m	As this amount is not significant in relation to the overall value of Mill House Leisure Centre of £7.776m the accounts have not been amended.
5.	Misclassification of £0.659m between the line heading 'government grants' and 'other operating expenditure' within the table showing the directorate income and expenditure for 2010/11. Net nil impact.	This has not been adjusted for as it is not considered significant and has no impact upon net expenditure disclosed.
6.	Brought forward error from 2010/11: minor misclassification of £0.082m between two categories. Asset classified as Operational instead of Investment Property	As this amount is not significant in relation to the overall value of Investment Property of £14.532m the accounts have not been amended.

## 5. CONCLUSION

- 5.1 The Audit of the 2011/12 Accounts is now complete and there has been no change in the reported level of Earmarked Reserves or General Fund Balances.
- 5.2 The Audit review has identified some minor errors in the disclosure notes which have been actioned in the revised Statement of Accounts presented for your approval.

- 5.3 The Auditors Annual Governance Report details the specific issues which the Committee need to consider before approving the Statement of Accounts. These issues are detailed in the recommendations to this report.

## **6. RECOMMENDATIONS**

- 6.1 It is recommended that Members: -

- i) Consider the matters raised in the Audit Commission's Annual Governance Report detailed in Appendix A;
- ii) Note the adjustments to the financial statements set out in Appendix 2 of the Audit Commission's Annual Governance Statement
- iii) Approve the reasons I have detailed in the Letter of Representation (Appendix B) to this document for not amending the Statement of Accounts to reflect the unadjusted misstatements in the accounts;
- iv) Note that the Chairman will sign the Letter of Representation attached at Appendix B;
- v) Approve the final 2011/12 Statement of Accounts attached at Appendix C.

## **7 CONTACT OFFICER**

**Chris Little  
Chief Finance Officer  
Civic Centre  
Victoria Road  
Hartlepool  
TS24 8AY**

**Tel 01429 523003**

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# Annual governance report

Hartlepool Borough Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

I expect to issue an unqualified audit opinion. The Council produced the financial statements by the deadline and to a good standard.

My audit identified no material errors in the financial statements and only a few disclosure errors. There are only two errors that would impact on reserves which management has not corrected but I do not consider these to be significant. These are two omitted provisions totalling £1.3m which the Council has not adjusted for because the funds have been specifically set aside for these liabilities within earmarked reserves. This positive message reflects the work the finance team have done this year to improve the quality of the financial statements.

## Value for money (VFM)

I expect to conclude that I am satisfied you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Overall, the Council has again managed the significant financial challenges it has faced and has successfully delivered planned savings and efficiencies. In the short-term, the Council is facing added potential changes to governance arrangements. Other issues include welfare reform, business rates localisation, new public health responsibilities and the need to deliver further savings and efficiencies. It is more important than ever that Members and officers work together effectively to ensure:

- the day-to-day business does not suffer;
- governance arrangements, in particular financial governance arrangements, work effectively and efficiently; and
- maintaining the momentum on achieving the wider-reaching changes needed to address the projected budget deficit.

The Council is aware that achieving sustainable efficiencies will become harder and require some difficult decisions.

# Before I give my opinion and conclusion

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

## Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. I am aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
One member of staff on my team has a close relative who also works for one of the Council's schools in a non-finance position.	This member of staff will not undertake or review any work relating to the following systems: payroll and the Schools Information Management System.
Another member of staff, based in the North-East, has declared a close personal relationship with a Member.	I have put in place appropriate safeguards for the work that this member of staff has carried out.

## I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3); and
- approve the letter of representation (appendix 4), on behalf of the Council before I issue my opinion and conclusion.

# Financial statements

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

## **Opinion on the financial statements**

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

## **Uncorrected errors**

I have detailed the small number of uncorrected errors at appendix 2. These include two omitted provisions totalling £1.3m which the Council has not adjusted for because they are not material and funds have been specifically set aside for these liabilities within earmarked reserves.

## **Corrected errors**

The small number of disclosure errors identified during my audit and corrected by management in the revised financial statements are summarised at appendix 3. There are no corrected errors which impact on the general fund balance or earmarked reserves.

## **Significant risks and my findings**

I reported to you in my January 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 2 I report to you my findings against each of these risks.

Table 2: **Risks and findings**

Risk	Finding
<p><b>IAS 19 and Pensions</b></p> <p>The Council must include pension assets at fair value using the revaluation method as described in IAS 19. Pension assets (and liabilities) can be subject to significant volatility and require annual valuations. The disclosures in the financial statements involve the use of the scheme Actuary, as the Council's expert, and include significant estimates.</p>	<p>I evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary.</p> <p>I assessed the controls over the estimation uncertainties and made a minor recommendation to officers that they improve their controls over the agreement and review of actuarial assumptions.</p> <p>I also agreed the pension figures from the Actuary's report to the financial statements and checked the narrative disclosures were consistent with requirements.</p> <p>My testing has not identified any significant issues to bring to your attention.</p>
<p><b>Management override of controls – fraud risk.</b></p> <p>Auditing standards state that management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>While the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in <i>all</i> entities and is therefore a significant risk of material misstatement because of fraud.</p>	<p>My response to this risk was covered by existing planned testing covering:</p> <ul style="list-style-type: none"> <li>■ general ledger journal adjustments;</li> <li>■ consideration and review of material accounting estimates;</li> <li>■ consideration and review of any unusual or significant business transactions; and</li> <li>■ consideration of any other local factors.</li> </ul> <p>My testing has not identified any significant issues to bring to your attention.</p>

## Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have no matters I wish to report.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have only one point I wish to highlight to you. This is in respect of the reconciliation between the statutory accounts and the management accounts shown in the explanatory foreword of the statutory accounts. The reconciliation was obtained and reviewed during the audit but should be available at the start of the audit.

I have no other matters I wish to report.

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. I have not yet completed the procedures specified by the National Audit Office. I expect to complete my work by 21 September.

# Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my 2011/12 Audit Plan (January 2012) I did not identify any significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria below, including the findings of my work.

I intend to issue an unqualified conclusion stating I am satisfied you have made proper arrangements to secure economy, efficiency and effectiveness in the use of resources. I include my draft conclusion in appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Findings
<b>1. Financial resilience</b>  The organisation has proper arrangements in place to secure financial resilience.  <b>Focus for 2011/12:</b>  The systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<b>Criterion met.</b>  The Council's governance arrangements have recently undergone significant change, following the all-out elections in May 2012 as well as ward boundary changes leading to a significant reduction in members from 47 to 33. The Cabinet, chaired by the Mayor, remains responsible for developing the Council's medium term financial strategy, with scrutiny from other members, including the Scrutiny Coordinating Committee, prior to the budget being approved by the full Council.  The Council has worked hard to deliver a sustainable Medium Term Financial Strategy (MTFS) for 2012/13 and beyond and is aware of the challenges ahead.  As part of the refresh of the 2012/13 MTFS, the Council has reviewed future risks and identified one-off future commitments of £14m. The main items relate to forecast redundancy and early retirement commitments from reducing the revenue budget in 2012/13 and the following two years, plus the costs of completing housing market renewal schemes. The strategy set aside resources of £9.5m in the 'Strategic one-off reserves' towards these risks from a combination of reviewing reserves and in-year managed savings in 2011/12. The remaining costs of £4.5m are to be funded from capital receipts over the next 2 years.

