

FINANCIAL REPORT

2012 / 2013



CHRIS LITTLE
CHIEF FINANCE OFFICER
CORPORATE FINANCE

Hartlepool Borough Council

Hartlepool Borough Council - Financial Report 2012/2013

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SECTION 1 : Explanatory Foreword

INTRODUCTION

The Statement of Accounts presents the overall financial position for the year ended 31st March, 2013 and incorporates the financial statements and disclosure notes required by statute. The foreword provides an explanation of the Council's overall financial performance for 2012/13, details the year-end financial position for 2012/13, 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 2012/13

Revenue Spending 2012/13 - Budget Position

The preparation of the 2012/13 budget was set against a background of Government proposals for reducing the national budget deficit 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 was based on the Government's 2011 Spending Review, which provided 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 2012/13 the amount of Formula Grant, the main revenue grant received from the Government, was reduced by £4.1m, a reduction on the previous year of 8%. When account is taken of the grant cut in 2011/12 the Council's 2012/13 Formula Grant was £10.2m lower than in 2010/11, which is a 20% reduction.

The Council faced a range of budget pressures as a result of inflation, demographic pressures arising from caring for an ageing population, reduced income as a result of economic conditions, support for School Meals and above inflationary increases in Concessionary Fares, which total £1.6m.

For 2012/13 the Council faced an overall budget shortfall of £5.7m owing to the impact the Formula Grant cut and the impact of demographic and inflation pressures. A range of measures were implemented to address this gap. The key issues included reductions in pay budgets of £1.7m, including deleting vacant post which saved £0.5m, increased income of £0.7m and reductions in non pay budgets of £3.0m.

The Council's net 2012/13 General Fund budget, which is funded from Government Grant and Council Tax was £161.288m, including expenditure funded from the Dedicated Schools Grant.

Revenue Spending 2012/13 - Outturn Position

In response to the continuing financial challenges facing the Council and the impact of changes to the Local Government Finance system, which became effective in April 2013, the Council set targets for achieving in-year budget underspends for 2012/13 and reviewing existing reserves and provisions. The underspend target was achieved through a combination of holding posts vacant, achieving planned 2013/14 budget savings earlier, careful management of budgets to avoid expenditure where this did not have an adverse impact on services, the financial benefit of Local Government pay being frozen for the third successive year (fourth year of Chief Officers) and the benefits of lower interest rates. The reserves target was achieved by reviewing the risks existing reserves were earmarked to fund and reducing those reserves where these risks had reduced.

SECTION 1 : Explanatory Foreword

The aim of these targets was to identify resources to manage the strategic financial risks and unavoidable commitments facing the Council, which it is estimated have a total value of £7.136m, covering the following key issues:

- funding of £2.5m for forecast redundancy and early retirements up to 2016/17 as a result of ongoing Government grant reductions and the need to make significant budget cuts;
- funding of £1m to manage the new financial risk arising from the Re-localisation of Business Rates and the operation of 'safety net thresholds' to protect councils from in-year reductions in Business Rates. A 'safety net' grant will only be paid if Business Rates are 7.5% lower than forecast at the start of the financial year and will only be paid for the shortfall above this thresholds. For Hartlepool the 'safety net' threshold is £1.7m for 2013/14. This is a particular risk for Hartlepool owing to the impact of the Nuclear Power Station, which accounts for 17% of the total Business Rates retained by the Council, and the potential for lower in-year payments if there are unplanned shutdowns, which would reduce the Business Rates paid. Earmarking one-off resources to manage this risk is designed to avoid the need for additional in-year budget cuts if there is a shortfall in Business Rates.
- funding of £1m to manage forecast income shortfalls in 2013/14 and potential delays in the achievement of planned 2013/14 and 2014/15 savings which may require longer lead times to achieve owing to the more challenging nature of future planned savings.
- support of £0.85m for the 2013/14 budget to offset additional grant cuts arising from formula grant changes and updated population figures.
- funding of £0.200m to support School Attainment in the Secondary Sector. Detailed proposals were agreed by Finance & Policy Committee on the 31st May, 2013.

In addition to the financial resources earmarked for future commitments from the budget underspend and review of reserves and provisions, the 2012/13 outturn position also benefited from a range of factors which have earmarked resources for other specific commitments covering the following issues:

- Earmarked ring fenced grants of £2.153m, which relates to resources received in 2012/13 which will be used to fund expenditure commitments in 2013/14;
- Earmarked funding of £1.240m to manage the reduction in the Early Intervention Grant in 2013/14 and 2014/15, which will provide a longer lead time to manage this permanent grant cut.
- Earmarked funding of £1.148m to manage the financial implications on the Council of schools becoming academies;

After reflecting the above factors the final contribution to the General Fund at the end of 2012/13 was £0.680m, as summarised in the table on the following page. At their meeting on 31st May 2013 the Finance and Policy Committee agreed an initial strategy for allocating these uncommitted resources of £0.680m. These proposals will form part of the strategy for setting the 2014/15 budget.

SECTION 1 : Explanatory Foreword

Summary of 2012/13 Financial Position

| Description of Expenditure | 2012/13 Approved Budget £000 | 2012/13 Actual Expenditure / Income £000 | 2012/13 Variance Adverse / (Favourable) £000 |
|-------------------------------------------------------------------|---------------------------------------|------------------------------------------------------|----------------------------------------------------------|
| <u>Departmental Expenditure</u> | | | |
| Child & Adult Department | 49,086 | 46,419 | (2,667) |
| Chief Executives Department | 4,855 | 4,140 | (715) |
| Regeneration & Neighbourhoods Department | 20,736 | 19,938 | (798) |
| Public Health Department | 0 | (259) | (259) |
| Total Departmental Expenditure | 74,677 | 70,238 | (4,439) |
| <u>Non Departmental Expenditure</u> | | | |
| Non Departmental Expenditure | 13,565 | 9,778 | (3,787) |
| Early Intervention Grant | 0 | (1,176) | (1,176) |
| Dedicated Schools Grant Related Expenditure | 73,045 | 73,045 | 0 |
| Total Departmental and Non Departmental Expenditure | 161,287 | 151,885 | (9,402) (a) |
| Funding Released from Review of Reserves | | | (2,280) |
| Funding Released from Review of Job Evaluation Provision | | | (980) |
| Total Funding Earmarked to fund Strategic Financial Risks | | | (12,662) |
| Reserves Created to Manage Strategic Financial Risks | | | |
| Reserves Created to Manage Specific Commitments | | | 7,441 |
| Ring Fenced Grants | | | 2,153 |
| Creation of Reserve to manage Early Intervention Grant Reductions | | | 1,240 |
| Creation of Academy Reserve to Funding Changes | | | 1,148 |
| Final Contribution to General Fund | | | (680) |

- (a) The favourable variance on 'Departmental and Non departmental Expenditure' includes the receipt of ring fenced grants (£2.153m), Early Intervention Grant (£1.240m) and funding to manage the impact of schools becoming academies (£1.148m) which will be used in 2013/14. The remaining amount of (£4.861m) relates to managed underspends achieved to provide funding for Strategic Financial Risks and unavoidable commitments as detailed on the previous page.

SECTION 1 : Explanatory Foreword

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

| | £000 | % |
|---------------------------------------------|----------------|-------------|
| Grant Funding | | |
| Dedicated Schools Grant | 73,045 | 45% |
| Share of National Non-Domestic Pool | 47,556 | 29% |
| Revenue Support Grant | 922 | 1% |
| Total Grant Funding | 121,523 | 75% |
| Other Funding | | |
| Council tax (HBC Charge on Collection Fund) | 39,750 | 25% |
| Surplus on Collection Fund (HBC Share) | 15 | 0% |
| Total Other Funding | 39,765 | 25% |
| Total Funding | 161,288 | 100% |

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

The Government introduced significant changes to the Local Government Funding system from 1st April 2013, which affect all authorities, covering.

- the Re-localisation of Business Rates. Under this new system individual council's retain a proportion of Business Rates collected locally and benefit from a share of any growth in Business Rates. Conversely, individual Council's have to manage the impact of reductions in Business Rates and this is an additional financial risk, particularly for Hartlepool as 17% of Business Rates income is paid by the Nuclear Power Station on the basis of the amount of electricity generated;
- Replacement of the national Council Tax Benefit system with a system whereby individual Councils determine their own Local Council Tax Support (LCTS) schemes. Under the new arrangements the Government reduced funding by 10% and required councils to protect low income pensioners from the impact of this change. This meant that the whole of the 10% funding reduction fell on working age households and meant this group faced a cut in support of 20%. For 2013/14 the Council was able to set a scheme which limited the cut in Council Tax support for working age households to 8.5% through a combination of a one-off Government grant and the allocation of the Council's own resources to offset the initial grant cut. This position is not sustainable and a longer term strategy for Council Tax support will be developed during 2013/14.

The Medium Term Financial Strategy was updated to reflected these changes and the announcement by the Government of additional grant reductions for 2013/14. As a result of these changes the Council faced a budget gap for 2013/14 of £6m, which was addressed through a combination of permanent budget reductions of £3.7m and the use of one-off resources of £2.3m. The Council recognised that the use of one-off resources does not provide a sustainable financial strategy and was designed to provide a longer lead time to make permanent cuts. This position is reflected in the budget forecast for 2014/15 to 2016/17 and over this period it is anticipated the Council will need to make further cuts of between £17.4m and £19.4m, which equates to between 19% and 21% of the existing General Fund budget. Managing ongoing reductions of this magnitude will be extremely challenging. The Council will begin developing a strategy to address these deficits during 2013/14.

The current economic climate reduced the level of income received from the Shopping Centre, Car Parks and Land Charges. Prior to 2012/13 these reductions had been managed from the specific reserve set up to cover these shortfalls on a temporary basis. The Council reviewed the position on these issues as part of the 2012/13 budget process and determined that as these income shortfalls are continuing to address these issues as permanent pressures in the budget for 2012/13 and future years.

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

Changes for 2013/14

The Council held a referendum in 2012. Hartlepool residents voted to replace the Directly Elected Mayor and Cabinet system with a Leader and committees of Councillors. The change commenced in May 2013.

From April 2013 the Public Health responsibilities have been transferred to the Council from Hartlepool Primary Care Trust.

SECTION 1 : Explanatory Foreword

CAPITAL PROGRAMME

Capital Spending 2012/13 - Outturn Position

In 2012/13 the Council had a total Capital Programme of £43.949m and incurred expenditure totalling £21.212m. The remaining capital programme of £22.737m has been rephased to 2013/14. An analysis of this actual 2012/13 expenditure is shown below, together with an analysis of how this expenditure was financed.

| | <u>£000</u> | <u>%</u> |
|------------------------------------|---------------|-------------|
| <u>Expenditure</u> | | |
| School Improvements | 5,244 | 25% |
| Housing Investment Programme | 4,532 | 21% |
| Other Schemes | 8,003 | 38% |
| Highway Maintenance & Construction | 3,434 | 16% |
| Total Expenditure | 21,213 | 100% |
| <u>Capital Financing</u> | | |
| Capital Grant | 14,286 | 67% |
| Borrowing | 4,131 | 19% |
| Other | 2,009 | 9% |
| Capital Receipts | 787 | 4% |
| Total Capital Financing | 21,213 | 100% |

As at 31st March, 2013, the Council had rephased capital expenditure totalling £22.737m into 2013/14. This will be funded from the following resources, which have also been rephased to 2013/14.

| | <u>£000</u> |
|---------------------------------|---------------|
| <u>Capital Financing</u> | |
| Government Grants | 11,545 |
| Borrowing | 7,932 |
| Capital Funding Reserves | 3,260 |
| | 22,737 |

Capital Receipts

The Council received gross receipts of £0.787m in 2012/13 from the sale of assets. The net receipt after funding the cost of disposals was £0.753m. £0.738m related to the disposal of land and buildings and this funding is earmarked to fund strategic one-off costs relating to Housing Market Renewal. £0.015m related to the sale of vehicles.

SECTION 1 : Explanatory Foreword

BORROWING FACILITIES AND INVESTMENT STRATEGY

The Council's arrangements 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. The Council continued to manage investment risk by using surplus cash to temporarily avoid further new long term borrowing. This strategy reduced external cash investments during a period of market uncertainty and limited the Council's exposure to the risk of default.

PENSIONS

The Council has accounted for retirement benefits according to International Financial Reporting Standard (IFRS) IAS 19. In the accounts as at 31st March, 2013, there was a deficit on the Pensions Reserve of £122.578m (£134.089m in 2011/12). This was offset by a Pensions Liability of the same value. The net pensions liability has reduced owing to actuarial assets gains and a reduction in expected liability obligations. The significant asset gains reflect higher than assumed investment returns thus increasing assets. The discount rate reduced from 4.6% to 4.4%, 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 2012/13 to 2014/15.

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

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. 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.

High Tunstall School transferred to Foundation School Status and Ward Jackson School to Church of England Voluntary Aided School Status. The legal transfer of assets is shown as an exceptional item on the face of the Comprehensive Income and Expenditure Account.

During 2012/13 the value of shares held by the Council in Durham Tees Valley Airport Limited was increased to £0.059 (£nil in 2011/12) to reflect the company's net worth in their latest accounts. This change has been reflected in the Comprehensive Income and Expenditure Statement.

SECTION 1 : Explanatory Foreword

Balance Sheet

The Balance Sheet shows the value of the asset and liabilities recognised by the Council at 31st March. 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".

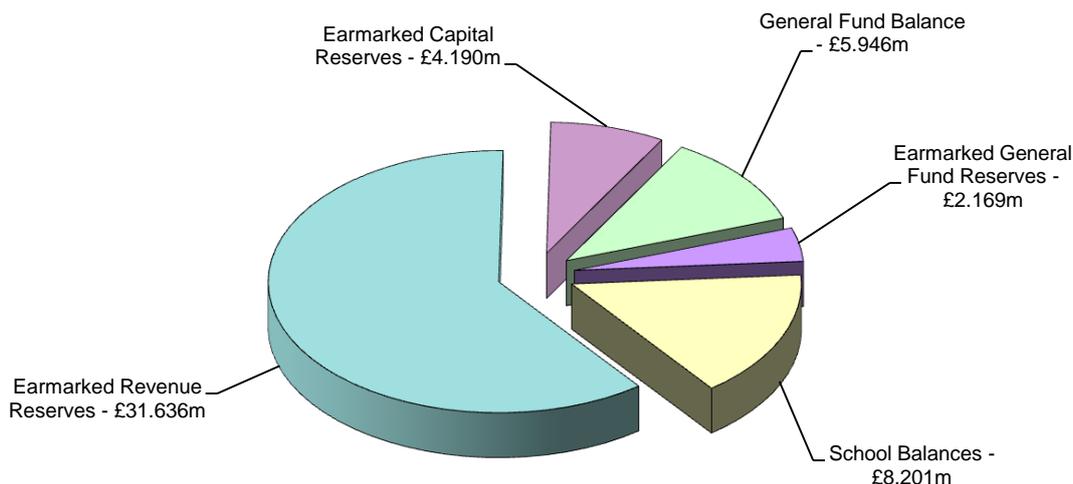
The major movements on the Balance Sheet are as follows:

- Property, Plant and Equipment, Investment Properties, Assets Held for Sale, Revaluation Reserve and Capital Adjustment Account – the Council's total fixed assets have decreased by £5.812m which comprises of expenditure on fixed assets of £19.018m, upward revaluations of existing assets of £1.886m, less depreciation, downward revaluations, impairments and disposals of £26.716m.
- Short Term Debtors – as at 31st March, 2013, are £12.798m (£9.303m at 31st March, 2012). They have increased owing to the disaggregation of collection fund balances.
- Cash and Cash Equivalents (Asset) - totalled £10.245m as at 31st March, 2013 (£8.495m at 31st March, 2012). The increase largely relates to greater use of highly liquid accounts classed as cash and cash equivalents.
- Cash and Cash Equivalents (Liability) - the bank over draft was £2.049m (£0.237m in 2011/12), this is mainly owing to cash flows at year end.
- Short Term Creditors – as at 31st March, 2013, are £19.961m (£21.467m at 31st March, 2012). The decrease are owing to the disaggregation of collection fund balances.
- Long Term Investments, plus current investments - totalled £24.267m as at 31st March, 2013 (£25.232m at 31st March, 2012). The decrease largely relates to greater use of highly liquid accounts classed as cash and cash equivalents.
- Other Long Term Liabilities - as at 31st March, 2013, were £122.734m (£134.370m at 31st March, 2012). The decrease is mainly owing to actuarial gains on the pension fund.
- Earmarked Reserves and General Fund Balances – as at 31st March, 2013, are £52.142m (£49.988m at 31st March, 2012). 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. The net increase has 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 2013/14 and beyond. Details of the movements on reserves and balances are provided in Note 6.