Criteria	Findings
<p><b><i>Overall, the Council has again managed the significant financial challenges it has faced and has successfully delivered planned savings and efficiencies with some savings achieved ahead of target.</i></b></p>	<p>A net contribution to reserves of £8.8m was recorded for 2011/12. As at 31 March 2012, the Council has reserves of £49.988 million, with earmarked reserves of £37.848 million and General Fund balances of £5.372 million (excluding schools balances of £6.768 million).</p> <p>The Chief Finance Officer has regularly reported to Members changes to projections, funding streams and budgeted out-turns to keep members up-to-date during a difficult financial year. The positive financial out-turn for 2011/12 means the Council has positioned itself well for future challenges. For 2012/13, the Chief Finance Officer may wish to review the format of quarterly financial reports to Cabinet to ensure they provide sufficient clarity and consistency.</p> <p>In the short-term, the Council is facing further potential changes with a referendum on governance arrangements, further consideration of the operation of the current number and scope of committees and a decision on the Chief Executive role.</p> <p>These changes will be on top of the existing challenges of dealing with:</p> <ul style="list-style-type: none"> <li>■ changes to welfare reform;</li> <li>■ business rates localisation;</li> <li>■ new public health responsibilities from April 2013; and</li> <li>■ the further savings and efficiencies required along with any agreed tri-borough collaboration arrangements.</li> </ul> <p>It is more important than ever that members and officers work together effectively to ensure:</p> <ul style="list-style-type: none"> <li>■ the day-to-day business does not suffer;</li> <li>■ governance arrangements, in particular financial governance arrangements operate effectively and efficiently; and</li> <li>■ maintaining the momentum on achieving the wider-reaching changes needed to address the projected budget deficit.</li> </ul>

Criteria	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p><b>Focus for 2011/12:</b></p> <p>The prioritisation of resources within tighter budgets, for example, by achieving cost reductions and by improving efficiency and productivity.</p> <p><b><i>Efficiency savings and other cuts in 2011/12 totalled £10 million. The Council has made progress in taking action to achieve the required savings. Looking ahead, the Council is aware that achieving sustainable efficiencies will become harder and require some difficult and bold decisions.</i></b></p>	<p><b>Criterion met.</b></p> <p>The Council has continued with its service transformation programme in 2011/12, widened to consider medium and long-term options for service delivery which will deliver both the efficiencies required and sustainable outcomes.</p> <p>In the context of considering efficiencies, as reported in previous years, the Council remains aware that its costs are high in some areas. It is addressing this by service reviews and wider considerations of how it works – although the latter can have a lead-in time to deliver results. Work is continuing to explore the scope for savings by joint working arrangements with other local authorities, starting with Adult Social Care and Central Support services. Part of the refresh of the Medium Term Financial Strategy earlier in the year included plans to outsource ICT and Revenues and Benefits. The Council is now considering alternative options to achieve efficiencies and savings and has most recently approved an ICT procurement exercise.</p> <p>A strength of the Council has been its approach to ensuring planned savings are actually delivered by ensuring the relevant budget is ‘defunded’ once a saving has been formally agreed.</p> <p>The Council estimated during 2011/12 that it needs to make more cuts of about £9.4 million before the start of 2014/15 as well as £5.7 million for 2012/13 to balance its budget. The latest estimates highlight a forecast deficit of between £17.4 million to £20.2 million between 2013/14 to 2016/17.</p> <p>Looking ahead, the Council is aware that achieving sustainable efficiencies will become harder and require some difficult and bold decisions. The Council has arranged a corporate peer challenge in September 2012 which will be led by the Local Government Association. By taking part in this peer-led review, the Council is showing that it is willing to look at how it operates and challenge the status quo in order to deliver its strategic priorities for the people of Hartlepool.</p>

# Fees

## I reported my planned audit fee in the 2011/12 Audit Plan (issued January 2012).

I will complete the audit within the planned fee.

Table 4: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	240,300	240,300
Claims and returns	45,000	45,000
Non-audit work	0	0
<b>Total</b>	<b>285,300</b>	<b>285,300</b>

The Audit Commission has paid a rebate of £19,224 in respect of the audit fee of £240,300 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £221,076.

# Appendix 1 – Draft independent auditor's report

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## 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 31 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, the 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 financial 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 31 March 2012 and of its expenditure and income for the year then 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 financial statements.

## **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 31 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.

### **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 31 March 2012.

## **Certificate**

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

Mark Kirkham  
District Auditor

Nickalls House  
Metro Centre  
Gateshead  
Tyne and Wear  
NE11 9NH

September 2012

# Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Environmental services	Omitted provision in respect of land remediation at the former Leathers Chemical Site	634			Provisions 634
Environmental services	Omitted provision in respect of Mutual Municipal Insurance claims	639			Provisions 639
Finance lease liabilities	Misclassification of finance lease liabilities (similar for Note 37 financial instruments and comparators)			Current liabilities 125	Long-term liabilities 125
PPE brought forward from 2010/11	Double-counting of Property, Plant and Equipment (PPE) boiler component - Mill House Leisure Centre.			Unusable Reserves 95	PPE 95

Uncorrected amendments to disclosure notes	
Disclosure	Amendment
Note 7 segmental analysis 2010/11 figures	Misclassification of £0.659m between the line heading 'government grants' and 'other operating expenditure' within the table showing the directorate income and expenditure for 2010/11. Net nil impact.
Note 14 PPE	<i>Brought forward error from 2010/11: minor misclassification of £0.082m between two categories.</i>

# Appendix 3 – Corrected errors

There are no corrected errors impacting upon the primary statements. I identified the following errors in disclosure notes during the audit which management have addressed in the revised financial statements.