SECTION 1 : Explanatory Foreword

In summary reserves at 31st March, 2013 consist of five main components:

Analysis of Reserves 31/03/13 - Total £52.1m



- Earmarked - Capital Reserves - these reserves are earmarked for capital expenditure commitments rephased from 2012/13 to 2013/14.
- Earmarked - Revenue Reserves - these reserves are earmarked for specific risks and include the Insurance Fund (£3.934m), Strategic Risk Reserve (£2.178m), Strategic One-Off Costs (£9.407m) to support the budget from 2013/14, Strategic Change Reserves (£3.557m) and Ring Fenced Grants Reserve (£3.975m).
- School Balances - these reserves are earmarked for individual schools in accordance with the scheme for funding schools.
- Earmarked General Fund Balances - this includes the Budget Support Fund (£2.051m) which will be fully used to support the 2013/14 budget.
- General Fund Balances - (£5.946m) 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.

Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

There were no Prior period adjustments in 2012/13. There have been no adjusting events after the balance sheet date, further details of non adjusting events are detailed in Note 4.

SECTION 1 : Explanatory Foreword

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.

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 £1,679.61 (£1,670.51 in 2011/12) for Band D properties, excluding parish precepts where these applied. This comprised £1,418.70 for the Council's own services, £194.41 for the Cleveland Police Authority and £66.50 for the Cleveland Fire Authority. Each Authority determined its own tax and made a precept on the Collection Fund.

The Council Tax for the Council's services was determined on the basis of an equated number of 32,936 Band D properties. When setting the charge a 1.5% allowance for non-collection was made.

Further details on the income and expenditure of the Fund are shown in the Collection Fund notes.

| | £000 | % |
|----------------------------------------|---------------|----------|
| Expenditure | | |
| Hartlepool Council Precept | 39,750 | 53% |
| Cleveland Police Authority Precept | 5,444 | 7% |
| Cleveland Fire Authority Precept | 1,862 | 2% |
| Payment to NNDR Pool | 27,619 | 37% |
| Other | 409 | 1% |
| | 75,084 | 100% |
| Income | | |
| Council Tax | 48,051 | 63% |
| NNDR from Rate Payers | 27,743 | 37% |
| | 75,794 | 100% |
| Net Deficit / (Surplus) in Year | (710) | |

CHANGES IN COUNCIL RESPONSIBILITIES

There were no significant changes in the Council's statutory responsibilities during 2012/13.

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 2011/12 have been shown where appropriate.

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 2012/13 financial year the inspection period was 1st July, 2013 to 26th July, 2013.

Chris Little CPFA
Chief Finance Officer
Date: 24 September, 2013

The Chief Finance Officer, Chris Little signed the Explanatory Foreword on 24th September 2013 and this document is held by the Council. The signatures have not been reproduced in this electronic document.

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 and Governance Committee at the meeting held on 24 September, 2013.

Chair of Audit and Governance Committee

Date: 24 September, 2013

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 2012/13, which includes the Statement of Accounts, gives a true and fair view of the financial position of Hartlepool Borough Council at the accounting date and its income and expenditure for the year ended 31st March, 2013.

Chris Little CPFA

Chief Finance Officer

Date: 24 September, 2013

SECTION 3 : Statement of Accounts

Movement in Reserves Statement for the year ended 31 March 2013

| | General Fund Balance | Earmarked General Fund Reserves | Earmarked Reserves | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Reserves |
|---------------------------------------------------------------------------------|----------------------------|------------------------------------------|-----------------------|--------------------------------|--------------------------------|--------------------------------------|------------------------------|---------------------------|
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Balance at 31 March 2011 carried forward | 3,856 | 6,651 | 25,540 | - | 2,975 | 39,022 | 120,409 | 159,431 |
| <u>Movement in reserves during 2011/12</u> | | | | | | | | |
| Surplus or (deficit) on provision of services | 10,018 | - | - | - | - | 10,018 | - | 10,018 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | (65,724) | (65,724) |
| Total Comprehensive Income and Expenditure | 10,018 | - | - | - | - | 10,018 | (65,724) | (55,706) |
| Adjustments between accounting basis & funding basis under regulations (note 5) | 2,228 | - | (1,505) | - | 225 | 948 | (948) | - |
| Net Increase/(Decrease) before Transfers to Earmarked Reserves | 12,246 | - | (1,505) | - | 225 | 10,966 | (66,672) | (55,706) |
| Transfers to/(from) Earmarked Reserves | (11,764) | 1,152 | 10,612 | - | - | - | - | - |
| Increase/(Decrease) in Year | 482 | 1,152 | 9,107 | - | 225 | 10,966 | (66,672) | (55,706) |
| Balance at 31 March 2012 carried forward | 4,338 | 7,803 | 34,647 | - | 3,200 | 49,988 | 53,737 | 103,725 |
| <u>Movement in reserves during 2012/13</u> | | | | | | | | |
| Surplus or (deficit) on provision of services | (10,703) | - | - | - | - | (10,703) | - | (10,703) |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | 20,315 | 20,315 |
| Total Comprehensive Income and Expenditure | (10,703) | - | - | - | - | (10,703) | 20,315 | 9,612 |
| Adjustments between accounting basis & funding basis under regulations (note 5) | 17,496 | - | (1,800) | - | (2,839) | 12,857 | (12,857) | - |
| Net Increase/(Decrease) before Transfers to Earmarked Reserves | 6,793 | - | (1,800) | - | (2,839) | 2,154 | 7,458 | 9,612 |
| Transfers to/(from) Earmarked Reserves | (5,185) | 2,567 | 2,618 | - | - | - | - | - |
| Increase/(Decrease) in Year | 1,608 | 2,567 | 818 | - | (2,839) | 2,154 | 7,458 | 9,612 |
| Balance at 31 March 2013 carried forward | 5,946 | 10,370 | 35,465 | - | 361 | 52,142 | 61,195 | 113,337 |

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

SECTION 3 : Statement of Accounts

Comprehensive Income and Expenditure Statement for the year ended 31 March 2013

| Restated 2011/12 | | | 2012/13 | | | Note | |
|------------------|-----------|------------------|---------------------------------------------------------------------------|----------------|------------------|------------------|------------|
| £000s | £000s | £000s | £000s | £000s | £000s | | |
| Expenditure | Income | Net | Expenditure | Income | Net | | |
| | | | Continuing operations: | | | | |
| 15,963 | (14,168) | 1,795 | Central Services to the Public | 17,026 | (15,531) | 1,495 | |
| 14,480 | (3,006) | 11,474 | Cultural and Related Services | 13,690 | (2,528) | 11,162 | |
| 13,867 | (2,959) | 10,908 | Environmental and Regulatory Services | 12,741 | (2,632) | 10,110 | |
| 5,054 | (1,763) | 3,291 | Planning Services | 4,553 | (1,504) | 3,049 | |
| 131,609 | (101,914) | 29,695 | Education and Children's Services | 127,177 | (93,403) | 33,774 | |
| 13,917 | (4,153) | 9,764 | Highways and Transport Services | 13,320 | (3,779) | 9,541 | |
| 53,486 | (49,431) | 4,055 | Other Housing Services | 54,239 | (51,169) | 3,070 | |
| 45,644 | (17,836) | 27,808 | Adult Social Care | 48,179 | (20,127) | 28,051 | |
| 3,789 | (285) | 3,504 | Corporate and Democratic Core | 3,402 | (310) | 3,092 | |
| 4,228 | (41) | 4,187 | Non Distributed Costs | 870 | (21) | 849 | |
| 302,037 | (195,556) | 106,481 | Cost of Services | 295,197 | (191,005) | 104,192 | |
| 2,283 | (1,131) | 1,152 | Other Operating Expenditure | 144 | (953) | (808) | 8 |
| - | - | - | Transfer of School Assets (see Note (a) below) | 11,004 | - | 11,004 | 8 |
| 22,991 | (21,631) | 1,360 | Financing and Investment Income and Expenditure | 22,398 | (17,700) | 4,698 | 9 |
| - | (119,011) | (119,011) | Taxation and Non-Specific Grant Income | - | (108,383) | (108,383) | 10 |
| 327,311 | (337,329) | (10,018) | (Surplus) / Deficit on Provision of Services | 328,743 | (318,040) | 10,703 | 7 |
| | | (16,536) | (Surplus) / Deficit on Revaluation of Property, Plant and Equipment | | | (1,886) | 29 Table 1 |
| | | 221 | (Surplus) / Deficit on Revaluation of Available for Sale Financial Assets | | | (60) | 29 Table 2 |
| | | 82,039 | Actuarial (Gains) / Losses on Pension Assets & Liabilities | | | (18,369) | 29 Table 4 |
| | | 65,724 | Other Comprehensive Income and Expenditure | | | (20,315) | |
| | | 55,706 | Total Comprehensive Income and Expenditure | | | (9,612) | |

Note (a) - Following the transfer of High Tunstall School to Foundation School Status and Ward Jackson School to Church of England Voluntary Aided School Status the legal transfer of assets was actioned during 2012/13. This transfer resulted in the need to 'write out' the value of these assets from the Council's accounts. This 'write-out' totalled £11.004m for 2012/13 and is disclosed separately in the Comprehensive Income and Expenditure Statement owing to the exceptional nature of these transactions.

For comparative purposes 2011/12 Financing and Investment Income and Expenditure has been restated to show the pension interest costs and return on assets gross.

SECTION 3 : Statement of Accounts

Balance Sheet as at 31 March 2013

| 1 April 2012 £000s | | 31 March 2013 £000s | Note |
|-----------------------|------------------------------------|------------------------|------|
| 248,281 | Property, Plant and Equipment | 241,232 | 14 |
| 14,652 | Heritage Assets | 14,652 | 16 |
| 14,532 | Investment Property | 15,094 | 15 |
| 197 | Long Term Investments | 256 | 18 |
| 282 | Long Term Debtors | 253 | 19 |
| 277,944 | Long Term Assets | 271,487 | |
| 25,035 | Short Term Investments | 24,011 | 37 |
| 637 | Inventories | 719 | 20 |
| 9,303 | Short Term Debtors | 12,798 | 21 |
| 8,495 | Cash and Cash Equivalents | 10,245 | 22 |
| 3,845 | Assets Held for Sale | 4,520 | 23 |
| 47,315 | Current Assets | 52,293 | |
| (237) | Cash and Cash Equivalents | (2,049) | 22 |
| (1,177) | Provisions | (361) | 25 |
| (465) | Short Term Borrowing | (520) | 37 |
| (21,467) | Short Term Creditors | (19,961) | 24 |
| (8,460) | Capital Grants Receipts in Advance | (8,593) | 27 |
| (961) | Revenue Grant Receipts in Advance | (1,634) | 27 |
| (32,767) | Current Liabilities | (33,118) | |
| (745) | Provisions | (1,350) | 25 |
| (51,016) | Long Term Borrowing | (50,879) | 37 |
| (134,370) | Other Long Term Liabilities | (122,734) | 26 |
| (2,634) | Capital Grant Receipts in Advance | (2,360) | 27 |
| (188,765) | Long Term Liabilities | (177,323) | |
| 103,727 | Net Assets: | 113,339 | |
| 4,338 | Unearmarked General Fund Balances | 5,946 | 28 |
| 1,034 | Earmarked General Fund reserves | 2,169 | 28 |
| 6,768 | Schools Balances | 8,201 | 28 |
| 31,233 | Earmarked Revenue Reserves | 31,636 | 28 |
| 6,615 | Earmarked Capital Reserves | 4,190 | 28 |
| 53,739 | Unusable Reserves | 61,197 | 29 |
| 103,727 | Total Reserves: | 113,339 | |

SECTION 3 : Statement of Accounts

Statement Of Cash Flows For The Year Ended 31 March 2013

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> | <i>Note</i> |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------|
| (10,018) | Net (Surplus) / Deficit on the Provision of Services | 10,703 | |
| (22,989) | Adjustments to Net (Surplus) / Deficit on the Provision of Services for Non-cash Movements | (29,806) | 39 |
| 29,217 | Adjustments for items included in the Net (Surplus) / Deficit on the Provision of Services that are Investing and Financing Activities | 12,232 | 40 |
| <u>(3,790)</u> | Net Cash Outflow from Operating Activities | <u>(6,871)</u> | |
| 1,731 | Investing Activities | 8,458 | 42 |
| (5,112) | Financing Activities | (1,524) | 43 |
| <u>(7,171)</u> | Net (Increase) / Decrease in Cash and Cash Equivalents | <u>63</u> | |
| 1,087 | Cash and Cash Equivalents at the beginning of the reporting period | 8,258 | |
| <u><u>8,258</u></u> | Cash and Cash Equivalents at the end of the reporting period | <u><u>8,195</u></u> | 22 |

SECTION 3 : Statement of Accounts

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31st March, 2013. The Council is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit Regulations 2011 and to comply with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, 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 debtor 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 it relates to 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; and
- 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 (Minimum Revenue Provision), 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 Mouchel in partnership with Middlesbrough Council.

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

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 Education and Children's 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 Comprehensive Income and Expenditure Statement 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; and
- 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.

SECTION 3 : Statement of Accounts

Statement of Accounting Policies

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.

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.

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 rental income 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.

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14. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13. 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 2012/13 and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

The cost of support services is fully allocated to services, or to the Best Value expenditure category of Corporate and Democratic Core. The basis of allocation used for the main costs of management and administration are outlined below:

- Central Departmental & Technical Staff - actual time spent by staff, or unit charge based upon cost.
- Democratic Processes - direct charge to Corporate and Democratic Core.
- Administrative Buildings - area occupied.

15. Property, Plant and Equipment

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

The asset valuations have been prepared using the following assumptions:

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

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Not all properties were specifically inspected for the purposes of asset valuations. This was neither practicable, nor considered by the Valuer to be necessary, for the purpose of the valuation. However, regular inspections are made by officers of the Property Section of all the Council's property assets. As allowable under the Code depreciated historical cost is used as a proxy for some non-property assets that have short useful lives and/or low values.

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

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; and

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 (i.e. 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

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

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

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

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

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

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

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

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.

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.

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.

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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 website.

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 does not purchase Heritage 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.

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.

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 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.

SECTION 3 : Statement of Accounts

Statement of Accounting Policies

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.

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.

SECTION 3 : Statement of Accounts

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- 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 2013/14 (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 are intended to assist users of the financial statements to evaluate the risk exposures that relate to offsetting derivative contracts and other financial instruments. 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.

In June 2011 an amended IAS19 Employee Benefits was issued and becomes effective from 1 January 2013. However the Code has not yet adopted this standard. The revised standard IAS 19R implements a change to the expected return on asset component of the pension cost. The change amends the calculation of the expected return of assets being calculated at the discount rate instead of the current expected rate of return based on the actual assets held. For most employers this will result in an increase in the charges to the Surplus or Deficit to the Provision of Services but no overall increase in the Pensions Liability. Comparatives will be required to be restated. The impact for 2012/13 accounts would mean an increase to the expenses charged to the Comprehensive Income & Expenditure Statement of £3.253m (from £15.5m to £18.8m). There will also be additional disclosures relating to sensitivity analysis of the expected return on assets.

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. This contract is due for renewal on 1 October 2013.

- There are 38 schools in Hartlepool. Twelve 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. There is one Voluntary Controlled (VC) School which is owned and accounted for by the Church of England Diocese of Durham.