Corrected amendments to disclosure notes	
Disclosure	Amendment
Note 2 critical judgements	Inclusion of disclosure in respect of the accounting treatment of schools and which ones are included in the Council's balance sheet.
Note 3 assumptions and estimation uncertainty	Clarification of the impact of changes in pension estimates. Clarification of the disclosure of arrears to include council tax arrears.
Note 13 exit packages	Update of bandings over £0.100m so that they are shown in the required bandings of £0.050m instead of £0.020m.
Note 27 grant income	Misclassification of Benefits subsidy between four lines in the grant income note (noting no overall change to the totals) with the amendments up to a maximum of £0.300m.
Note 33 Dedicated Schools grant	Narrative added to clarify why the Individual Schools Budget (ISB) differs to the actual by £0.231m as these two figures are required to be the same according to the Communities and Local Government guidance.
Note 37 financial instruments	Addition of narrative to clarify why year-end accrued interest on long-term borrowing is shown within long-term borrowing in the disclosure note versus the correct presentation within short-term borrowing on the balance sheet. Split of finance lease liability into current and long term to match the finance lease disclosure note. Deletion of employee car loans disclosure already shown elsewhere within long-term debtors.
Note 45 pensions	Minor amendment to the 'reconciliation of net deficit' table in respect of £0.973m of unfunded payments. Net nil impact.
Note 46 contingent liabilities	Quantification of the contingent liability disclosed for Mutual Municipal Insurance claims at £0.639m (see also uncorrected errors and the linked issue in respect of required provision for this liability). New disclosure in respect of a closed landfill site following consideration of liability.

# Appendix 4 – Draft letter of management representation

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## **Hartlepool Borough Council – Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Hartlepool Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised below are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are because they are not considered to be significant and are, bar the provisions, misclassifications only as detailed below.

- A provision of £0.634m in respect of land remediation at the former Leathers Chemical Site has not been included in the financial statements as the Council has already set aside funds for this liability in 2011/12 as part of transfers to earmarked reserves.
- A provision of £0.639m in respect of Mutual Municipal Insurance claims has not been included in the financial statements as the Council has already set aside funds for claims within its Insurance Fund Earmarked Reserve.
- Note 7 segmental analysis 2010/11 figures: a misclassification of £0.659m between the line heading 'government grants' and 'other operating expenditure' has not been adjusted for as it is not considered significant and has no impact upon the net expenditure disclosed.
- Misclassification of finance lease liabilities between current and long term by £0.125m (similar for Note 37 financial instruments and comparators); this has not been adjusted for as it is not considered significant.

- Two brought forward errors from the 2010/11 audit remain unadjusted as they are not classed as significant however will be adjusted for in 2012/13:
  - minor misclassification of £0.082m between categories of Infrastructure and Other Land and Buildings; and
  - double-counting of boiler component of £0.095m in respect of Mill House Leisure Centre.

### **Supporting records**

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

### **Irregularities**

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

I also confirm that I have disclosed:

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

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

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

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

Accounting estimates including fair values

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

For pension accounting estimates, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Council to adjust the accounting estimate and related disclosures included in the financial statements.

### **Related party transactions**

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware.

I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

### **Comparative financial statements**

Several restatements have been made to correct material misstatement and or changes in accounting policies and presentation in the prior period financial statements. This affects the comparative information as set out in disclosure note 47. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of Hartlepool Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 21 September 2012

Signed

Name

Position

Date

# Appendix 5 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

## **Annual Governance Statement**

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Internal control**

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

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

### **Significance**

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

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the Department for Communities and Local Government which is based on, but separate from, its financial statements.

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**0844 798 7070**

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

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



Chief Executive's Department  
Civic Centre  
Hartlepool  
TS24 8AY

Tel: 01429 523173  
www.hartlepool.gov.uk

Our Ref: CL/CL  
Your Ref:



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

20 September 2012

Mark Kirkham  
District Auditor  
Audit Commission  
2<sup>nd</sup> Floor, Nickalls House  
Metro Centre  
Gateshead  
Tyne and Wear  
NE11 9NH

Dear Mark

**Hartlepool Borough Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Hartlepool Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

**Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

**Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised below are not material to the financial statements; either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are because they are not considered to be significant and are, with the exception of the provisions, misclassifications only as detailed below.

- A provision of £0.634m in respect of land remediation at the former Leathers Chemical Site has not been included in the financial statements as the Council has already set aside funds for this liability in 2011/12 as part of One Off Strategic Financial issues identified in the Medium Term Financial Strategy approved by Council on the 23<sup>rd</sup> February 2012.
- A provisions of £0.639m in respect of Mutual Municipal Insurance claims has not been included in the financial statements as the Council has already set aside funds for this potential liability within its Insurance Fund earmarked Reserve.

- Misclassification of finance lease liabilities between current and long term by £0.125m (similar for Note 37 Financial Instruments) as it is not considered as significant.
- Note 7 Segmental Analysis 2010/11 figures: a misclassification of £0.659m between the line heading 'government grants' and 'other operating expenditure' has not been adjusted for as it is not considered significant and has no impact upon net expenditure disclosed.
- Two brought forward errors from the 2010/11 audit remain unadjusted as they are not considered to be significant, however they will be adjusted for in 2012/13:
  - Minor misclassification of £0.082m between categories of Infrastructure and Other Land and Buildings; and
  - Double – counting of boiler component of £0.095m in respect of Mill House Leisure Centre.

### Supporting records

I have made available all relevant information and access within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

### Irregularities

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

I also confirm that I have disclosed:

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

### Law, regulations, contractual arrangements and codes of practice

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

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

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

### Accounting estimates including fair values

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

For pension accounting estimates, I confirm;

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect managements intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Council to adjust the accounting estimate and related disclosures included in the financial statements.

### **Related party transactions**

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

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

### **Comparative financial statements**

Several restatements have been made to correct material misstatement and or changes in accounting policies and presentation in the prior period financial statements. This affects the comparative information as set out in disclosure Note 47. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of Hartlepool Borough Council

**Chris Little**

**Chief Finance Officer**

**Date: 21st September, 2012**

---

I confirm that this letter has been discussed and agreed by the Audit Committee on 21st September 2012.

**Chair of the Audit Committee**

**Date: 21st September, 2012**

# **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 31<sup>st</sup> 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>
<b><u>Grant Funding</u></b>		
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%
<b>Total Grant Funding</b>	<b>128,645</b>	<b>76%</b>
<b><u>Other Funding</u></b>		
Council tax (HBC Charge on Collection Fund)	39,669	23%
Surplus on Collection Fund (HBC Share)	208	0%
Use of Reserves	1,461	1%
<b>Total Other Funding</b>	<b>41,338</b>	<b>24%</b>
<b>Total Funding</b>	<b>169,983</b>	<b>100%</b>

## 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
<b>Total Departmental Expenditure</b>	<b>79,001</b>	<b>77,799</b>	<b>(1,202)</b>
Non Departmental Expenditure	17,185	9,585	(7,600)
Dedicated Schools Grant Related Expenditure	73,797	73,797	0
<b>Total Departmental and Non Departmental Expenditure</b>	<b>169,983</b>	<b>161,181</b>	<b>(8,802)</b>
<b>Contributions to Reserves</b>			
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
<b>Total Contributions to Reserves</b>			<b>8,496</b>
<b>Final Contribution to General Fund Balance</b>			<b>(306)</b>

## 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.

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

## SECTION 1 : Explanatory Foreword

As at 31<sup>st</sup> 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
	<b>22,481</b>

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 31<sup>st</sup> 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:

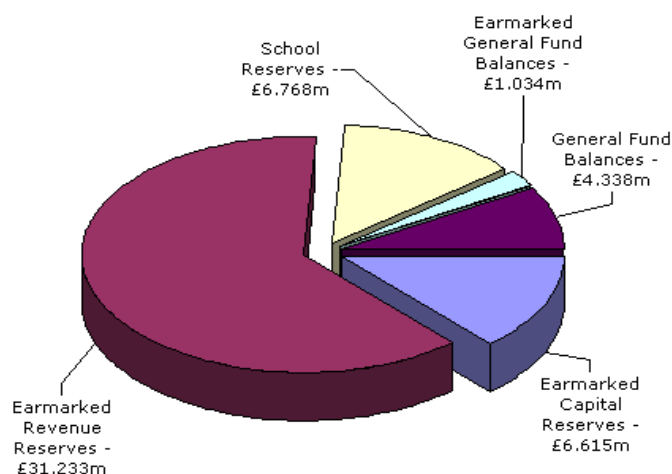
- Property, Plant and Equipment, Revaluation Reserve and Capital Adjustment Account – the Council's total fixed assets have increased by £8.066m which comprises of expenditure on fixed assets of £21.607m, upward revaluations of existing assets of £11.822m, less depreciation, downward revaluations and 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	%
<b>Expenditure</b>		
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%
	<b>72,992</b>	100%
<b>Income</b>		
Council Tax	47,017	64%
NNDR from Rate Payers	25,883	36%
	<b>72,900</b>	100%
<b>Net Deficit / (Surplus) in Year</b>	<b>92</b>	

#### **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 31<sup>st</sup> March, 2012.

Chris Little  
Chief Finance Officer  
Date: 21st September, 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
<b>Balance at 31 March 2010</b>	3,462	6,509	22,940	891	662	34,464	81,830	116,294
<b><u>Movement in reserves during 2010/11</u></b>								
Surplus or (deficit) on provision of services	2,901	-	-	-	-	2,901	-	2,901
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	40,236	40,236
<b>Total Comprehensive Income and Expenditure</b>	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)	-
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	3,136	-	-	(891)	2,313	4,558	38,579	43,137
Transfers to/(from) Earmarked Reserves	(2,742)	142	2,600	-	-	-	-	-
<b>Increase/(Decrease) in Year</b>	<b>394</b>	<b>142</b>	<b>2,600</b>	<b>(891)</b>	<b>2,313</b>	<b>4,558</b>	<b>38,579</b>	<b>43,137</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>3,856</b>	<b>6,651</b>	<b>25,540</b>	<b>-</b>	<b>2,975</b>	<b>39,022</b>	<b>120,409</b>	<b>159,431</b>
<b><u>Movement in reserves during 2011/12</u></b>								
Surplus or (deficit) on provision of services	10,018	-	-	-	-	10,018	-	10,018
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	(65,724)	(65,724)
<b>Total Comprehensive Income and Expenditure</b>	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)	-
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	12,246	-	(1,505)	-	225	10,966	(66,672)	(55,706)
Transfers to/(from) Earmarked Reserves	(11,764)	1,152	10,612	-	-	-	-	-
<b>Increase/(Decrease) in Year</b>	<b>482</b>	<b>1,152</b>	<b>9,107</b>	<b>-</b>	<b>225</b>	<b>10,966</b>	<b>(66,672)</b>	<b>(55,706)</b>
<b>Balance at 31 March 2012 carried forward</b>	<b>4,338</b>	<b>7,803</b>	<b>34,647</b>	<b>-</b>	<b>3,200</b>	<b>49,988</b>	<b>53,737</b>	<b>103,725</b>

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	<b>Long Term Assets</b>	<b>277,944</b>	
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	<b>Current Assets</b>	<b>47,315</b>	
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	<b>Current Liabilities</b>	<b>32,767</b>	
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	<b>Long Term Liabilities</b>	<b>188,765</b>	
116,296	159,431	<b>Net Assets:</b>	<b>103,727</b>	
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	<b>Total Reserves:</b>	<b>103,727</b>	

These financial statements replace the unaudited Statement of Accounts certified by the Chief Finance Officer on 29th June 2012. These reflect amendments agreed during the audit. See Note

## 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	<b>Net Cash Outflow from Operating Activities</b>	(3,790)	
(11,643)	(23,724)	<b>Investing Activities</b>	1,731	42
6,546	16,432	<b>Financing Activities</b>	(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	<b>Cash and Cash Equivalents at the end of the reporting period</b>	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.

## **SECTION 3 : Statement of Accounts**

### **Statement of Accounting Policies**

#### **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.

## SECTION 3 : Statement of Accounts

### Statement of Accounting Policies

#### 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.

## SECTION 3 : Statement of Accounts

### Statement of Accounting Policies

**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 unless it related to conditions or events that were in existence at the balance sheet date.

## **SECTION 3 : Statement of Accounts**

### **Statement of Accounting Policies**

#### **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.

## **SECTION 3 : Statement of Accounts**

### **Statement of Accounting Policies**

#### **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).

## **SECTION 3 : Statement of Accounts**

### **Statement of Accounting Policies**

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.

## SECTION 3 : Statement of Accounts

### Statement of Accounting Policies

#### 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 1<sup>st</sup> April, 2013. From 1<sup>st</sup> April, 2007, increases in asset valuations are credited to the Revaluation Reserve.

The asset valuations have been prepared using the following assumptions:

- 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.

## **SECTION 3 : Statement of Accounts**

### **Statement of Accounting Policies**

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.

## **SECTION 3 : Statement of Accounts**

### **Statement of Accounting Policies**

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.

## **SECTION 3 : Statement of Accounts**

### **Statement of Accounting Policies**

#### 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.

## **SECTION 3 : Statement of Accounts**

### **Statement of Accounting Policies**

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.

## **SECTION 3 : Statement of Accounts**

### **Statement of Accounting Policies**

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.
- There are 38 schools in Hartlepool. Eleven are Voluntary Aided (VA) Schools owned and accounted for by the Roman Catholic Diocese of Hexham and Newcastle or the Church of England Diocese of Durham. These schools do not appear on the Council's balance sheet. One school transferred to VA status in 2011/12 however the building has not legally transferred. This asset remains on the Council's balance sheet. There is one Voluntary Controlled (VC) School which is owned and accounted for by the Church of England Diocese of Durham. There are two foundation Schools which are owned by the School Governing Bodies. A third school has applied for, and been granted Foundation Status but at this time the asset has not legally transferred and so remains on the Council's balance sheet. Our judgement in respect of those schools where we retain legal ownership and title is that we also retain the balance of risks and therefore they stay on the Council's balance sheet until legal ownership is transferred.

Where a Foundation School does not buyback financial services from the Council it is not possible for the Council to include the balances of the School in its Balance Sheet.