- There are three foundation Schools which are owned by the School Governing Bodies. These school buildings do not appear on the Council's Balance Sheet.

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, 2013 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 £85,000 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 0.5% increase in the discount rate assumption would result in a decrease in liability of £38.577m: However, the Assumptions interact in complex ways. During 2012/13, the Authority's Actuary advised that the net pension liability for funded LGPS benefits had decreased by £0.488m as a result of estimates being corrected as a result of experience and increased by £9.758m attributable to updating of the assumptions. Actual pension rates are determined on an actuarial basis every 3 years. The latest valuation has determined the employer's contribution for 3 years from 2011/12. A 0.1% increase in this rate would increase the Authority's revenue budget requirement for pension costs by £0.007m. |
| 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 determined that the income shortfalls will continue in future years and has therefore included this as a £0.500m pressure in the Medium Term Financial Strategy |
| Arrears | At 31st March, 2013, the Council had a balance of £9.322m on general, Council Tax Payers and trade debtors. A review of these balances suggested that an impairment of doubtful debts of £3.173m was appropriate. However in the current climate it is not certain that such an allowance would be sufficient | If doubtful debts increased by 1% the bad debt provision would increase by £90k |
| Localisation of Business Rates | The level of Business Rates retained by the Council and the implementation of the 'safety net' threshold. | The Council has to manage potential annual Business Rates shortfalls of up to £1.7m before receiving any 'safety net' payment from the Government. The Council has set aside a reserve of £1m to help manage this risk. |

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

SECTION 3 : Statement of Accounts

Note 4: Events after the Balance Sheet Date

Non Adjusting Events After the Reporting Period

From 1st April the new arrangements for the retention of business rates come in to effect. Local Authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. A provision will be required to be recognised in the accounts for the Councils share of these amounts for 2012/13 and prior years. The estimate for provision is estimated to be £2.030m.

Three schools will become Academies from July 2013. These schools assets are currently reflected in the Council's Balance Sheet. Our judgement in respect of these schools are that where we retain legal ownership and title we also retain the balance of risks and rewards. Therefore, these assets will remain on the Councils Balance Sheet until legal ownership is transferred to the Academies. The value of Land & Buildings of the schools transferring to Academies is £13.3m.

From April 2013 the Council will be provided with a ring fenced Public Health grant £8.255m to discharge Public Health responsibilities being transferred from Hartlepool Primary Care Trust.

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

| 2012/13 | Useable Reserves | | | | | Movement in Unusable Reserves £000s |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|------------------------------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|----------------------------------------|
| | General Fund Balance £000s | Earmarked General Fund Reserves £000s | Earmarked Reserves £000s | Capital Receipts Reserve £000s | Capital Grants Unapplied £000s | |
| Adjustments primarily involving the Capital Adjustment Account: | | | | | | |
| <i>Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement</i> | | | | | | |
| Charges for Depreciation and Impairment of Non-current Assets | (14,949) | - | - | - | - | 14,949 |
| Charges for Revaluation losses on Property Plant and Equipment | (598) | - | - | - | - | 598 |
| Movements in the Market Value of Investment Properties | (151) | - | - | - | - | 151 |
| Capital Grants and Contributions | 11,445 | - | - | - | - | (11,445) |
| Write out Finance Leases | - | - | - | - | - | - |
| Direct Revenue Funding | - | - | 2,009 | - | - | (2,009) |
| Revenue Expenditure Funded from Capital Under Statute | (1,986) | - | (209) | - | - | 2,195 |
| 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 | (11,018) | - | - | - | - | 11,018 |
| <i>Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement</i> | | | | | | |
| Provision for the Financing of Capital Investment (MRP) | 4,686 | - | - | - | - | (4,686) |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | | | |
| Capital Grants and Contributions Unapplied Credited to the Comprehensive Income & Expenditure Statement | - | - | - | - | - | - |
| Application of Grants to Capital Financing transferred to the Capital Adjustment Account | - | - | - | - | 2,840 | (2,840) |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | | | |
| Transfer of Cash Sale Proceeds Credited as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement | 787 | - | - | (787) | - | - |
| Use of the Capital Receipts Reserve to finance new Capital Expenditure | - | - | - | 787 | - | (787) |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool | (1) | - | - | 1 | - | - |
| Adjustments primarily involving the Deferred Capital Receipts Reserve: | | | | | | |
| Transfer of Deferred Sale Proceeds credited as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement | - | - | - | (1) | - | 1 |

SECTION 3 : Statement of Accounts

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

| 2012/13 | Earmarked | | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|--------------------------|--------------------------|-------------------------------|
| | General Fund Balance | General Fund Reserves | | | |
| | £000s | £000s | £000s | £000s | £000s |
| Adjustments primarily involving the Unequal Pay Back Pay Account | | | | | |
| Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirement | 648 | - | - | - | (648) |
| Adjustments primarily involving the Pensions Reserve: | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement | (15,585) | - | - | - | 15,585 |
| Employer's Pension Contributions and Direct Payments to Pensioners payable in year | 8,727 | - | - | - | (8,727) |
| Adjustments Primarily involving the Collection Fund Adjustment Account: | | | | | |
| Amount by which Council Tax Income credited to the Comprehensive Income & Expenditure Statement is different from Council Tax Income calculated for the year in accordance with statutory requirements | 599 | - | - | - | (599) |
| Adjustments primarily involving the Accumulated Absences Adjustment Account: | | | | | |
| Amount by which Officer Remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements | (101) | - | - | - | 101 |
| Total Adjustments | (17,497) | - | 1,800 | - | 2,840 |

| 2011/12 | Earmarked | | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|--------------------------|--------------------------|-------------------------------|
| | General Fund Balance | General Fund Reserves | | | |
| | £000s | £000s | £000s | £000s | £000s |
| Adjustments primarily involving the Capital Adjustment Account: | | | | | |
| <i>Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement</i> | | | | | |
| Charges for Depreciation and Impairment of Non-current Assets | (8,982) | - | - | - | 8,982 |
| Charges for Revaluation losses on Property Plant and 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 |

SECTION 3 : Statement of Accounts

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

| 2011/12 | General Fund Balance £000s | Earmarked General Fund Reserves £000s | Earmarked Reserves £000s | Capital Receipts Reserve £000s | Capital Grants Unapplied £000s | Movement in Unusable Reserves £000s |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|----------------------------------------------|
| <i>Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement</i> | | | | | | - |
| Provision for the Financing of Capital Investment (MRP) | 4,872 | - | - | - | - | (4,872) |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | | | |
| Capital Grants and Contributions Unapplied Credited to the Comprehensive Income & Expenditure Statement | 2,485 | - | - | - | (2,485) | - |
| Application of Grants to Capital Financing transferred to the Capital Adjustment Account | - | - | - | - | 2,260 | (2,260) |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | | | |
| Transfer of Cash Sale Proceeds Credited as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement | 862 | - | - | (862) | - | - |
| Use of the Capital Receipts Reserve to finance new Capital Expenditure | - | - | - | 862 | - | (862) |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool | (1) | - | - | 1 | - | - |
| Adjustments primarily involving the Deferred Capital Receipts Reserve: | | | | | | |
| Transfer of Deferred Sale Proceeds credited as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement | - | - | - | (1) | - | 1 |
| Adjustments primarily involving the Unequal Pay Back Pay Account | | | | | | |
| Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirement | - | - | - | - | - | - |
| Adjustments primarily involving the Pensions Reserve: | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement | (9,543) | - | - | - | - | 9,543 |
| Employer's Pension Contributions and Direct Payments to Pensioners payable in year | 9,349 | - | - | - | - | (9,349) |

SECTION 3 : Statement of Accounts

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

| 2011/12 | General Fund Balance £000s | Earmarked General Fund Reserves £000s | Earmarked Reserves £000s | Capital Receipts Reserve £000s | Capital Grants Unapplied £000s | Movement in Unusable Reserves £000s |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|----------------------------------------------|
| Adjustments Primarily involving the Collection Fund Adjustment Account: | | | | | | |
| Amount by which Council Tax Income credited to the Comprehensive Income & Expenditure Statement is different from Council Tax Income calculated for the year in accordance with statutory requirements | (78) | - | - | - | - | 78 |
| Adjustments primarily involving the Accumulated Absences Adjustment Account: | | | | | | |
| Amount by which Officer Remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements | (652) | - | - | - | - | 652 |
| Total Adjustments | (2,228) | - | 1,505 | - | (225) | 948 |

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 2012/13. Further details are provided in Note 28.

| | Balance at 1 April 2011 | Transfer Between Reserves | Restated | | Balance at 31 March 2012 | Transfer Between Reserves | Transfers Out 2012/13 | Transfers In 2012/13 | Balance at 31 March 2013 |
|----------------------------------------------------------------------------|-------------------------|---------------------------|-----------------------|----------------------|--------------------------|---------------------------|-----------------------|----------------------|--------------------------|
| | | | Transfers Out 2011/12 | Transfers In 2011/12 | | | | | |
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Unearmarked General Fund Balance | | | | | | | | | |
| General Fund Balance | 3,856 | (394) | - | 876 | 4,338 | - | (100) | 1,708 | 5,946 |
| | 3,856 | (394) | - | 876 | 4,338 | - | (100) | 1,708 | 5,946 |
| Earmarked General Fund Reserves | | | | | | | | | |
| Budget Support Fund | 1,437 | 172 | (1,635) | 897 | 871 | - | (670) | 1,850 | 2,051 |
| Strategic Change Reserve | 732 | (503) | (84) | - | 145 | (45) | - | - | 100 |
| LPSA Reward | 18 | - | - | - | 18 | - | - | - | 18 |
| Strategic Change Reserve - Held in Trust for Schools | - | 79 | (79) | - | - | - | - | - | - |
| Strategic Procurement Review | 50 | (50) | - | - | - | - | - | - | - |
| Cabinet Projects | 4 | (4) | - | - | - | - | - | - | - |
| Energy Saving Fund | 1 | (1) | - | - | - | - | - | - | - |
| | 2,242 | (307) | (1,798) | 897 | 1,034 | (45) | (670) | 1,850 | 2,169 |
| School Balances | | | | | | | | | |
| Balances held by schools under a scheme of delegation | 4,409 | - | (4,417) | 6,776 | 6,768 | - | (6,771) | 5,611 | 5,608 |
| Strategic Change & Ring Fenced Grants Reserves - Held in Trust for Schools | - | - | - | - | - | 1,781 | (629) | 1,021 | 2,173 |
| Other Fund School Balances | - | - | - | - | - | 387 | (174) | 207 | 420 |
| | 4,409 | - | (4,417) | 6,776 | 6,768 | 2,168 | (7,574) | 6,839 | 8,201 |
| Earmarked Revenue Reserves | | | | | | | | | |
| Strategic One Off Costs | - | 7,446 | (864) | 1,980 | 8,562 | - | (1,685) | 2,530 | 9,407 |
| Insurance Fund | 3,181 | (1,468) | (23) | 2,938 | 4,628 | (238) | (680) | 224 | 3,934 |
| Strategic Change Reserves | 6,808 | (2,056) | (485) | 463 | 4,730 | (926) | (984) | 737 | 3,557 |
| Strategic Change Ring Fenced Grants Reserves | 5,181 | (2,448) | (950) | 1,279 | 3,062 | (262) | (855) | 2,030 | 3,975 |
| Strategic Risk Reserve | 3,252 | - | (574) | - | 2,678 | (500) | - | - | 2,178 |
| Early Intervention Grant Reserve | - | - | - | 454 | 454 | - | (14) | 1,240 | 1,680 |
| Transitional Support to Offset Council Tax Cuts | - | - | - | 1,197 | 1,197 | - | - | - | 1,197 |
| Academies Reserve | - | - | - | - | - | - | - | 1,148 | 1,148 |
| Business Rates Risk Reserve | - | - | - | - | - | - | - | 1,000 | 1,000 |
| Support 12/13 Loss of Council Tax Freeze Grant | - | - | - | 727 | 727 | - | - | - | 727 |
| Lotteries Reserve | 417 | - | (8) | 17 | 426 | - | (16) | 17 | 427 |
| Supporting Family Poverty | - | - | - | 319 | 319 | - | (10) | - | 309 |
| Trading Account Reserves | - | - | - | 285 | 285 | - | - | - | 285 |
| Future Project Investigation Costs | - | - | - | 250 | 250 | - | - | - | 250 |
| Pension Actuarial Reserve | - | - | - | 122 | 122 | - | - | 110 | 232 |
| School Attainment Reserve | - | - | - | - | - | - | - | 200 | 200 |
| Members Ward Issues | - | - | - | 182 | 182 | - | (93) | 105 | 194 |
| Carbon Reduction Commitment | 196 | - | (76) | 110 | 230 | - | (65) | - | 165 |
| Business Transformation | 261 | - | (52) | - | 209 | - | (45) | - | 164 |
| Building / Development Control Income Shortfall | - | - | - | 260 | 260 | - | (120) | - | 140 |
| Property Reserve | - | - | - | - | - | - | - | 107 | 107 |
| ICT Contract Reserve | - | - | - | - | - | - | - | 75 | 75 |
| Museums Acquisition | 66 | - | - | 3 | 69 | - | - | 3 | 72 |
| Works in Default Empty Homes | - | - | - | 50 | 50 | - | - | - | 50 |
| Training for Staff on Redeployment Register | - | - | - | 50 | 50 | - | - | - | 50 |
| Concessionary Fare | - | - | - | 60 | 60 | - | (22) | - | 38 |
| Seaton Carew Youth Club | - | - | - | 30 | 30 | - | - | - | 30 |
| Public Inquiry Reserve | - | - | - | - | - | - | - | 20 | 20 |
| Mayoral Referendum Reserve | - | - | - | 70 | 70 | - | (52) | - | 18 |
| NDC Fund | 45 | - | (37) | - | 8 | - | - | - | 8 |
| Strategic Change & Ring Fenced Grants Reserves - Held in Trust for Schools | - | 1,211 | (408) | 978 | 1,781 | (1,781) | - | - | - |
| Other Fund School Balances | 155 | - | (18) | 250 | 387 | (387) | - | - | - |
| Building Schools for the Future | 396 | (172) | (80) | 220 | 364 | (137) | (227) | - | - |
| School Rates | 74 | (74) | - | - | - | - | - | - | - |
| Brierton/Dyke House BSF Costs | 300 | - | (300) | - | - | - | - | - | - |
| Incinerator Reserve | 600 | (200) | (400) | - | - | - | - | - | - |
| Holiday Pay Reserve | - | - | - | 43 | 43 | (43) | - | - | - |
| Strategic Change Reserve | - | - | - | - | - | 2,280 | (2,280) | - | - |
| | 20,933 | 2,239 | (4,276) | 12,338 | 31,233 | (1,994) | (7,148) | 9,546 | 31,636 |
| Total Revenue Reserves | 31,440 | 1,538 | (10,490) | 20,887 | 43,373 | 129 | (15,492) | 19,943 | 47,952 |
| Earmarked Capital Reserves | | | | | | | | | |
| Capital Funding Reserve | 4,569 | (1,500) | (1,952) | 2,297 | 3,414 | (129) | (2,201) | 2,745 | 3,829 |
| Capital Grants Unapplied | 2,976 | - | (2,260) | 2,485 | 3,201 | - | (2,840) | - | 361 |
| Maritime Avenue Remedial Works | 38 | (38) | - | - | - | - | - | - | - |
| Capital Receipts Unapplied | - | - | (863) | 863 | - | - | (788) | 788 | - |
| | 7,583 | (1,538) | (5,075) | 5,645 | 6,615 | (129) | (5,829) | 3,533 | 4,190 |
| Total Useable Reserves | 39,023 | - | (15,565) | 26,532 | 49,988 | - | (21,321) | 23,476 | 52,142 |

During 2012/13 the Strategic Change Reserves were split in to Strategic Ringfenced Grants and Strategic Change Reserves, consequently the 2011/12 balances have been restated for comparative purposes.

Reserves previously reported under Earmarked Revenue Reserves relating to Schools were transferred to the School Balances heading in 2012/13.