### **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.

## SECTION 3 : Statement of Accounts

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.	The effect on the net pensions liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in liability of £11m: whilst a one year increase in life expectancy would increase the liability by £16m. Actual pension rates are determined on an actuarial basis every 3 years. The latest valuation has determined the employer's contribution for 3 years to 2011/12. A 0.1% increase in this rate would increase the Council's revenue budget requirement for pension costs by £0.04m

## 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 £8.644m on general, Council Tax Payers and trade debtors. A review of these balances suggested that an impairment of doubtful debts of £2.848m 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 £2.848m 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

These financial statements replace the unaudited Statement of Accounts certified by the Chief Finance Officer on 29th June 2012. These reflect amendments agreed during the audit. Events taking place after 21st September, 2012, 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 Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
<b>Adjustments primarily involving the Capital</b>					
<b>Adjustment Account:</b>					
<u>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</u>					
Charges for Depreciation and Impairment of Non-current Assets	(8,982)	-	-	-	8,982
Charges for Revaluation losses on Property Plant & Equipment	(10,955)				10,955
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 not debited or credited to the Comprehensive Income &amp; Expenditure Statement</u>					
					-
Provision for the Financing of Capital Investment (MRP)	4,872	-	-	-	(4,872)
<b>Adjustments primarily involving the Capital Grants</b>					
<b>Unapplied Account:</b>					
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)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>					
Transfer of Cash Sale Proceeds Credited as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement	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	-	-
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>					
Transfer of Deferred Sale Proceeds credited as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement	-	-	(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 Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
<b>Adjustments primarily involving the Unequal Pay Back Pay Account</b>					
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirement	-	-	-	-	-
<b>Adjustments primarily involving the Pensions Reserve:</b>					
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)
<b>Adjustments Primarily involving the Collection Fund Adjustment Account:</b>					
Amount by which Council Tax Income credited to the Comprehensive Income & Expenditure Statement is different from Council Tax Income calculated for the year in accordance with statutory requirements	(78)	-	-	-	78
<b>Adjustments primarily involving the Accumulated Absences Adjustment Account:</b>					
Amount by which Officer Remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements	(652)	-	-	-	652
<b>Total Adjustments</b>	<b>(2,228)</b>	<b>1,505</b>	<b>-</b>	<b>(225)</b>	<b>948</b>

	<b>Usable Reserves</b>				
2010/11	General Fund Balance £000s	Earmarked Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<i>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</i>					
Charges for Depreciation and Impairment of Non-current Assets	(9,695)	-	-	-	9,695
Charges for Revaluation losses on Property Plant & Equipment	(13,847)				13,847
Movements in the Market Value of Investment Properties	285	-	-	-	(285)
Capital Grants and Contributions	11,491	-	-	-	(11,491)
Revenue Expenditure funded from Capital Under Statute	(1,439)	-	-	-	1,439
Amounts of Non-current Assets written off on disposal or sale as part of the Gain/(Loss) on disposal to the Comprehensive Income & Expenditure Statement	(25,254)	-	-	-	25,254
Movement in Donated Assets	9	-	-	-	(9)
<i>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</i>					
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	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement	4,381	-	-	(4,381)	-
Capital Grants to Revenue	(18)	-	-	18	-
Application of Grants to Capital Financing transferred to the Capital Adjustment Account	-	-	-	2,049	(2,049)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>					
Transfer of cash sale proceeds credited as part of the Gain/(Loss) on disposal to the Comprehensive Income & Expenditure Statement	618	-	(618)	-	-
Use of the Capital Receipts Reserve to finance new Capital Expenditure	-	-	1,509	-	(1,509)
Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool	(2)	-	2	-	-
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>					
Transfer of deferred sale proceeds credited as part of the Gain/(Loss) on disposal to the Comprehensive Income & Expenditure Statement	-	-	(2)	-	2
<b>Adjustments primarily involving the Unequal Pay Back Pay Account</b>					
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirement	(273)	-	-	-	273
<b>Adjustments primarily involving the Pensions Reserve:</b>					
Reversal of items relating to Retirement Benefits debited or credited to the Comprehensive Income & Expenditure Statement	17,230	-	-	-	(17,230)
Employer's Pension Contributions and Direct Payments to Pensioners payable in year	10,642	-	-	-	(10,642)
<b>Adjustments Primarily involving the Collection Fund Adjustment Account:</b>					
Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(167)	-	-	-	167
<b>Adjustments primarily involving the Accumulated Absences Adjustment Account:</b>					
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,162	-	-	-	(1,162)
<b>Total Adjustments</b>	<b>(235)</b>	<b>-</b>	<b>891</b>	<b>(2,314)</b>	<b>1,658</b>

## 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 2012 £000s
<b>Unearmarked General Fund Balance</b>								
General Fund Balance	3,462	-	394	3,856	(394)	-	876	4,338
	3,462	-	394	3,856	(394)	-	876	4,338
<b>Earmarked General Fund Reserves</b>								
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
<b>School Balances</b>								
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
<b>Earmarked Revenue Reserves</b>								
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
<b>Earmarked Capital Reserves</b>								
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
<b>Total Reserves</b>	<b>34,467</b>	<b>(16,925)</b>	<b>21,481</b>	<b>39,024</b>	<b>-</b>	<b>(15,566)</b>	<b>26,532</b>	<b>49,988</b>

\* 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:

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

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

### Reconciliation of 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.

	<b>Restated 2010/11 £000s</b>	<b>2011/12 £000s</b>
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)
<b>Cost of Services in Comprehensive Income &amp; Expenditure Statement</b>	<b>90,733</b>	<b>106,481</b>

## 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)
<b>Total Income</b>	<b>(175,410)</b>	<b>(85,733)</b>	<b>65,587</b>	<b>(195,556)</b>	<b>(122,282)</b>	<b>(317,838)</b>
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
<b>Total Expenditure</b>	<b>343,957</b>	<b>43,828</b>	<b>(85,748)</b>	<b>302,037</b>	<b>5,783</b>	<b>307,820</b>
<b>(Surplus) / Deficit on the Provision of Services</b>	<b>168,547</b>	<b>(41,905)</b>	<b>(20,161)</b>	<b>106,481</b>	<b>(116,499)</b>	<b>(10,018)</b>

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)
<b>Total Income</b>	<b>(197,620)</b>	<b>(71,836)</b>	<b>73,215</b>	<b>(196,241)</b>	<b>(124,256)</b>	<b>(320,497)</b>
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
<b>Total Expenditure</b>	<b>365,852</b>	<b>17,586</b>	<b>(96,464)</b>	<b>286,974</b>	<b>30,622</b>	<b>317,596</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>168,232</b>	<b>(54,250)</b>	<b>(23,249)</b>	<b>90,733</b>	<b>(93,634)</b>	<b>(2,901)</b>

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.