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 Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

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

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

| Income and Expenditure 2012/13 | Child and Adult Services | Chief Executives | Regeneration & Neighbourhoods | Corporate | Total |
|--------------------------------------|--------------------------|------------------|-------------------------------|-----------------|------------------|
| | £000s | £000s | £000s | £000s | £000s |
| Fees, Charges & Other Service Income | (28,088) | (10,165) | (31,699) | (8,821) | (78,772) |
| Government Grants | (22,210) | (61,534) | (1,754) | (2,527) | (88,025) |
| Total Income | (50,297) | (71,699) | (33,453) | (11,348) | (166,797) |
| Employee Expenses | 56,505 | 8,416 | 16,669 | 1,324 | 82,914 |
| Other Operating Expenses | 111,914 | 61,656 | 28,432 | 20,394 | 222,395 |
| Support Service Recharges | 6,527 | 5,088 | 10,864 | 297 | 22,776 |
| Total Expenditure | 174,947 | 75,159 | 55,965 | 22,015 | 328,085 |
| Net Expenditure | 124,649 | 3,460 | 22,512 | 10,666 | 161,288 |

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

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.

| | 2011/12 £000s | 2012/13 £000s |
|-----------------------------------------------------------------------------|------------------|------------------|
| Net Expenditure in the Directorate Analysis | 168,547 | 161,288 |
| Amounts Not Reported in the Directorate Analysis | (41,905) | (45,959) |
| In Directorate Analysis not in Comprehensive Income & Expenditure Statement | (20,161) | (11,137) |
| Cost of Services in Comprehensive Income & Expenditure Statement | 106,481 | 104,192 |

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.

| 2012/13 | Directorate Analysis | Amounts not Reported in the Directorate Analysis | In Directorate Analysis not in CI&ES | Cost of Service - Continuing Operations | Corporate Amounts | Total |
|---------------------------------------------------------|----------------------|--------------------------------------------------|--------------------------------------|-----------------------------------------|-------------------|------------------|
| | £000s | £000s | £000s | £000s | £000s | £000s |
| Fees, Charges & Other Service Income | (78,772) | (915) | 37,105 | (42,582) | (18,652) | (61,234) |
| Income from Council Tax | - | - | - | - | (40,364) | (40,364) |
| Government Grants and Contributions | (88,025) | (74,884) | 14,486 | (148,423) | (68,019) | (216,442) |
| Total Income | (166,797) | (75,799) | 51,591 | (191,005) | (127,035) | (318,040) |
| Employee Expenses | 82,914 | 12,541 | (8,727) | 86,728 | 19,861 | 106,589 |
| Other Operating Expenses | 222,395 | 1,702 | (53,985) | 170,112 | 2,498 | 172,610 |
| Support Service Recharges | 22,776 | - | (16) | 22,760 | 16 | 22,776 |
| Depreciation, Amortisation and Impairment | - | 15,547 | - | 15,547 | 151 | 15,698 |
| Disposal of Non Current Assets | - | 50 | - | 50 | 11,020 | 11,070 |
| Total Expenditure | 328,085 | 29,840 | (62,728) | 295,197 | 33,546 | 328,743 |
| (Surplus) / Deficit on the Provision of Services | 161,288 | (45,959) | (11,137) | 104,192 | (93,489) | 10,703 |

| 2011/12 | Directorate Analysis | Amounts not Reported in the Directorate Analysis | In Directorate Analysis not in CI&ES | Cost of Service - Continuing Operations | Corporate Amounts | Total |
|---------------------------------------------------------|----------------------|--------------------------------------------------|--------------------------------------|-----------------------------------------|-------------------|------------------|
| | £000s | £000s | £000s | £000s | £000s | £000s |
| Fees, Charges & Other Service Income | (94,103) | - | 46,097 | (48,006) | (11,189) | (59,195) |
| Income from Council Tax | - | - | - | - | (39,825) | (39,825) |
| Government Grants and Contributions | (81,307) | (85,733) | - | (167,040) | (71,268) | (238,308) |
| Total Income | (175,410) | (85,733) | 46,097 | (215,046) | (122,282) | (337,328) |
| Employee Expenses | 85,076 | 11,110 | (9,349) | 86,837 | 19,490 | 106,327 |
| 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 Non Current Assets | - | - | - | - | 2,158 | 2,158 |
| Total Expenditure | 343,957 | 43,828 | (85,748) | 302,037 | 25,273 | 327,310 |
| (Surplus) / Deficit on the Provision of Services | 168,547 | (41,905) | (39,651) | 86,991 | (97,009) | (10,018) |

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

SECTION 3 : Statement of Accounts

Note 8: Other Operating Expenditure

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

| 2011/12 £000s | | 2012/13 £000s |
|------------------|----------------------------------------------------------|------------------|
| 126 | Parish Council Precepts and Levies | 128 |
| 1 | Payments to the Government Housing Capital Receipts Pool | 1 |
| (65) | Receipts from Sale of Former Council Houses | (165) |
| 0 | Loss resulting from Transfer of School Assets | 11,004 |
| 1,090 | (Gain) or loss on the disposal of non-current assets | (772) |
| <u>1,152</u> | | <u>10,196</u> |

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.

| 2011/12 £000s | | 2012/13 £000s | Note |
|------------------|-------------------------------------------------------------|------------------|------|
| 1,992 | Interest payable and similar charges on borrowing | 2,111 | 37 |
| 131 | Finance Lease Interest payable | 64 | 37 |
| (915) | Pensions Interest Cost & Expected Return on Pensions Assets | 3,145 | 45 |
| (273) | Interest Receivable and Similar Income | (229) | 37 |
| (752) | Net (Gain) / Loss on Investment Properties | (544) | 15 |
| 1,177 | Changes in fair values of Investment Properties | 151 | 15 |
| <u>1,360</u> | | <u>4,698</u> | |

Note 10: Taxation and Non-Specific Grant Income

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

| 2011/12 £000s | | 2012/13 £000s | Note |
|------------------|-----------------------------------|------------------|------|
| 39,825 | Council Tax Income | 40,364 | |
| 39,729 | NNDR Distribution | 47,556 | |
| 23,037 | Non-ring Fenced Government Grants | 10,209 | |
| 16,420 | Capital Grants and Contributions | 10,254 | |
| <u>119,011</u> | | <u>108,383</u> | 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 2012/13, 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 2012/13 or 2011/12.

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

Basic and Special Responsibility Allowances

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

General and General Subsistence

This covers expenses claimed by Councillors for travel and subsistence within a 35 mile radius of Hartlepool in respect of approved duties as a Councillor. In some instances this includes the travel expenses claimed by individual Councillors in their role representing the Council on regional organisations.

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.

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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 £335,731.62 (2011/12: £434,422.40). An analysis of the allowance payments is detailed below.

| Member | Basic Allowance | Special Responsibility Allowance | General Travel | General Subsistence | Conference Travel | Conference Fees | Conference Subsistence | Telephone Expenses | Chair/Vice of Council Allowance | Total 2012/13 |
|-------------------------------|-------------------|----------------------------------|----------------|---------------------|-------------------|-----------------|------------------------|--------------------|---------------------------------|-------------------|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Aiken M (1.4.12-7.5.12) | 589.09 | - | - | - | - | - | - | - | - | 589.09 |
| Ainslie J (8.5.12-31.3.13) | 5,177.86 | - | 174.87 | - | - | - | - | - | - | 5,352.73 |
| Akers-Belcher C | 5,766.96 | 5,512.82 | 84.56 | - | 167.60 | 1,400.00 | 480.00 | - | - | 13,411.94 |
| Akers-Belcher S J | 5,766.96 | 4,443.53 | - | - | 167.61 | 1,400.00 | 480.00 | - | - | 12,258.10 |
| Atkinson K (29.10.12-31.3.13) | 2,495.92 | - | - | - | - | - | - | - | - | 2,495.92 |
| Barclay A (1.4.12-7.5.12) | 589.10 | - | - | - | - | - | - | - | - | 589.10 |
| Beck P (8.5.12-31.3.13) | 5,177.86 | - | 114.86 | - | - | - | - | 55.60 | - | 5,348.32 |
| Brash J | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Cook R W | 5,766.96 | 5,766.96 | - | - | - | - | - | - | - | 11,533.92 |
| Cranney K H | 5,766.96 | 3,461.04 | - | - | - | - | - | - | - | 9,228.00 |
| Dawkins K (8.5.12-31.3.13) | 5,177.86 | - | - | - | - | - | - | - | - | 5,177.86 |
| Drummond S | 5,766.96 | 58,134.96 | - | - | - | - | - | - | - | 63,901.92 |
| Fenwick M (1.4.12-7.5.12) | 589.10 | - | - | - | - | - | - | - | - | 589.10 |
| Fisher K (8.5.12-31.3.13) | 5,177.86 | - | 447.86 | - | - | - | - | 165.31 | - | 5,791.03 |
| Fleet M | 5,766.96 | 3,461.05 | - | - | - | - | - | - | - | 9,228.01 |
| Fleming T (1.4.12-7.5.12) | 589.09 | - | - | - | - | - | - | - | - | 589.09 |
| Gibbon S | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Griffin S | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Hall G G | 5,766.96 | 3,584.95 | - | - | - | - | - | - | - | 9,351.91 |
| Hargreaves P | 5,766.96 | - | - | - | - | - | - | 175.20 | - | 5,942.16 |
| Hill C F | 5,766.96 | 5,766.96 | - | - | - | - | - | - | - | 11,533.92 |
| Ingham P (1.4.12-7.5.12) | 589.10 | - | - | - | - | - | - | - | - | 589.10 |
| Jackson P | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| James M A | 5,766.96 | 5,766.96 | - | - | 75.10 | 1,050.00 | 360.00 | - | - | 13,019.02 |
| Lauderdale J | 5,766.96 | 4,945.32 | - | - | - | - | - | - | - | 10,712.28 |
| Lawton T (1.4.12-7.5.12) | 589.10 | - | - | - | - | - | - | - | - | 589.10 |
| Lilley A E | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Lilley G | 5,766.96 | 3,079.59 | - | - | - | - | - | 177.06 | - | 9,023.61 |
| Loynes B | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Maness S (1.4.12-7.5.12) | 589.10 | - | - | - | - | - | - | - | - | 589.10 |
| Marshall A (1.4.12-7.5.12) | 942.65 | - | - | - | - | - | - | - | - | 942.65 |
| Marshall J (1.4.12-7.5.12) | 589.09 | - | - | - | - | - | - | - | - | 589.09 |
| Marshall J W (1.4.12-7.5.12) | 589.10 | - | - | - | - | - | - | - | - | 589.10 |
| McKenna C J (1.4.12-7.5.12) | 589.09 | - | - | - | - | - | - | - | - | 589.09 |
| Morris G | 5,766.96 | 3,461.04 | - | - | - | - | - | - | - | 9,228.00 |
| Payne R W | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Preece A (1.4.12-7.5.12) | 589.10 | - | 14.60 | - | - | - | - | - | - | 603.70 |
| Richardson C | 5,766.96 | 3,631.51 | - | - | - | - | - | - | - | 9,398.47 |
| Robinson J | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Rogan T (1.4.12-7.5.12) | 942.65 | - | - | - | - | - | - | - | - | 942.65 |
| Shaw J E (1.4.12-7.5.12) | 942.65 | - | 77.00 | - | - | - | - | 83.40 | - | 1,103.05 |
| Shields L | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Simmons C | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Sirs K | 5,766.96 | - | - | - | - | 350.00 | 120.00 | - | - | 6,236.96 |
| Sutheran L M (1.4.12-7.5.12) | 589.09 | - | - | - | - | - | - | - | - | 589.09 |
| Tempest S | 5,766.96 | 2,949.33 | - | - | - | - | - | - | - | 8,716.29 |
| Thomas S (1.4.12-7.5.12) | 942.65 | - | - | - | - | - | - | - | - | 942.65 |
| Thompson H (1.4.12-7.5.12) | 1,178.20 | - | - | - | - | - | - | - | - | 1,178.20 |
| Thompson P | 5,766.96 | 5,109.59 | - | - | - | - | - | - | - | 10,876.55 |
| Turner M W (1.4.12-3.9.12) | 2,450.96 | - | 28.17 | - | - | - | - | 38.97 | - | 2,518.10 |
| Wells R | 5,766.96 | 3,461.04 | - | - | - | - | - | - | - | 9,228.00 |
| Wilcox A | 5,766.96 | - | - | - | - | - | - | - | - | 5,766.96 |
| Wright E (1.4.12-7.5.12) | 589.09 | - | - | - | - | - | - | - | - | 589.09 |
| Total 2012/13 | 205,507.20 | 122,536.65 | 941.92 | 0.00 | 410.31 | 4,200.00 | 1,440.00 | 695.54 | 0.00 | 335,731.62 |
| Totals 2011/12 | 276,209.42 | 149,147.41 | 1,494.45 | 0.00 | 1,042.65 | 3,500.00 | 1,241.21 | 855.57 | 931.69 | 434,422.40 |

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 Health Authorities budgets, as detailed below. Unless indicated these appointments were for the period 1st April 2012 to 31st March 2013. Further details of these allowances can be obtained from the Fire, Police or Port Health Authorities.

| Councillor | Cleveland Fire Authority | | | Total £ | Period of Office |
|--------------|--------------------------|-----------------------------------|---------------------------------------------------|------------------|-------------------|
| | Basic Allowances £ | Special Responsibility Allowances | Travel, Subsistence or Conference Allowances £ | | |
| | Akers-Belcher S J | 408.32 | - | | |
| James M | 1,785.65 | - | 2.50 | 1,788.15 | 08/06/12-31/03/13 |
| Payne R | 2,193.96 | 7,959.32 | 1,110.22 | 11,263.50 | 01/04/12-31/03/13 |
| Richardson C | 2,193.96 | - | 12.10 | 2,206.06 | 01/04/12-31/03/13 |
| Wells R | 2,193.96 | - | - | 2,193.96 | 01/04/12-31/03/13 |

| Councillor | Cleveland Police Authority | | | Total £ | Period of Office |
|--------------|----------------------------|-----------------------------------|---------------------------------------------------|-----------------|-------------------|
| | Basic Allowances £ | Special Responsibility Allowances | Travel, Subsistence or Conference Allowances £ | | |
| | Drummond S | 6,126.66 | 8,460.99 | | |
| Richardson C | 6,126.66 | - | - | 6,126.66 | 01/04/12-21/11/12 |

| Councillor | River Tees Port Health Authority | | | Total £ | Period of Office |
|------------|--------------------------------------------------|-----------------------------------|---------------------------------------------------|------------|------------------|
| | Basic and Special Responsibility Allowances £ | Special Responsibility Allowances | Travel, Subsistence or Conference Allowances £ | | |
| | Tempest S | - | 1,045.00 | | |

Annual Allowance for Vice Chair of River Tees Port Health Authority is £1,255 for the period 02/06/12 - 01/06/13, the figure above relates to the period 02/06/12-31/03/13.

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 is provided below.

During 2012/13 the Council undertook a review of the senior management structure and these proposals were approved by full Council on 11th April 2013. These changes will be phased in during 2013/14 and in 2014/15 will provide a full year saving of around £330,000 arising from the restructuring of responsibilities and a reduction of 3.5 senior management posts. In addition, reduced salaries for the Chief Executive and two Directors posts were approved during 2013/14 and will provide a full year saving of £72,000 from 2013/14.

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 was the Acting Chief Executive, Nicola Bailey. The Acting Chief Executive was paid a fixed annual salary of £158,000 for the duration of this appointment and left this post in October 2012. The previous salary for the substantive Chief Executive position was £158,000 to £168,000. The Council appointed a new Chief Executive, Dave Stubbs, in November 2012 on a reduced salary grade of £140,000 to £150,000 per year. Mr Stubbs was appointed on an annual salary of £140,000 and annual increments of £2,000 are subject to assessment under the Council's Performance Increment Scheme (for the Chief Executive and Directors), which was approved by the Finance and Policy Committee on 31st May 2013.

The Chief Executive is the senior officer who leads and takes responsibility for the work of the 3,389 (3,414 in 2011/12) 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 is shown in the following tables:-

2012/13 - TABLE A

| Post holder information (Post title and name) | Salary | Pension Contributions (Note g) | Total Remuneration including Pension Contributions | Note |
|-----------------------------------------------|----------------|--------------------------------|----------------------------------------------------|----------|
| | | | 2012/13 | |
| | £ | £ | £ | |
| Chief Executive | | | | |
| Nicola Bailey (Apr 12 - Oct 12) | 92,167 | 12,437 | 104,604 | |
| David Stubbs (Nov 12 - Mar 13) | 58,333 | 0 | 58,333 | |
| Total | 150,500 | 12,437 | 162,937 | <i>a</i> |

2011/12 - TABLE B

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

No expense allowances were paid to Council Officers during 2012/13

SECTION 3 : Statement of Accounts

Note 12 - Officers' Remuneration

Note: a - Prior to the retirement of Paul Walker the former Chief Executive on 31st August, 2011 the substantive annual salary for this position was £158,000 to £168,000. In 2011/12 Paul Walker was paid an annual salary of £168,000 in accordance with his contract of employment. Following the retirement of the former Chief Executive temporary arrangements were put in place whereby Nicola Bailey, the Director of Child and Adult Services, was appointed as Acting Chief Executive until she left the Council in October 2012 and was paid a fixed annual salary of £158,000 for the duration of this appointment. Dave Stubbs was appointed as the permanent Chief Executive (previously the Director of Regeneration & Neighbourhoods) from November 2012 on a annual salary of £140,000 and annual increments of £2,000 are subject to assessment under the Council's Performance Increment Scheme (for the Chief Executive and Directors), which was approved by the Finance and Policy Committee on 31st May 2013. The temporary back filling arrangements for the Director of Child & Adults post remained in place throughout 2012/13 as this post remained vacant. The backfill arrangements are as follows:

- 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; and
- Backfill a specific element (10% of existing duties) of the Assistant Directors' roles.

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. For clarity no salary increments are to be paid and the temporary payments were not pensionable. This is a departure from the Council's normal employment arrangements and reflect the specific nature of these temporary arrangements.

In total the cost of this in 2012/13 was £0.125m lower than in 2011/12.

Senior Officers reporting directly to the Chief Executive

During the 2012/13 financial year there were six officers, including two departmental Directors, reporting directly to the Chief Executive and remuneration details for these posts is shown below.

Director of Child and Adult - responsible for a gross annual revenue budget (excluding schools) of £84m and managing 734 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 701 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.

2012/13 - TABLE C

| Post Holder Information (Post Title) | Salary | Pension Contributions (Note g) | Total Remuneration including Pension Contributions | Note |
|---------------------------------------------------------------|----------------|--------------------------------|----------------------------------------------------|------|
| | | | 2012/13 | |
| | £ | £ | £ | |
| Director of Child & Adult | - | - | - | a |
| Backfill of Director of Child & Adult | 44,167 | - | 44,167 | a |
| Total Director of Child & Adult | 44,167 | - | 44,167 | |
| Director of Regeneration & Neighbourhoods - (Apr 12 - Nov 12) | 75,833 | - | 75,833 | b |
| Director of Regeneration & Neighbourhoods - (Dec 12 - Mar 13) | 33,223 | 5,450 | 38,673 | |
| Total Director of Regeneration & Neighbourhoods | 109,056 | 5,450 | 114,506 | |
| Chief Finance Officer | 78,786 | 12,897 | 91,683 | c |
| Chief Solicitor | 96,989 | 15,718 | 112,707 | d |
| Assistant Chief Executive | 81,062 | 13,294 | 94,356 | e |
| Chief Customer & Workforce Services Officer (Apr 12 - Jun 12) | 19,644 | 3,323 | 22,967 | f |
| | 429,704 | 50,682 | 480,386 | |

SECTION 3 : Statement of Accounts

Note 12 - Officers' Remuneration

2011/12 - TABLE D

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

Notes

(a) As detailed in Table A the Director of Child and Adult Services was appointed as Acting Chief Executive and back fill arrangements were implemented for the Director role. Table C shows the cost of the backfill arrangements for this post.

(b) The salary scale for the Director of Regeneration & Neighbourhoods for 2012/13 was £120,000 to £130,000. When the new Director was appointed in December 2012 the salary was reduced by £20,000 to £100,000 to £110,000

(c) The salary scale for the Chief Finance Officer's post was assessed as £64,850 to £75,658 up until 30th October 2011. From 1st November 2011 the salary scale for this post was reassessed to reflect the additional responsibilities added to this role in relation Revenues and Benefits, payroll and insurances functions and the grade changed to £70,254 to £81,062. The salary payment for 2012/13 includes arrears of the revised grade with effective from 1st November 2011. The Chief Finance Officer's salary includes a payment of £3,432 in 2012/13 (£3,432 in 2011/12) 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 2012/13 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 2011/12) in respect of this post holder also acting as Legal Officer to Cleveland Fire Authority. This cost is paid for by the Fire Authority. The post holder also received £14,356 (£5,956 for local elections and £8,400 for the Mayoral Referendum) as the designated Returning Officer for the Council. The Chief Solicitor gained additional responsibilities when the Chief Customer & Workforce Services Officer left the Authority in relation to Members Services functions. This had no impact on the Chief Solicitor's salary grade.

(e) The salary scale for the Assistant Chief Executive's post for 2012/13 was £70,254 to £81,062 which has remained unchanged since 1st April, 2008. The Assistant Chief Executive gained additional responsibilities when the Chief Customer & Workforce Services Officer left the Authority in relation to managing the Human Resources and Contact Centre functions. This had no impact of the Assistant Chief's salary grade.

(f) The Chief Customer Services and Workforce Officer left the Council on 30th June 2012 her salary was £22,967. However the cost to the Council was £11,484 as a result of joint working with Darlington Borough Council who contributed 50%. 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 £85,300 this is annualised at 7.2% for salaries above £85,300 this is 7.5%.

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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 overleaf. The bandings have been used since 2002/2003 and are not indexed and therefore do not make any adjustment for inflationary increases each year. If the starting banding had been indexed for cost of living increases for local authority employees then it would be £60,000

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

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

| 2011/12 | | | Remuneration Band (£) | 2012/13 | | |
|-----------------------------|---------------------|--------------|-----------------------|-----------------------------|---------------------|--------------|
| No. of Non-School Employees | | | | 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> |
| 7 | 1 | 8 | 50,000 to 54,999 | 6 | 4 | 10 |
| 5 | 1 | 6 | 55,000 to 59,999 | 2 | 3 | 5 |
| 4 | - | 4 | 60,000 to 64,999 | 5 | 2 | 7 |
| 1 | 2 | 3 | 65,000 to 69,999 | 1 | 1 | 2 |
| 3 | - | 3 | 70,000 to 74,999 | 1 | - | 1 |
| 2 | 1 | 3 | 75,000 to 79,999 | 1 | - | 1 |
| 3 | - | 3 | 80,000 to 84,999 | 1 | - | 1 |
| - | - | - | 85,000 to 89,999 | 1 | 1 | 2 |
| - | - | - | 90,000 to 94,999 | 1 | 1 | 2 |
| - | - | - | 95,000 to 99,999 | - | - | - |
| - | - | - | 100,000 to 104,999 | - | - | - |
| - | - | - | 105,000 to 109,999 | - | 1 | 1 |
| - | - | - | 110,000 to 114,999 | - | - | - |
| - | - | - | 115,000 to 119,999 | - | - | - |
| - | - | - | 120,000 to 124,999 | - | - | - |
| - | - | - | 125,000 to 129,999 | - | 1 | 1 |
| 25 | 5 | 30 | | 19 | 14 | 33 |

TABLE F - SCHOOL EMPLOYEES

| 2011/12 | | | Remuneration Band (£) | 2012/13 | | |
|-------------------------|---------------------|--------------|-----------------------|-------------------------|---------------------|--------------|
| No. of School Employees | | | | 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> |
| 12 | - | 12 | 50,000 to 54,999 | 10 | - | 10 |
| 7 | - | 7 | 55,000 to 59,999 | 11 | 1 | 12 |
| 4 | - | 4 | 60,000 to 64,999 | 3 | 1 | 4 |
| 3 | - | 3 | 65,000 to 69,999 | 4 | 1 | 5 |
| 1 | - | 1 | 70,000 to 74,999 | 1 | - | 1 |
| - | - | - | 75,000 to 79,999 | - | - | - |
| - | - | - | 80,000 to 84,999 | - | - | - |
| - | - | - | 85,000 to 89,999 | - | - | - |
| - | - | - | 90,000 to 94,999 | - | - | - |
| 1 | - | 1 | 95,000 to 99,999 | - | - | - |
| - | - | - | 100,000 to 104,999 | 1 | - | 1 |
| 28 | - | 28 | | 30 | 3 | 33 |

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

SECTION 3 : Statement of Accounts

Note 13: Termination Costs

In response to cuts in Government grants in 2011/12, 2012/13 and 2013/14 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 2012/13 a total of 59 employees (158 in 2011/12) either took voluntary redundancy or were made compulsorily redundant. The 2012/13 costs of this involved payments of £0.512m (£0.904m in 2011/12) to employees in the form of redundancy payments and £0.318m (£0.393m in 2011/12) to the pension fund in respect of retirement benefits, the Council also incurred other costs of £0.025m (£0.017m in 2011/12). 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 2012/13 the average pay back period was 10 months (7 months in 2011/12). In 2012/13 this has enabled the Council to achieve permanent salary savings of £0.867m (£1.8m in 2011/12).

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

| 2011/12 | | | | Remuneration Band (£) | 2012/13 | | | |
|-------------------------------|------------------------------|----------------------------------|--------------------------------------|-----------------------|-------------------------------|------------------------------|----------------------------------|--------------------------------------|
| No of compulsory redundancies | No of voluntary redundancies | Total no of redundancies by band | Total cost of redundancies by band £ | | No of compulsory redundancies | No of voluntary redundancies | Total no of redundancies by band | Total cost of redundancies by band £ |
| 86 | 35 | 121 | 696,226 | 0 to 20,000 | 20 | 21 | 41 | 335,235 |
| 4 | 2 | 6 | 182,119 | 20,001 to 40,000 | 2 | 3 | 5 | 142,530 |
| 2 | - | 2 | 90,523 | 40,001 to 60,000 | - | 3 | 3 | 156,481 |
| 1 | 1 | 2 | 141,205 | 60,001 to 80,000 | - | 1 | 1 | 70,229 |
| 1 | - | 1 | 82,290 | 80,001 to 100,000 | - | 1 | 1 | 87,421 |
| 94 | 38 | 132 | 1,192,363 | | 22 | 29 | 51 | 791,896 |

TABLE H - SCHOOLS EMPLOYEES

| 2011/12 | | | | Remuneration Band (£) | 2012/13 | | | |
|-------------------------------|------------------------------|----------------------------------|--------------------------------------|-----------------------|-------------------------------|------------------------------|----------------------------------|--------------------------------------|
| No of compulsory redundancies | No of voluntary redundancies | Total no of redundancies by band | Total cost of redundancies by band £ | | No of compulsory redundancies | No of voluntary redundancies | Total no of redundancies by band | Total cost of redundancies by band £ |
| 16 | 9 | 25 | 91,799 | 0 to 20,000 | 8 | - | 8 | 63,084 |
| - | 1 | 1 | 29,791 | 20,001 to 40,000 | - | - | - | - |
| 16 | 10 | 26 | 121,590 | | 8 | - | 8 | 63,084 |

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 2012/13.

Movements in 2012/13

| | Council Dwellings £000s | Other Land & Buildings £000s | Vehicles, Plant & Equipment £000s | Infrastructure Assets £000s | Community Assets £000s | Surplus Assets £000s | PP&E Under Construction £000s | Total £000s |
|----------------------------------------------------------------------------------------------|----------------------------|---------------------------------|--------------------------------------|--------------------------------|---------------------------|-------------------------|----------------------------------|-----------------|
| Cost or Valuation | | | | | | | | |
| As at 1 April 2012 | 4,430 | 161,966 | 22,374 | 96,100 | 7,079 | 1,861 | 4,534 | 298,344 |
| Additions | - | 2,213 | 4,549 | 1,022 | 568 | 496 | 10,170 | 19,018 |
| Accumulated Depreciation & Impairment Written Off to Gross Carrying Amount | (28) | (3,900) | - | (12) | - | (35) | - | (3,975) |
| Revaluation Increases/(decreases) recognised in the Revaluation Reserve | (28) | 55 | - | - | 462 | 1,397 | - | 1,886 |
| Revaluation Increases/(decreases) recognised in the Surplus/Deficit on Provision of Services | 209 | (796) | - | (68) | (384) | 441 | - | (598) |
| Derecognition-Disposals | - | (11,174) | (338) | - | - | - | - | (11,512) |
| Reclassified to/from Held for Sale | - | - | - | - | - | (675) | - | (675) |
| Reclassified (to)/from Investment Property | - | 493 | - | - | (101) | (1,113) | - | (721) |
| Other movements in Cost or Valuation | - | (1,049) | 52 | 1,625 | (688) | 3,172 | (3,112) | - |
| At 31 March 2013 | 4,583 | 147,808 | 26,637 | 98,667 | 6,936 | 5,544 | 11,592 | 301,767 |
| Accumulated Depreciation and Impairment | | | | | | | | |
| As at 1 April 2012 | (8) | (3,884) | (10,525) | (35,626) | - | (20) | - | (50,063) |
| Depreciation Charge | (65) | (3,331) | (2,479) | (3,029) | - | (18) | - | (8,922) |
| Accumulated Depreciation Written Off to Gross Carrying Amount | 28 | 3,900 | - | 12 | - | 35 | - | 3,975 |
| Impairment Losses recognised in the Surplus/Deficit on the Provision of Services | - | (5,360) | - | - | - | (667) | - | (6,027) |
| Derecognition - Disposals | - | 241 | 261 | - | - | - | - | 502 |
| At 31 March 2013 | (45) | (8,434) | (12,743) | (38,643) | - | (670) | - | (60,535) |
| Net Book Value | | | | | | | | |
| At 31 March 2013 | 4,538 | 139,374 | 13,894 | 60,024 | 6,936 | 4,874 | 11,592 | 241,232 |
| Nature of Asset Holding | | | | | | | | |
| Owned | 4,538 | 139,374 | 13,887 | 60,024 | 6,936 | 4,874 | 11,592 | 241,225 |
| Finance Lease | - | - | 7 | - | - | - | - | 7 |
| Total | 4,538 | 139,374 | 13,894 | 60,024 | 6,936 | 4,874 | 11,592 | 241,232 |