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### 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
<b>24,688</b>		<b>1,152</b>

### 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
<b>3,057</b>		<b>1,360</b>	

### 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	
<b>121,379</b>		<b>119,011</b>	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
<b>Totals 2011/2012</b>	<b>276,209.42</b>	<b>149,147.41</b>	<b>1,494.45</b>	<b>1,042.65</b>	<b>3,500.00</b>	<b>1,241.21</b>	<b>855.57</b>	<b>931.69</b>	<b>434,422.40</b>
<b>Totals for 2010/11</b>	<b>276,809.20</b>	<b>146,005.17</b>	<b>1,273.63</b>	<b>213.14</b>	<b>2,800.00</b>	<b>935.00</b>	<b>1,327.67</b>	<b>13,169.24</b>	<b>442,533.05</b>

## 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.

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

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

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

River Tees Port Health Authority					
Councillor	Basic and Special Responsibility Allowances £	Special Responsibility Allowances	Travel, Subsistence or Conference Allowances £	Total £	Period of Office
Tempest S	981.75	-	-	<b>981.75</b>	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
<b>Chief Executive</b>							
Paul Walker (Apr 11-Aug 11)	70,000	-	-	70,000	11,438	<b>81,438</b>	
Nicola Bailey (Sept 11-Mar 12)	92,167	-	-	92,167	12,219	<b>104,386</b>	
<b>Total</b>	<b>162,167</b>	<b>-</b>	<b>-</b>	<b>162,167</b>	<b>23,657</b>	<b>185,824</b>	<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 £	
<b>Chief Executive</b>							
Paul Walker	168,795	0	963	<b>169,758</b>	27,176	<b>196,934</b>	<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	
<b>Total Director of Child &amp; Adult</b>	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
-	2	2	271,938	100,001 to 150,000	-	-	-	-
-	-	-	-	150,001 to 200,000	-	-	-	-
-	1	1	221,838	200,001 to 250,000	-	-	-	-
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
<b>Cost or Valuation</b>								
As at 1 April 2011	4,441	163,845	17,786	94,074	7,262	1,478	6,429	<b>295,315</b>
Asset Register Migration Adjustment*	(1)	(7,154)	-	-	-	-	-	<b>(7,155)</b>
<b>Revised as at 1 April 2011</b>	<b>4,440</b>	<b>156,691</b>	<b>17,786</b>	<b>94,074</b>	<b>7,262</b>	<b>1,478</b>	<b>6,429</b>	<b>288,160</b>
Additions	6	6,775	5,464	2,013	195	3,112	4,042	<b>21,607</b>
Accumulated Depreciation & Impairment written off to Gross Carrying Amount	(65)	(6,527)	-	-	-	(14)	-	<b>(6,606)</b>
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	509	9,347	15	-	1,938	13	-	<b>11,822</b>
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(460)	(7,042)	-	-	(236)	(3,218)	-	<b>(10,956)</b>
Derecognition-Disposals	-	(1,442)	(896)	-	(38)	-	-	<b>(2,376)</b>
Reclassified (to)/from Held for Sale	-	(1,370)	-	-	(2,120)	115	-	<b>(3,375)</b>
Reclassified to/from Investment Property	-	(195)	-	-	(112)	375	-	<b>68</b>
Valuation	-	5,729	5	13	190	-	(5,937)	<b>-</b>
<b>At 31 March 2012</b>	<b>4,430</b>	<b>161,966</b>	<b>22,374</b>	<b>96,100</b>	<b>7,079</b>	<b>1,861</b>	<b>4,534</b>	<b>298,344</b>

#### Accumulated Depreciation and Impairment

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

#### Net Book Value

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

#### Nature of Asset Holding

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

\* 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
<b>Cost or Valuation</b>								
Restated at 1 April 2010	116	195,675	15,614	90,325	7,262	469	5,358	<b>314,819</b>
Additions	-	1,165	2,602	1,900	-	1,773	16,089	<b>23,529</b>
Donations	-	-	9	-	-	-	-	<b>9</b>
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	-	(1,491)	-	-	-	15	-	<b>(1,476)</b>
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(3,656)	(8,606)	(11)	-	-	(1,445)	-	<b>(13,718)</b>
Derecognition-Disposals	-	(26,250)	(1,228)	-	-	(10)	-	<b>(27,488)</b>
Reclassified (to)/from Held for Sale	-	(25)	-	-	-	(27)	(308)	<b>(360)</b>
Other Reclassifications	7,981	3,377	800	1,849	-	703	(14,710)	<b>-</b>
<b>At 31 March 2011</b>	<b>4,441</b>	<b>163,845</b>	<b>17,786</b>	<b>94,074</b>	<b>7,262</b>	<b>1,478</b>	<b>6,429</b>	<b>295,315</b>

#### Accumulated Depreciation and Impairment

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

#### Net Book Value

At 31 March 2011	4,434	150,657	8,682	61,281	7,262	1,470	6,429	<b>240,215</b>
Restated at 31 March 2010	111	183,972	7,863	62,136	7,262	461	5,358	<b>267,163</b>

#### Nature of Asset Holding

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

#### 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

The Council has entered into a number of contracts for which capital monies are committed.

The major commitments are:

Scheme	Total Project Budget	Expenditure over Years to 31 March 12	Commitment
	£000s	£000s	£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
<b>Valued at Historical Cost</b>	-	-	11,849	-	11,849
<b>Valued at fair value as at:</b>					
<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
<b>Total</b>	<b>4,422</b>	<b>158,082</b>	<b>11,849</b>	<b>1,841</b>	<b>176,194</b>

#### 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
<b>(1,003)</b>	<b>(910)</b>	<b>Net (gain)/loss</b>	<b>(752)</b>

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

The 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)
<b>14,976</b>	<b>15,285</b>	<b>Balance at the end of the year</b>	<b>14,532</b>

## 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	Civic Collection	Sculptures, Monuments & War Memorials	Total
	£000s	£000s	£000s	£000s
At 1 April 2009	8,418	350	1,078	9,846
Additions	-	-	92	92
Disposals	-	-	-	-
Revaluations	-	-	-	-
<b>At 31 March 2010</b>	<b>8,418</b>	<b>350</b>	<b>1,170</b>	<b>9,938</b>

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

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

## **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	<b>Balance at 31 March</b>	<b>637</b>

### 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		<b>12,151</b>	<b>2,848</b>	<b>9,303</b>

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	<b>Assets</b>	
2,280	5,803	Bank and Imprests	78
2,391	5,909	Liquidity Investment Accounts	8,417
			<b>8,495</b>
(6,303)	(4,822)	<b>Liabilities</b>	
		Bank Overdraft	(237)
(3,912)	1,087		<b>8,258</b>

## SECTION 3 : Statement of Accounts

### 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	<b>Balance outstanding at year-end</b>	<b>3,845</b>

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		<b>21,467</b>

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.