SECTION 3 : Statement of Accounts

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

Movements in 2011/12

| | Council Dwellings £000s | Other Land & Buildings £000s | Vehicles, Plant & Equipment £000s | Infrastructure Assets £000s | Community Assets £000s | Surplus Assets £000s | PP&E Under Construction £000s | Total £000s |
|--------------------------------------------------------------------------------------------------|----------------------------|---------------------------------|--------------------------------------|--------------------------------|---------------------------|-------------------------|----------------------------------|-----------------|
| Cost or Valuation | | | | | | | | |
| As at April 2011 | 4,441 | 163,845 | 17,786 | 94,074 | 7,262 | 1,478 | 6,429 | 295,315 |
| Asset Register Migration Adjustment* | (1) | (7,154) | - | - | - | - | - | (7,155) |
| Revised as at 1 April 2011 | 4,440 | 156,691 | 17,786 | 94,074 | 7,262 | 1,478 | 6,429 | 288,160 |
| Additions | 6 | 6,775 | 5,464 | 2,013 | 195 | 3,112 | 4,042 | 21,607 |
| Acc Dep E& Imp WO to GCA Revaluation Increases/(decreases) recognised in the Revaluation Reserve | (65) | (6,527) | - | - | - | (14) | - | (6,606) |
| Revaluation Increases/(decreases) recognised in the Surplus/Deficit on Provision of Services | (460) | (7,042) | - | - | (236) | (3,218) | - | (10,956) |
| Derecognition-Disposals | - | (1,442) | (896) | - | (38) | - | - | (2,376) |
| Reclassified to/from Held for Sale Investment Property | - | (1,370) | - | - | (2,120) | 115 | - | (3,375) |
| Other Reclassifications | - | 5,729 | 5 | 13 | 190 | - | (5,937) | (0) |
| At 31 March 2012 | 4,430 | 161,966 | 22,374 | 96,100 | 7,079 | 1,861 | 4,534 | 298,344 |
| Accumulated Depreciation and Impairment | | | | | | | | |
| As at 1 April 2011 | (7) | (13,188) | (9,104) | (32,793) | - | (8) | - | (55,100) |
| Asset Register Migration Adjustment* | 1 | 7,154 | - | - | - | - | - | 7,155 |
| Revised as at 1 April 2011 | (6) | (6,034) | (9,104) | (32,793) | - | (8) | - | (47,945) |
| Depreciation Charge | (67) | (4,468) | (1,588) | (2,833) | - | (26) | - | (8,982) |
| Depreciation written out to the Revaluation Reserve | 65 | 6,527 | - | - | - | 14 | - | 6,606 |
| Depreciation derecognition - disposals | - | 91 | 167 | - | - | - | - | 258 |
| At 31 March 2011 | (8) | (3,884) | (10,525) | (35,626) | - | (20) | - | (50,063) |
| Net Book Value | | | | | | | | |
| At 31 March 2012 | 4,422 | 158,082 | 11,849 | 60,474 | 7,079 | 1,841 | 4,534 | 248,281 |
| Restated at 31st March 2011 | 4,434 | 150,657 | 8,682 | 61,281 | 7,262 | 1,470 | 6,429 | 240,215 |
| Nature of Asset Holding | | | | | | | | |
| Owned | 4,422 | 158,082 | 11,814 | 60,474 | 7,079 | 1,841 | 4,534 | 248,246 |
| Finance Lease | - | - | 35 | - | - | - | - | 35 |
| Total | 4,422 | 158,082 | 11,849 | 60,474 | 7,079 | 1,841 | 4,534 | 248,281 |

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

- Council Dwellings - 50 years.
- Other Land and Buildings - straight-line allocation over the useful life of the property as estimated by the valuer, between 25 and 40 years.
- Vehicles, Plant, Furniture & Equipment - straight-line allocation over the useful life of the asset, up to 15 years.
- Infrastructure - between 15 and 100 years.

SECTION 3 : Statement of Accounts

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

Capital Commitments

As at 31st March, 2013, the Council had rephased capital expenditure totalling £22.737m into 2013/14, of which £11.545m will be funded from grant, £7.932m will be funded by prudential borrowing and the remaining £3.260m will be funded from the Council's own resources. The comparable rephased capital expenditure at 31 March 2012 was £22.481m. 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 13 | Commitment |
|---------------------------------------|----------------------------|---------------------------------------------|------------|
| | £000s | £000s | £000s |
| Building Schools for the Future - ICT | 6,081 | 2,927 | 3,154 |
| Empty Property Purchasing Scheme | 4,493 | 1,596 | 2,897 |

Revaluations

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

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

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

The Council owns a historical boat called the Wingfield Castle, moored behind the Hartlepool Maritime Experience. The boat was valued by LGSA Marine, who are international marine surveyors and consultants in March 2009. It is held at £1.050m on the asset register.

The following statement shows the progress of the Council's rolling programme for the revaluation of non current assets, excluding Community Assets (£6.936m), Heritage Assets (£14.652m), Infrastructure Assets (£60.024m) and Property, Plant and Equipment under construction (£11.592m). 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 | | | | Total £000s |
|------------------------------------|-------------------------------|------------------------------------|--------------------------------------------|----------------------------|----------------|
| | Council Dwellings £000s | Other Land & Buildings £000s | Vehicles, Plant & Equipment £000s | Surplus Assets £000s | |
| Valued at Historical Cost | - | - | 13,894 | - | 13,894 |
| Valued at fair value as at: | | | | | |
| <u>Current Year</u> | | | | | |
| 2012/2013 | 4,490 | 60,712 | | 4,122 | 69,324 |
| 2011/2012 | - | 44,908 | | 2 | 44,910 |
| 2010/2011 | - | 15,344 | - | 750 | 16,094 |
| 2009/2010 | 48 | 13,744 | - | - | 13,792 |
| 2008/2009 | - | 4,666 | - | - | 4,666 |
| Total | 4,538 | 139,374 | 13,894 | 4,874 | 162,680 |

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 1 April 1996. These assets are held on behalf of the four unitary authorities pending their disposal. The sale proceeds will be distributed to the four unitary authorities in accordance with an agreed basis.

Revenue Expenditure Funded from Capital Under Statute

The net cost of Revenue Expenditure Funded from Capital Under Statute is charged to the Comprehensive Income and Expenditure Account. An amount of £2.195m (£12.721m in 2011/12) 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) £0.209m (£0.383m in 2011/12), and in the case of case of capital grants and prudential borrowing (General Fund) £1.986m (£12.337m in 2011/12).

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:

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|------------------------------------------------------------|--------------------------------|
| (952) | Rental income from Investment Property | (755) |
| 200 | Direct operating expenses arising from investment property | 211 |
| <u>(752)</u> | Net (gain)/loss | <u>(544)</u> |

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repair, maintain or enhance these assets.

The reduction in income in 2012/13 reflects the economic conditions affecting the income generated by investment properties in particular Middleton Grange Shopping Centre.

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.

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|------------------------------------------------|--------------------------------|
| 15,285 | Balance at the start of the year | 14,532 |
| | <u>Additions:</u> | |
| 498 | Acquisitions | - |
| 22 | Subsequent expenditure | - |
| (28) | Disposals | (7) |
| (1,177) | Net Gains/(Losses) from Fair Value Adjustments | (151) |
| | <u>Transfers</u> | |
| (68) | (To)/from Property, Plant & Equipment | 720 |
| <u>14,532</u> | Balance at the end of the year | <u>15,094</u> |

SECTION 3 : Statement of Accounts

Note 16: Non Current Assets - Heritage Assets

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

| 2011/12 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 |
| At 31 March 2012 | 13,128 | 354 | 1,170 | 14,652 |

| 2012/13 Cost or Valuation | Museum Exhibits & Art Collection | Civic Collection | Sculptures, Monuments & War Memorials | Total |
|------------------------------|----------------------------------------|---------------------|------------------------------------------------|---------------|
| | £000s | £000s | £000s | £000s |
| At 1 April 2012 | 13,128 | 354 | 1,170 | 14,652 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| Revaluations | - | - | - | - |
| At 31 March 2013 | 13,128 | 354 | 1,170 | 14,652 |

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 they are held in a 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 1980s 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.

SECTION 3 : Statement of Accounts

Note 16: Non Current Assets - Heritage Assets

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 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, in 2011/12 the External Valuers Anderson & Garland Ltd carried out an insurance based valuation of 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 £8.417m and £0.350m respectively.

Sculptures, Monuments, War Memorials & Archaeology

The Council has recorded 11 Public Works of Art, 7 Sculptures, 5 War Memorials which are considered to principally contribute to knowledge and culture.

Policy and Management

The Council has an Acquisitions & Disposals Policy in place which sets out the acquisition, preservation, management and disposal of Heritage Assets. This is available on request.

Note 17: Revaluation Decreases / Impairment Losses

During 2012/13, the Council has recognised net revaluation decreases of £0.749m in the Comprehensive Income and Expenditure Statement (compared to £12.131m in 2011/2012). This reflects the impact of the Council's five year rolling programme and reclassification of assets.

Impairment losses of £6.027m have been recognised in the accounts in 2012/13. The significant impairment losses relate to the Brierton site. Part of Brierton School was demolished during the year with losses of £2.077m and the A2L (Access to Learning Building) was also demolished at the site resulting in a reduction in value of £3.283m.

SECTION 3 : Statement of Accounts

Note 18: Long Term Investments

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

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|----------------------------------------|--------------------------------|
| - | Durham and Tees Valley Airport Limited | 59 |
| 197 | SITA Tees Valley Limited | 197 |
| <u>197</u> | | <u>256</u> |

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 Peel Investments (DVTA) LTD. The shares are valued at £0.059m (£nil in 2011/12); this is determined by the net worth of the company, as disclosed in the company's latest accounts.

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 2013

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|-------------------------------|--------------------------------|
| 15 | Housing Advances | 14 |
| 77 | Trincomalee Loan and Advances | 77 |
| 159 | Car Loans to Employees | 118 |
| 31 | Other | 44 |
| <u>282</u> | | <u>253</u> |

SECTION 3 : Statement of Accounts

Note 20: Inventories

This note sets out the value of inventories held by the Council at 31st March, 2013.

| 2011/12 £000s | | 2012/13 £000s |
|------------------|----------------------------------|------------------|
| 779 | Balance at 1 April | 637 |
| - | Transfer between activities | - |
| 2,600 | Purchases | 2,942 |
| (2,738) | Recognised as an expense in year | (2,853) |
| (4) | Written off balances | (7) |
| <u>637</u> | Balance at 31 March | <u>719</u> |

Note 21 Short Term Debtors

This note sets out amounts owed to the Council as at 31st March, 2013.

| Restated 2011/12 £000s | | 2012/13 | | |
|------------------------------|-----------------------------------------------|-----------------|----------------------------|---------------|
| | | Gross Debtor | Impairment of Bad Debts | Net Debtor |
| | | £000s | £000s | £000s |
| 1,534 | Central Government Bodies | 3,173 | - | 3,173 |
| 1,236 | Other Local Authorities | 1,810 | - | 1,810 |
| 55 | NHS Bodies | 332 | - | 332 |
| | Bodies external to general government: | | | |
| 3,120 | General and Other Debtors | 4,458 | 942 | 3,516 |
| 682 | Payments in Advance | 1,334 | - | 1,334 |
| 1,446 | Council Tax Payers | 3,044 | 1,727 | 1,317 |
| 1,230 | Trade Debtors | 1,820 | 504 | 1,316 |
| <u>9,303</u> | | <u>15,971</u> | <u>3,173</u> | <u>12,798</u> |

The analysis of Short Term Debtors has been updated to include NHS bodies. The 2011/12 figures have been re-analysed to incorporate this change. The increase in short term debtors primarily relates to grant owed by government departments in relation to Local Authority Central Spending Equivalent Grant, Environment Agency Grant funding the strengthening of the Town Wall and the timing of the February VAT claim. This is partly offset by NNDR prepayments that have now been offset against accounts in arrears and included as a single agency creditor against the NNDR pool. There was an increase in the balance owed by other Local Authorities, this primarily relates to monies owed regarding the Tees Valley Bus Network Improvement. The increase in payments in advance relates to the timing of direct payments to care providers.

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.

| 2011/12 £000s | | 2012/13 £000s |
|------------------|-------------------------------|------------------|
| | Assets | |
| 78 | Bank and Imprests | 78 |
| 8,417 | Liquidity Investment Accounts | 10,166 |
| <u>8,495</u> | | <u>10,244</u> |
| | Liabilities | |
| (237) | Bank Overdraft | (2,049) |
| <u>8,258</u> | | <u>8,195</u> |

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.

| 2011/12 £000s | | 2012/13 £000s |
|------------------|-------------------------------------------|---------------------|
| 470 | Balance outstanding at start of year | 3,845 |
| | Assets newly classified as Held for Sale: | |
| 3,550 | Property, Plant and Equipment | 675 |
| - | Revaluation losses | - |
| - | Revaluation gains | - |
| - | Assets declassified as Held for Sale | - |
| (175) | Property, Plant and Equipment | - |
| - | Assets sold | - |
| <u>3,845</u> | Balance outstanding at year-end | <u>4,520</u> |

Note 24: Short Term Creditors

This note sets out amounts owed by the Council as at 31st March, 2013.

| Restated 2011/12 £000s | | 2012/13 £000s |
|------------------------------|-----------------------------------------------|----------------------|
| 2,368 | Central Government Bodies | 2,579 |
| 1,333 | Other Local Authorities | 1,426 |
| 71 | NHS Bodies | 184 |
| | Bodies external to General Government: | |
| 10,518 | General and Other Creditors | 8,411 |
| 3,652 | Trade Creditors | 4,198 |
| 2,085 | Employee Absences | 2,186 |
| 1,440 | Income in Advance | 977 |
| <u>21,467</u> | | <u>19,961</u> |

The decrease in Short Term Creditors is primarily owing to the treatment of NNDR prepayments included within the General and Other Creditors balance. NNDR prepayments have now been offset against accounts in arrears and included as a single agency creditor against the NNDR pool.

The balances in 2011/12 have been reanalysed to reflect the requirement to show balances relating to NHS Bodies. HM Revenue & Customs balances are now shown within Government Departments

SECTION 3 : Statement of Accounts

Note 25: Provisions

Total provisions at 31st March, 2013, were £1.711m (£1.922m in 2011/2012), as detailed below.

Current Liabilities

| | | 2012/13 | | | | |
|---------|---------------------------------------------|------------|--------------|----------------------------------|---------------|--------------|
| | | Litigation | Land Charges | Job Evaluation/ Single Status | MMI Insurance | Total |
| 2011/12 | | | | | | |
| £000s | | £000's | £000's | £000's | £000's | £000's |
| 2,455 | Balance at 1st April | 141 | 77 | 959 | - | 1,177 |
| 108 | Additional provisions made in year | 100 | - | 60 | 120 | 280 |
| (354) | Amounts used in year | - | (1) | (167) | - | (168) |
| - | Amounts transferred to long term provisions | - | (76) | - | - | (76) |
| (1,032) | Unused amounts reversed in year | - | - | (852) | - | (852) |
| 1,177 | Balance at 31st March | 241 | - | - | 120 | 361 |

Long Term Liabilities

| | | 2012/13 | | | | | |
|---------|------------------------------------------------|--------------------------------------|--------------------|--------------|-------------------|---------------|--------------|
| | | Custodian Authority Property Charges | Equal Pay Back Pay | Land Charges | Contaminated Land | MMI Insurance | Total |
| 2011/12 | | | | | | | |
| £000s | | £000's | £000's | £000's | £000's | £000's | £000's |
| 745 | Balance at 1st April | 97 | 648 | - | - | - | 745 |
| - | Additional provisions made in year | - | - | - | 634 | 543 | 1,177 |
| - | Amounts transferred from short term provisions | - | - | 76 | - | - | 76 |
| - | Amounts used in year | - | - | - | - | - | - |
| - | Unused amounts reversed in year | - | (648) | - | - | - | (648) |
| 745 | Balance at 31st March | 97 | - | 76 | 634 | 543 | 1,350 |

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.

In September 1992 Municipal Mutual Insurance (MMI), the Council's former insurers, ceased accepting new business. MMI and its policyholders, including local authorities, have established a Scheme of Arrangement for the orderly run down of the company. MMI do not have enough assets to meet the claims and liabilities currently outstanding. The Scheme of Arrangement provides that, if there is a likelihood of a shortfall, MMI can reclaim from the major policyholders part of the claims paid from 1st October 1992. The Scheme of Arrangement under section 899 of the Companies Act 2006 was triggered in November 2012. In February 2013 the Creditors Committee set a levy rate of 15% based on a percentage share of the liabilities outstanding. Therefore the Council has recognised a £0.663m provision in the accounts for these liabilities.

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. These issues were finalised in 2012/13 and the balance of this provision released to the General Fund. Details of this transfer were reported to Finance and Policy Committee on 31st May 2013.

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.

Contaminated Land - in accordance with the Environmental Protection Act 1990, a provision for the Council's obligations arising from decontamination costs, in respect of former industrial sites dating back to the early 1900s. Provision has been made where there is a significant possibility of causing significant harm to human health.

SECTION 3 : Statement of Accounts

Note 26: Other Long Term Liabilities

The Finance lease liability relates to the outstanding principal on the Council's finance leases. Further details are included in Note 35 - Finance Leases.

| 2011/12 £000s | | 2012/13 £000s | Note |
|------------------|-------------------------|------------------|------|
| 279 | Finance lease liability | 154 | 35 |
| - | - Section 106 | 2 | |
| <u>134,089</u> | Net Pensions liability | <u>122,578</u> | 45 |
| <u>134,368</u> | | <u>122,734</u> | |

The finance lease liability has reduced as a result of repayment of principal.

The net pensions liability has reduced owing to Actuarial asset gains and a reduction in expected liability obligations. The significant asset gains reflect higher than assumed investment returns thus increasing the assets. Please see Notes 45 for further information

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 2012/13.

| 2011/12 £000s | | 2012/13 £000s |
|------------------|-------------------------------------------|------------------|
| 12,280 | Revenue Support Grant | 922 |
| 39,825 | Council Tax Income | 40,364 |
| 39,729 | NNDR Redistribution | 47,556 |
| 992 | Council Tax Freeze Grant | 993 |
| 7,144 | Early Intervention Grant | 7,192 |
| 2,280 | Local Support Services Grant | 395 |
| 339 | New Homes Bonus Grant | 706 |
| 433 | Capital - Devolved Formula Capital Grant | 167 |
| 3,089 | Capital - Primary Capital Programme | - |
| 3,296 | Capital - Building Schools for the Future | 2,106 |
| 1,728 | Capital - Other DfE Grants | 1,495 |
| 3,553 | Capital - Housing Market Renewal | - |
| 54 | Capital - Homes & Communities Agency | 1,347 |
| <u>4,268</u> | Other Capital Grants & Contributions | <u>5,140</u> |
| <u>119,010</u> | Total | <u>108,383</u> |

SECTION 3 : Statement of Accounts

Note 27: Grant Income - Credited to Services

| 2011/12 £000s | | 2012/13 £000s |
|------------------|--------------------------------------------------------|------------------|
| 73,797 | Dedicated Schools Grant | 73,045 |
| 45,731 | Housing Benefit Subsidy | 47,210 |
| 13,096 | Council Tax Benefit Subsidy | 13,027 |
| 9,225 | Building Schools for the Future | 26 |
| 3,672 | Young Peoples Learning Agency/ Skills Funding Agency | 3,669 |
| 3,628 | Other Grants | 2,377 |
| 2,116 | Department of Health Grants | 2,221 |
| 1,963 | Schools Standard Fund & Schools Standard Grants | - |
| 1,788 | Pupil Premium | 3,213 |
| 1,240 | Housing Benefit and Council Tax Benefit Administration | 1,178 |
| 1,192 | Housing Market Renewal | - |
| 1,188 | Other Department for Education Grants | 1,911 |
| 474 | Department for Work & Pensions | 459 |
| 12 | Environment Agency | 87 |
| 159,122 | Total | 148,423 |

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)

| 2011/12 £000s | | 2012/13 £000s |
|------------------|---------------------------------------|------------------|
| 2,719 | Department for Transport | 1,750 |
| 2,306 | Building Schools for the Future | 1,684 |
| 1,898 | Other Capital Grants & Contributions | 3,366 |
| 1,369 | Other Department for Education Grants | 1,625 |
| 168 | Homes & Communities Agency | 168 |
| 8,460 | Total | 8,593 |

Grant Receipts in Advance (Revenue Grants)

| 2011/12 £000s | | 2012/13 £000s |
|------------------|------------------------------------------------------|------------------|
| 525 | Young Peoples Learning Agency/ Skills Funding Agency | 855 |
| 209 | Department for Work & Pensions | 455 |
| 167 | Other Grants | 324 |
| 60 | Other Department for Education Grants | - |
| 961 | Total | 1,634 |

Long-Term Liabilities

Grant Receipts in Advance (Capital Grants)

| 2011/12 £000s | | 2012/13 £000s |
|------------------|--------------------------------------|------------------|
| 2,434 | Building Schools for the Future | 2,160 |
| 200 | Other Capital Grants & Contributions | 200 |
| 2,634 | Total | 2,360 |

SECTION 3 : Statement of Accounts

Note 28: Usable Reserves

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

| Restated 2011/12 £000s | | 2012/13 £000s | Note |
|------------------------------|----------------------------------------------------------------------------|--------------------------|------|
| | <u>Unearmarked General Fund Balance</u> | | |
| 4,338 | General Fund Balance | 5,946 | 1 |
| <u>4,338</u> | | <u>5,946</u> | |
| | <u>Farmarked General Fund Reserves</u> | | |
| 871 | Budget Support Fund | 2,051 | 2 |
| 145 | Strategic Change Reserve | 100 | 3 |
| 18 | LPSA Reward | 18 | 4 |
| <u>1,034</u> | | <u>2,169</u> | |
| | <u>School Balances</u> | | |
| 6,768 | Balances held by schools under a scheme of delegation | 5,608 | 5 |
| - | Strategic Change & Ring Fenced Grants Reserves - Held in Trust for Schools | 2,173 | 6 |
| - | Other Fund School Balances | 420 | 7 |
| <u>6,768</u> | | <u>8,201</u> | |
| | <u>Farmarked Revenue Reserves</u> | | |
| 8,562 | Strategic One Off Costs | 9,407 | 8 |
| 4,628 | Insurance Fund | 3,934 | 9 |
| 4,730 | Strategic Change Reserves | 3,557 | 10 |
| 3,062 | Strategic Change Ring Fenced Grants Reserves | 3,975 | 11 |
| 2,678 | Strategic Risk Reserve | 2,178 | 12 |
| 454 | Early Intervention Grant Reserve | 1,680 | 13 |
| 1,197 | Transitional Support to Offset Council Tax Cuts | 1,197 | 14 |
| - | Academies Reserve | 1,148 | 15 |
| - | Business Rates Reserve | 1,000 | 16 |
| 727 | Support 12/13 Loss of Council Tax Freeze Grant | 727 | 17 |
| 426 | Lotteries Reserve | 427 | 18 |
| 319 | Supporting Family Poverty | 309 | 19 |
| 285 | Trading Account Reserves | 285 | 20 |
| 250 | Future Project Investigation Costs | 250 | 21 |
| 122 | Pension Actuarial Reserve | 232 | 22 |
| - | School Attainment Reserve | 200 | 23 |
| 182 | Members Ward Issues | 194 | 24 |
| 230 | Carbon Reduction Commitment | 165 | 25 |
| 209 | Business Transformation | 164 | 26 |
| 260 | Building / Development Control Income Shortfall | 140 | 27 |
| - | Property Reserve | 107 | 28 |
| - | ICT Contract Reserve | 75 | 29 |
| 69 | Museums Acquisition | 72 | 30 |
| 50 | Works in Default Empty Homes | 50 | 31 |
| 50 | Training for Staff on Redeployment Register | 50 | 32 |
| 60 | Concessionary Fares | 38 | 33 |
| 30 | Seaton Carew Youth Club | 30 | 34 |
| - | Public Inquiry Reserve | 20 | 35 |
| 70 | Mayoral Referendum Reserve | 18 | 36 |
| 8 | NDC Fund | 8 | 37 |
| 1,781 | Strategic Change & Ring Fenced Grants Reserves - Held in Trust for Schools | - | |
| 387 | Other Fund School Balances | - | |
| 364 | Building Schools for the Future | - | |
| 43 | Holiday Pay Reserve | - | |
| <u>31,233</u> | | <u>31,636</u> | |
| | <u>Farmarked Capital Reserves</u> | | |
| 3,414 | Capital Funding Reserve | 3,829 | 38 |
| 3,201 | Capital Grants Unapplied | 361 | 39 |
| <u>6,615</u> | | <u>4,190</u> | |
| <u>49,988</u> | <u>Total Reserves</u> | <u>52,142</u> | |

Note 28: Usable Reserves

Notes to Usable Reserves

The Councils reserves have been established as part of the Medium Term Financial Strategy to manage the significant financial risks and one off commitments arising from continued cuts in ongoing Government grants. The following notes explain the purpose of individual reserves.

Unearmarked General Fund Balance

- 1 The General Fund Balance of £5.946m held at 31st March 2013 consists of the minimum uncommitted recommended balance of £3.462m, which is held to meet unforeseen commitments not funded from Earmarked Revenue Reserves, and additional monies which the Council determined should be held within this reserve of £2.484m. As part of the 2012/13 outturn and the decisions taken as part of the 2012/13 budget full Council approval is needed to release these additional monies, which were funded from the following contributions:

| | £000 |
|---------------------------------------------------------------------------|-------|
| Release of uncommitted Job Evaluation Provision | 545 |
| 2011/12 Final Outturn | 171 |
| 2011/12 Final Outturn Committed to spend on Children's Home Refurbishment | 35 |
| Right to buy income received in 2011/12 and 2012/13 | 191 |
| Release of uncommitted Job Evaluation Provision | 852 |
| 2012/13 Final Outturn | 680 |
| Inflation on Members Allowances | 10 |
| | <hr/> |
| | 2,484 |

Earmarked General Fund Reserves

- 2 This reserve has been established to support the 2013/14 and 2014/15 budgets.
- 3 This reserve has been established to enable departments to meet one-off costs that may arise from strategic changes to improve services, or reduce costs, without affecting the level of services in the year.
- 4 This reserve has been created using monies received from the Government following the Council's successful achievement of LPSA Targets.

School Balances

Reserves previously reported under Earmarked Revenue Reserves relating to Schools were transferred to the School Balances heading in 2012/13.

- 5 School reserves have reduced as schools have utilised their reserves to assist with lower increases in revenue funding and contributions to planned capital works. Further details are available from the Child & Adult Services Department. The net balance of £5.608m consists of individual school balances of £5.609m less loans to schools of £0.001m.
- 6 These risk reserves are Held in Trust for Schools to manage one-off risks.
- 7 School balances generated from other funding.

Earmarked Revenue Reserves

- 8 This reserve was created in 2011/12 to cover one-off strategic financial issues including redundancy and early retirement costs, Housing Market Renewal costs and capital investment requirements. This reserve was approved at Council on 9th February 2012
- 9 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.
- 10 During 2012/13 the Strategic Change Reserves were split in to Strategic Ringfenced Grants and Strategic Change Reserves, consequently the 2011/12 balances have been restated for comparative purposes.
Strategic Change 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.
- 11 Strategic Change Ring Fenced Grants Reserve are grants received which are ringfenced for specific purposes (i.e. PCT income).
- 12 This risk reserve is set aside to manage one-off risks in relation to Equal Pay/Equal Value claims.
- 13 This reserve is to be used to provide a longer lead time in order that the Authority can assess the implications of reducing EIG services to the level of the ongoing EIG funding. It is planned to use this reserve in 2013/14 and 2014/15.
- 14 This reserve was created to provide a transitional scheme to partly mitigate the impact of change to the Council Tax Benefit regime. It is planned to use this reserve in 2013/14 and 2014/15.

Note 28: Usable Reserves

- 15 This reserve has been established to manage the impact of schools becoming academies in 2013/14 and future years.
- 16 This reserve has been established to address the financial risk of the impact of the Business rates being relocalised in April 2013 and the implementation of the 'safety net' arrangements. Under these arrangements the Council will only receive 'safety net' grant for shortfalls above £1.7m. This is a significant risk to the Council owing to the potential loss of Business Rates income from unplanned shut downs at the Power Station.
- 17 This reserve will be used to provide a transitional scheme to partly mitigate the impact of change to the Council Tax Benefit regime. It is planned to use £0.670m of this reserve in 2013/14 and the balance in future years.
- 18 The Lotteries Reserve, which consists of the proceeds of the Civic Lottery and donations received, is used for grants and donations to local organisations.
- 19 This reserve was created to Support Family Poverty in the town. Part of the reserve (£0.160m) will be used in 2013/14 to partly mitigate the impact of the cut in grant paid towards the local Council Tax Support Scheme.
- 20 An amount set aside to manage future financial risks on Trading Operations.
- 21 This reserve has been established to investigate the future benefits of projects agreed by the Finance and Policy Committee.
- 22 Reserve to manage the pension costs over 3 years as per actuaries estimate.
- 23 This reserve was created towards improving School Attainment. Members will approve detailed Business Cases.
- 24 This reserve is to be used by Members to support minor issues within their wards.
- 25 This reserve has been established to meet Carbon Reduction Commitment liability.
- 26 An amount set aside to fund the Business Transformation Programme.
- 27 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.
- 28 This reserve was created to fund off costs of achieving ongoing accommodation savings.
- 29 This reserve was created to fund one off costs of professional support for the ICT contract renewal which will provide significant ongoing savings in 2013/14 and future years.
- 30 The Museums Acquisition Reserve was set up to put monies aside for the acquisition of items for the Museum.
- 31 This reserve has been created to provide a cash back fund for the completion of housing works in default.
- 32 Amount set aside to provide re-training of staff on the redeployment register.
- 33 This reserve is to cover the tri-annual cost of replacing Concessionary Fare passes.
- 34 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.
- 35 To fund the Public Inquiry approved by Council.
- 36 An amount set aside to cover the costs of a one-off mayoral referendum.
- 37 An amount set aside to fund any outstanding expenditure on New Deal for Communities (NDC) projects.
- 38 The Capital Funding Reserve is earmarked to finance specific expenditure rephased to 2013/14.
- 39 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.

| 2011/12 £000s | | 2012/13 £000s | Table |
|------------------|--------------------------------------------------|------------------|-------|
| 38,203 | Revaluation Reserve | 37,192 | 1 |
| 197 | Available for Sale Financial Instruments Reserve | 257 | 2 |
| 152,009 | Capital Adjustment Account | 147,764 | 3 |
| (134,089) | Pensions Reserve | (122,578) | 4 |
| 9 | Deferred Capital Receipts Reserve | 8 | 5 |
| 141 | Collection Fund Adjustment Account | 740 | 6 |
| (648) | Unequal Pay Back Pay Account | - | 7 |
| (2,083) | Accumulated Absences Account | (2,186) | 8 |
| <u>53,739</u> | | <u>61,197</u> | |

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.

| 2011/12 £000s | | 2012/13 £000s |
|------------------|-----------------------------------------------------------------------------------------------------------------------------|------------------|
| 22,265 | Balance at 1 April | 38,203 |
| 18,580 | Upward revaluation of assets | 6,722 |
| (2,044) | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | (4,835) |
| 16,536 | Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | 1,887 |
| (705) | Difference between fair value depreciation and historical cost depreciation | (557) |
| 107 | Accumulated gains/(losses) on assets sold or scrapped | (2,341) |
| (598) | Amount written off to the Capital Adjustment Account | (2,898) |
| <u>38,203</u> | Balance at 31 March | <u>37,192</u> |

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.

| 2011/12 £000s | | 2012/13 £000s |
|------------------|--------------------------------------------------------------------------------------------------------|------------------|
| 418 | Balance at 1 April | 197 |
| (221) | Movement in revaluation of investments not charged to the Surplus/Deficit on the Provision of Services | 60 |
| <u>197</u> | Balance at 31 March | <u>257</u> |

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.

| 2011/12 £000s | | 2012/13 £000s |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 151,434 | Balance at 1 April | 152,009 |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| (8,982) | - Charges for depreciation and impairment of non-current assets | (14,949) |
| (10,955) | - Revaluation losses on Property, Plant and Equipment | (598) |
| (12,721) | - Revenue expenditure funded from capital under statute | (2,195) |
| (2,147) | - 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 | (11,018) |
| (34,805) | | (28,760) |
| 598 | Adjusting amounts written out of the Revaluation Reserve | 2,898 |
| (34,207) | Net written out amount of the cost of non-current assets consumed in the year | (25,862) |
| | Capital financing applied in the year: | |
| 862 | - Use of the Capital Receipts Reserve to finance new capital expenditure | 787 |
| 25,871 | - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 11,445 |
| 2,260 | - Application of grants to capital financing from the Capital Grants Unapplied Account | 2,841 |
| 4,872 | - Statutory provision for the financing of capital investment charged against the General Fund | 4,686 |
| 1,889 | - Direct revenue funding credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 2,009 |
| 35,754 | | 21,768 |
| (1,177) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | (151) |
| 205 | Other Adjustments | - |
| 152,009 | Balance at 31 March | 147,764 |

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.