## SECTION 3 : Statement of Accounts

### 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/ Single Status	Land Charges	Total
£000s	£000s		£000's	£000's	£000's	£000's
2,704	2,643	<b>Balance at 1st April</b>	133	2,245	77	<b>2,455</b>
1,138	821	Additional provisions made in year	8	100	-	<b>108</b>
(1,199)	(909)	Amounts used in year	-	(354)	-	<b>(354)</b>
-	(100)	Unused amounts reversed in year	-	(1,032)	-	<b>(1,032)</b>
2,643	2,455	<b>Balance at 31st March</b>	141	959	77	<b>1,177</b>

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	<b>Balance at 1st April</b>	97	648	<b>745</b>
-	273	Additional provisions made in year	-	-	-
-	-	Amounts used in year	-	-	-
-	-	Unused amounts reversed in year	-	-	-
472	745	<b>Balance at 31st March</b>	97	648	<b>745</b>

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.

## SECTION 3 : Statement of Accounts

### 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 Redistribution	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>	<b>Total</b>	<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	45,731
12,111	13,069	Council Tax Benefit Subsidy	13,096
-	-	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	1,240
-	-	Housing Market Renewal	1,192
2,512	5,943	Other Department for Education Grants	1,188
1,119	3,281	Department for Work & Pensions	474
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	<b>Total</b>	<b>159,122</b>

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	<b>Total</b>	<b>8,460</b>

##### 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	<b>Total</b>	<b>961</b>

## 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	<b>Total</b>	<b>2,634</b>

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
<b><u>Unearmarked General Fund Balance</u></b>				
3,462	3,856	General Fund Balance	4,338	1
3,462	3,856		4,338	
<b><u>Earmarked General Fund Reserves</u></b>				
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	
<b><u>School Balances</u></b>				
3,543	4,409	Balances held by schools under a scheme of delegation	6,768	5
3,543	4,409		6,768	
<b><u>Earmarked Revenue Reserves</u></b>				
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	
<b><u>Earmarked Capital Reserves</u></b>				
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	<b><u>Total Reserves</u></b>	49,988	

## **SECTION 3 : Statement of Accounts**

### **Note 28: Usable Reserves**

#### **Notes to Usuable 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		<b>53,739</b>	

#### 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	<b>Balance at 1 April</b>	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	<b>Balance at 31 March</b>	<b>38,203</b>

#### 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	<b>Balance at 1 April</b>	418
(92)	(186)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(221)
604	418	<b>Balance at 31 March</b>	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 5 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	<b>Balance at 1 April</b>	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	- 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	<b>Balance at 31 March</b>	<b>152,009</b>

In 2009/10 and 2010/11 the "Revenue Expenditure Funded from Capital under Statute" (REFCUS) figure is shown net of grant used to fund this expenditure. In 2011/12 this figure is shown gross owing to a revised interpretation of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. A corresponding increase in "Capital grants credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing" has been made. This is a presentational difference with no overall impact on the balance of the Capital Adjustment Account.

## 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)	<b>Balance at 1 April</b>	(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)	<b>Balance at 31 March</b>	<b>(134,089)</b>

**Table 5 - Deferred Capital Receipts Reserve**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the 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
-	-	<b>Balance at 1 April</b>	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	<b>Balance at 31 March</b>	<b>9</b>

**Table 6 - Collection Fund Adjustment Account**

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

2009/10 £000s	2010/11 £000s		2011/12 £000s
185	386	<b>Balance at 1 April</b>	<b>219</b>
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	<b>(78)</b>
386	219	<b>Balance at 31 March</b>	<b>141</b>

## 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)	<b>Balance at 1 April</b>	<b>(648)</b>
-	(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)	<b>Balance at 31 March</b>	<b>(648)</b>

**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)	<b>Balance at 1 April</b>	(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	<b>(652)</b>
(2,594)	(1,432)	<b>Balance at 31 March</b>	<b>(2,084)</b>

## **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	2011/12 Expenditure Income (Surplus) / Deficit £000s	2011/12 Income (Surplus) / Deficit £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		<b>17,124</b>	<b>(17,348)</b>	<b>(224)</b>

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. The Secretary of State granted the Council an exclusion under section 80B of the Local Government and Housing Act from operating a Housing Revenue Account (HRA). 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
<b>301</b>		<b>285</b>

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 2011. 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	-	-	-
<b>Surplus Carried forward to 2012/13 - (ii)</b>	<b>606</b>	<b>231</b>	<b>837</b>
<b>Total Surplus Carried forward to 2012/13 ((i) + (ii))</b>			<b>1,417</b>

The £0.231m surplus carried forward in respect of the Individual Schools Budget relates to in-year revaluation savings of business rates. The impact of Business Rates on schools are budget neutral resulting in the schools budgets being reduced accordingly

## 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**

<b>2010/11 £000s</b>	<b>Future minimum lease payments due</b>	<b>2011/12 £000s</b>
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
<b>2,261</b>		<b>1,995</b>

#### **Council as lessor**

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

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:

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

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
	<b>Value of Assets held under Finance Leases</b>	
472	Vehicles, plant & equipment	35
472	<b>Total</b>	<b>35</b>

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
	<b>Future minimum lease payments due</b>	
362	Current	175
438	Non-current	154
247	Finance costs payable in the future	99
<b>1,047</b>	<b>Total minimum lease payments</b>	<b>428</b>

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	<b>Payable:</b>	239	125
550	439	No later than one year	189	154
		Later than one year & not later than five years		
1,047	801	<b>Total</b>	<b>428</b>	<b>279</b>

## 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	<b>Brought Forward Opening Capital Financing Requirement</b>	92,207
-	Writing out of Voluntary Aided School Finance Lease Liability	(205)
86,903	<b>Revised Opening Capital Financing Requirement</b>	92,002
	<b>Capital investment</b>	
23,538	Property, Plant and Equipment	21,607
27	Investment Properties	520
10,165	Revenue Expenditure Funded from Capital under Statute	12,721
	<b>Sources of Finance</b>	
(1,509)	Capital receipts	(862)
(22,275)	Government Grants and Other Contributions	(28,131)
	<i>Sums set aside from revenue:</i>	
-	Direct Revenue Contributions	(1,888)
(4,642)	Minimum Revenue Position (MRP)	(4,872)
92,207	<b>Closing Capital Financing Requirement</b>	<b>91,097</b>
	<b>Explanation of movements in year</b>	
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	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(905)</b>

## 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
		<b>Investments</b>		
-	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	<b>Total Investments</b>	<b>197</b>	<b>33,452</b>

\* 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.

		<b>Debtors</b>		
-	2,786	Loans and receivables (Trade Debtors)	-	1,739
-	2,786	<b>Total debtors</b>	-	<b>1,739</b>
		<b>Borrowings</b>		
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	<b>Total Borrowings</b>	<b>51,445</b>	<b>36</b>

\*\*As required accrued interest relating to long term borrowing is disclosed within the short term borrowing figure on the balance sheet.

		<b>Other Long Term Liabilities</b>		
801	-	Finance lease liabilities	279	-
801	-	<b>Total Other Long Term Liabilities</b>	<b>279</b>	<b>-</b>
		<b>Creditors</b>		
-	4,987	Financial liabilities carried at contract amount (Trade Creditors)	-	3,652
-	4,987	<b>Total Creditors</b>	-	<b>3,652</b>

## 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. During 2011/12 there where no reclassifications or derocognitions of Financial Instruments.

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

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

## 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
<b>Financial Liabilities</b>					
45,422	44,749	Market Loans		<b>45,426</b>	<b>42,772</b>
1,785	2,671	Public Works Loan Board		<b>6,051</b>	<b>7,983</b>
1,698	1,698	Short Term Borrowing		<b>1</b>	<b>1</b>
4,987	4,987	Trade Creditors		<b>3,652</b>	<b>3,652</b>

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
<b>Loans and receivables</b>					
24,408	24,408	Money market loans maturing within 1 year		<b>33,452</b>	<b>33,452</b>
2,786	2,786	Trade Debtors		<b>1,739</b>	<b>1,739</b>

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					<b>348</b>

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		<b>1,027</b>

## 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:

	<b>£000s</b>
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	<b>175</b>
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)	<b>(9,061)</b>

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 Inventories	(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	-
<b>(36,824)</b>		<b>(22,989)</b>

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

2010/11 £000s		2011/12 £000s
24,598	Capital Grants credited to surplus or deficit on the provision of services	28,356
16,800	Proceeds from Short-term (not considered to be cash equivalents) and Long-term Investments	-
620	Proceeds from the Sale of Property, Plant and Equipment and Investment Property	861
<b>42,018</b>		<b>29,217</b>

### 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	(862)
(16,800)	Proceeds from Short-term and Long-term Investments	-
(31,235)	Other Receipts from Investing Activities	(22,383)
<u>(23,724)</u>	<b>Net Cash Flows from Investing Activities</b>	<u><b>1,731</b></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>	<b>Net cash flows from financing activities</b>	<u><b>(5,112)</b></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).

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
	<b>Comprehensive Income and Expenditure Statement</b>	
	<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)	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	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)	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>91,582</b>
	<b>Movement in Reserves Statement</b>	
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	<b>Transfer from Pensions Reserve</b>	<b>(194)</b>

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 gain 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
<b>(354,402)</b>	<b>Closing balance at 31 March</b>	<b>(430,974)</b>

##### 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)
<b>302,546</b>	<b>Closing balance at 31 March</b>	<b>296,885</b>

##### 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)
34,008	Past service costs	-
(951)	Curtailments	(571)
964	Unfunded Pension Payments	973
18,983	Expected rate of return	20,405
9,678	Employer contributions	8,376
<b>(51,856)</b>	<b>Closing balance at 31 March</b>	<b>(134,089)</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was 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	<b>430,974</b>
Fair value of scheme assets (B)	231,505	200,291	278,772	302,546	<b>296,885</b>
Surplus/(deficit) in Scheme (B)-(A)	(55,966)	(54,703)	(121,612)	(51,856)	<b>(134,089)</b>
Experience Adjustments on Scheme Assets	(12,144)	(53,067)	64,152	5,472	<b>(24,835)</b>
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, 2013 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 %	<b>2011/12</b> %
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
	<b>100.0</b>	<b>100.0</b>

#### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 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 %	<b>2011/12</b> %
Differences between the expected and actual return on assets	(5.25)	(26.49)	23.01	1.81	<b>(8.37)</b>
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 currently estimated to be £0.638m
- 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.
- The Council is responsible for the Claxton Site which is a closed landfill. There is a possible obligation arising relating to de-contamination of the site; it is not possible at this stage to quantify the potential liability or when the works may be required. The site is regularly tested to ensure compliance with the Environment Protection Act 1990.

## 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.

<b>Original</b>	<b>31 March 2011 Expenditure £000s</b>	<b>31 March 2011 Income £000s</b>	<b>31 March 2011 Net £000s</b>
Cultural, Environmental, Regulatory and Planning Services	48,071	16,278	31,793
Cultural and Related Services	-	-	-
Environmental and Regulatory Services	-	-	-
Planning Services	-	-	-
<b>Adjusted</b>	<b>31 March 2011 Expenditure £000s</b>	<b>31 March 2011 Income £000s</b>	<b>31 March 2011 Net £000s</b>
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
<b>Change</b>	<b>31 March 2011 Expenditure £000s</b>	<b>31 March 2011 Income £000s</b>	<b>31 March 2011 Net £000s</b>
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	<b>123,084</b>	<b>5,745</b>	<b>27,768</b>	<b>(3,703)</b>	<b>152,894</b>

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	<b>123,341</b>	<b>5,745</b>	<b>27,293</b>	<b>11,853</b>	<b>168,232</b>

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	<b>257</b>	<b>-</b>	<b>(475)</b>	<b>15,556</b>	<b>15,338</b>

#### 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)
<b>Cost of Services in Comprehensive Income &amp; Expenditure Statement</b>	<b>(2,901)</b>	<b>90,733</b>	<b>93,634</b>

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	<b>152,894</b>	<b>10,876</b>	<b>(13,777)</b>	<b>149,993</b>	<b>(152,894)</b>	<b>(2,901)</b>

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	<b>168,232</b>	<b>(54,250)</b>	<b>(23,249)</b>	<b>90,733</b>	<b>(93,634)</b>	<b>(2,901)</b>

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	<b>15,338</b>	<b>(65,126)</b>	<b>(9,472)</b>	<b>(59,260)</b>	<b>59,260</b>	<b>-</b>

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

## 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
<b>TOTALS</b>		<b>42,316</b>	<b>33,169</b>					<b>55,379</b>

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)
<b>46,798</b>		<b>47,017</b>

## 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)
<b>22,676</b>	Contribution to NNDR Pool	<b>25,646</b>

#### 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
<b>46,239</b>		<b>46,736</b>	<b>(92)</b>	<b>46,644</b>

## 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:-

	<b>Balance at 1st April 2011 £000</b>	<b>Income £000</b>	<b>Expenditure £000</b>	<b>Balance at 31st March 2012 £000</b>
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
	<b>184.7</b>	<b>11.1</b>	<b>8.7</b>	<b>187.1</b>

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

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

The governance framework comprises the systems and processes, and culture and values, by which the 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.

## SECTION 4 : Annual Governance Statement

### ANNUAL GOVERNANCE STATEMENT

#### **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 31 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, the 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 financial 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 Authority'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.

#### **Certificate**

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

Mark Kirkham  
District Auditor  
Nickalls House  
Metro Centre  
Gateshead  
Tyne & Wear  
NE11 9NH

21st 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.

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

This list is not intended to be comprehensive.

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

### **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.

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

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