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| (51,856) | Balance at 1 April | (134,089) |
| (82,039) | Actuarial gains or (losses) on pensions assets and liabilities | 18,369 |
| (9,543) | 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 | (15,585) |
| 9,349 | Employer's pensions contributions and direct payments to pensioners payable in the year | 8,727 |
| <u>(134,089)</u> | Balance at 31 March | <u>(122,578)</u> |

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.

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|---------------------------------------------------------------|--------------------------------|
| 10 | Balance at 1 April | 9 |
| (1) | Transfer to the Capital Receipts Reserve upon receipt of cash | (1) |
| <u>9</u> | Balance at 31 March | <u>8</u> |

SECTION 3 : Statement of Accounts

Note 29: Unusable Reserves

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.

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| 219 | Balance at 1 April | 141 |
| (78) | 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 | 599 |
| <u>141</u> | Balance at 31 March | <u>740</u> |

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. This has been released in 2012/13 as there are no longer any settlements outstanding.

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|-------------------------------------------------------------------|--------------------------------|
| (648) | Balance at 1 April | (648) |
| - | Decrease in provision for back pay in relation to Equal Pay cases | 648 |
| <u>(648)</u> | Balance at 31 March | <u>-</u> |

SECTION 3 : Statement of Accounts

Note 29: Unusable Reserves

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 marginal increase in the accrual made for accumulated absences between 31st March, 2012 and 31st March, 2013, owing to staff carrying forward more annual leave than in the previous year.

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| (1,432) | Balance at 1 April | (2,084) |
| 1,432 | Settlement or cancellation of accrual made at the end of the preceding year | 2,084 |
| <u>(2,084)</u> | Amounts accrued at the end of the current year | <u>(2,186)</u> |
| (652) | 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 | (102) |
| <u>(2,084)</u> | Balance at 31 March | <u>(2,186)</u> |

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, 2013 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 2012/13 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 organisation's management board e.g. Manor Residents, Hartlepool Carers and Hartlepool Voluntary Development Agency. In 2011/12 the Council let a contract for the provision of the Navigation Service and the SAILS and Handy Person Service to Who Cares North East, these contracts continued into 2012/13. The value of the contract was £0.340m, of which £0.050m was funded by the Council and £0.290m was funded from the Primary Care Trusts and Clinical Commissioning Group income. 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 these interests 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

Members of the Corporate Management Team are required to provide an annual declaration of interest and to keep this under review during the year. All declarations have been reviewed. Only one declaration requires disclosing. The Chief Solicitor is a director of the Cleveland Fire Brigade Risk Management Community Interest Company. This is a non remunerated position.

SECTION 3 : Statement of Accounts

Note 30: Related Party Transactions

Other Public Bodies (subject to common control by central government)

The Council provides various support services, predominantly in relation to financial and legal services, to Cleveland Fire Authority for which it received income of £0.178m (£0.167m in 2011/12). In particular, the Council's Chief Solicitor holds the position of Legal Advisor and the Chief Finance Officer holds the position of Deputy Treasurer (see Note 12 for further details).

The Council continues to provide a range of support services to Housing Hartlepool including Fleet Maintenance and Building Cleaning. The income from these services amounted to £0.429m (£0.771m in 2011/12) 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 (£41,000 in 2011/12).

The Council provided Legionella services to Middlesbrough Council, £0.052m (£0.051m in 2011/12), schools outside Hartlepool, £0.029m (£0.024m in 2011/12), which represented the cost of the service provided

The Council provided Building Cleaning service to the Sixth Form College of £0.075m (£0.063m in 2011/12), which represented the cost of the service provided.

Other Entities

The Council holds minority shares in Durham Tees Valley Airport Ltd and SITA Tees Valley Ltd.

The value of shares held by the Council in Durham Tees Valley Airport Limited (formerly Teesside International Airport) is £0.060m based on a shareholding of 1.08%. The value has been determined with reference to the net worth of the company, which is £5.510m as per their latest accounts for the financial year ending 31st March, 2012. The shareholding was valued at nil in 2011/12 owing to the negative net worth of the company in the previous financial year.

Issues of note include a profit on the Profit and Loss Account of £6.690m (previous year loss of £1.648m) and a net asset position of £5.510m (previous year net liability £22.060m). 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, 2011, that includes a loss on the Profit and Loss Account of £2.052m (previous year loss of £0.382m) and a net asset position of £31.938m (previous year £33.990m). 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 £0.030m deficit in 2012/13 (£0.224m surplus in 2011/12).

| 2011/12 (Surplus) / Deficit £000s | Internal Trading Operations | Expenditure | 2012/13 Income | (Surplus) / Deficit |
|--------------------------------------------|---------------------------------|---------------|-------------------|------------------------|
| | | £000s | £000s | £000s |
| 73 | Catering | 148 | (111) | 37 |
| 101 | Building Maintenance | 4,542 | (4,392) | 150 |
| (237) | Highways Works | 2,763 | (2,720) | 43 |
| (73) | Integrated Transport Unit (ITU) | 3,592 | (3,788) | (196) |
| (74) | Building Cleaning | 1,683 | (1,696) | (13) |
| (14) | School Catering | 3,148 | (3,139) | 9 |
| - | Community Housing | 412 | (412) | - |
| (224) | | 16,288 | (16,258) | 30 |

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

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

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

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:

| 2011/12 £000s | | 2012/13 £000s |
|------------------|---------------------------------------------------------------------------------------------------------|------------------|
| 240 | Fees payable to in respect of external audit services carried out by the appointed auditor for the year | 144 |
| (19) | Rebate on previous years Audit Fee | (13) |
| 5 | Additional Audit Fees 2010/2011 Financial Statements | - |
| 59 | Fees payable to Audit Commission for the certification of grant claims and returns for the year | 34 |
| 285 | | 165 |

The Audit Commission undertook a procurement exercise to outsource the work of its Audit Practice. This exercise, along with internal efficiencies made by the Audit Commission, produced significant savings which have been passed on to local authorities resulting in a 40% reduction in the audit fee. Mazars LLP were appointed as the Council's auditors.

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). An element of DSG is recouped by the Department to fund academy schools in the Council's area - there were no academy schools in Hartlepool during 2012/13. 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 maintained school.

Details of the deployment of DSG receivable for 2012/13 are as follows: -

| | Central Expenditure £000s | Individual Schools Budget £000s | Total £000s |
|---------------------------------------------------------------------|---------------------------------|------------------------------------------|----------------|
| Final Dedicated Schools Grant for 2012/13 before Academy recoupment | | | 73,045 |
| Academy figure recouped for 2012/13 | | | - |
| Total DSG after Academy recoupment for 2012/13 | | | 73,045 |
| Brought Forward from 2011/12 | | | 1,417 |
| Carry Forward to 2013/14 agreed in advance | | | - |
| Agreed Initial Budget Distribution in 2012/13 | 7,604 | 66,858 | 74,462 |
| In Year Adjustments | (2,043) | 2,822 | 779 |
| Final Budget Distribution for 2012/13 | 5,561 | 69,680 | 75,241 |
| Less Actual Central Expenditure | (4,592) | | |
| Less Actual Individual Schools Budget Deployed to Schools | | (68,774) | |
| Plus Local authority contribution for 2012/13 | - | - | - |
| Surplus Carried forward to 2013/14 | 969 | 906 | 1,875 |

The £0.906m 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

| <u>2011/12</u> <u>£000s</u> | Future minimum lease payments due | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|-------------------------------------------------|--------------------------------|
| 304 | Not later than one year | 365 |
| 541 | Later than one year & not later than five years | 428 |
| <u>1,150</u> | Later than five years | <u>1,076</u> |
| <u>1,995</u> | | <u>1,869</u> |

Council as lessor

| <u>2011/12</u> <u>£000s</u> | Future minimum lease payments receivable | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|-------------------------------------------------|--------------------------------|
| 224 | Not later than one year | 225 |
| 324 | Later than one year & not later than five years | 183 |
| <u>918</u> | Later than five years | <u>887</u> |
| <u>1,466</u> | | <u>1,295</u> |

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

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

The Council has sub-let some of the office accommodation held under these operating leases. At 31st March, 2013 the minimum payments expected to be received under non-cancellable sub-leases was £0.067m (£0.117m as at 31st March, 2012). Where appropriate the value of these leases are shown in the Investment Property note.

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

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|------------------------------------------|--------------------------------|
| | Payments recognised as an expense | |
| 343 | Minimum lease payments | 252 |
| <u>(97)</u> | Sub-lease payments | <u>(79)</u> |
| <u>246</u> | Total | <u>173</u> |

Included within the above is £0.070m relating to 37 cars following the introduction of a salary sacrifice car scheme for staff during the year (£0.019m relating to 17 cars in 2011/12). The remainder relates to Land and Buildings.

SECTION 3 : Statement of Accounts

Note 35: Finance Leases

The Council has acquired its IT and telecommunications equipment under finance leases. 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

| 2011/12 £000s | | 2012/13 £000s |
|------------------|--------------------------------------------------|------------------|
| 35 | Value of Assets held under Finance Leases | |
| 35 | Vehicles, plant & equipment | 7 |
| 35 | Total | 7 |

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest 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:-

| 2011/12 £000s | | 2012/13 £000s |
|------------------|------------------------------------------|------------------|
| | Future minimum lease payments due | |
| 175 | Current | 189 |
| 154 | Non-current | - |
| 99 | Finance costs payable in the future | - |
| 428 | Total minimum lease payments | 189 |

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

| 2011/12 | | | 2012/13 | |
|---------------------------------------|------------------------------------------|-------------------------------------------------|---------------------------------------|------------------------------------------|
| Minimum Lease Payments £000s | Finance Lease Liabilities £000s | | Minimum Lease Payments £000s | Finance Lease Liabilities £000s |
| | | Payable: | | |
| 239 | 125 | No later than one year | 189 | 154 |
| 189 | 154 | Later than one year & not later than five years | - | - |
| 428 | 279 | Total | 189 | 154 |

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.

| 2011/12 £000s | | 2012/13 £000s |
|------------------|----------------------------------------------------------------------|------------------|
| 92,207 | Brought Forward Opening Capital Financing Requirement | 91,097 |
| (205) | Writing out of Voluntary Aided School Finance Lease Liability | - |
| 92,002 | Revised Opening Capital Financing Requirement | 91,097 |
| | Capital investment | |
| 21,607 | Property, Plant and Equipment | 19,018 |
| 520 | Investment Properties | - |
| 12,721 | Revenue Expenditure Funded from Capital under Statute | 2,195 |
| | Sources of Finance | |
| (862) | Capital receipts | (787) |
| (28,131) | Government Grants and Other Contributions | (14,286) |
| | <i>Sums set aside from revenue:</i> | |
| (1,888) | Direct Revenue Contributions | (2,009) |
| (4,872) | Minimum Revenue Position (MRP) | (4,686) |
| 91,097 | Closing Capital Financing Requirement | 90,542 |
| | Explanation of movements in year | |
| 794 | Increase in borrowing supported by government financial assistance | 379 |
| 3,173 | Increase in borrowing unsupported by government financial assistance | 3,752 |
| (4,872) | Minimum Revenue Provision (MRP) | (4,686) |
| (905) | Increase/(decrease) in Capital Financing Requirement | (555) |

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:

| Restated 31 March 2012 | | | 31 March 2013 | |
|-----------------------------------|--------------------------|-------------------------------------------------|----------------------------|--------------------------|
| Long Term £000s | Current £000s | | Long Term £000s | Current £000s |
| | | Investments | | |
| - | 25,000 | Loans and receivables - principal Amount | - | 24,000 |
| - | 8,417 | Liquidity Accounts included in Cash Equivalents | - | 10,166 |
| - | 35 | Accrued Interest | - | 11 |
| - | 33,452 | Loans and receivables at Amortised Cost | - | 34,177 |
| 197 | - | Available-for-sale financial assets * | 256 | - |
| 197 | 33,452 | Total Investments | 256 | 34,177 |

* Includes Tees Valley Airport Shares which are valued at £0.059m in 2012/13 (valued at nil in 2011/12).

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

| | | Debtors | | |
|----------|--------------|------------------------------------------------------------------------|----------|--------------|
| - | 5,690 | Loans and receivables (Trade Debtors and General and Other Debtors)*** | - | 6,278 |
| - | 5,690 | Total debtors | - | 6,278 |

| | | Borrowings | | |
|---------------|------------|-----------------------------------------|---------------|------------|
| 51,016 | 35 | Financial liabilities Principal Amount | 50,879 | 98 |
| - | 430 | Accrued Interest** | - | 422 |
| 51,016 | 465 | Financial liabilities at amortised cost | 50,879 | 520 |
| 51,016 | 465 | Total Borrowings | 50,879 | 520 |

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

| | | Other Long Term Liabilities | | |
|------------|----------|------------------------------------------|----------|------------|
| 279 | - | Finance lease liabilities | - | 154 |
| 279 | - | Total Other Long Term Liabilities | - | 154 |

| | | Creditors | | |
|----------|---------------|-------------------------------------------------------------------------------------------------------|----------|---------------|
| - | 14,170 | Financial liabilities carried at contract amount (Trade Creditors and General and Other Creditors)*** | - | 12,609 |
| - | 14,170 | Total Creditors | - | 12,609 |

*** Debtors and Creditors figures have been restated to include General and Other Debtors and General and Other Creditors respectively in addition to Trade Debtors and Creditors previously disclosed.

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 2012/13 there were no reclassifications or derecognitions of Financial Instruments.

| | 2012/13 | | | | |
|-------------------------------------|---------------------------------------------------------|-------------------------------|------------------------------------------------|---------------------------------------------|--------------|
| | 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 | 2,111 | 64 | - | - | 2,175 |
| Interest income | - | - | (229) | - | (229) |
| (Gain) / Loss on revaluation | - | - | - | (59) | (59) |
| Net (gain)/loss for the year | 2,111 | 64 | (229) | (59) | 1,887 |

| | 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) |
| (Gain) / Loss on revaluation | - | - | - | 221 | 221 |
| Net (gain)/loss for the year | 1,992 | 131 | (273) | 221 | 2,071 |

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 2013 of 0.02% to 3.13% for loans from the Public Works Loan Board and 4.09% to 4.13% 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:

| Restated | | | 31 March 2013 | |
|------------------------------|--------|--------------------------------------------------|----------------------|---------------|
| 31 March 2012 | | | Carrying | Fair |
| Carrying | Fair | | Amount | Value |
| Amount | Value | | £000s | £000s |
| £000s | £000s | | | |
| Financial Liabilities | | | | |
| 45,426 | 42,772 | Market Loans | 45,383 | 44,147 |
| 6,051 | 7,983 | Public Works Loan Board | 6,016 | 8,152 |
| 1 | 1 | Short Term Borrowing | - | - |
| 14,170 | 14,170 | Trade Creditors and General and Other Creditors* | 12,609 | 12,609 |

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.

| Restated | | | 31 March 2013 | |
|------------------------------|--------|----------------------------------------------|----------------------|---------------|
| 31 March 2012 | | | Carrying | Fair |
| Carrying | Fair | | Amount | Value |
| Amount | Value | | £000s | £000s |
| £000s | £000s | | | |
| Loans and receivables | | | | |
| 33,452 | 33,452 | Money market loans maturing within 1 year | 34,177 | 34,177 |
| 5,690 | 5,690 | Trade Debtors and General and Other Debtors* | 6,278 | 6,278 |

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.

* Debtors and Creditors figures have been restated to include General and Other Debtors and General and Other Creditors respectively, in addition to Trade Debtors and Creditors previously disclosed.

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 9th February, 2012 and is available on the Council website. The key issues within the strategy were:

- the Authorised Limit for the 2012/13 was set at £115m. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £105m. This is the expected level of debt and other long term liabilities during the year
- the maximum amounts of gross fixed interest rate exposure for borrowing and investments was set at £105m and £60m respectively.
- the maximum amount of gross variable interest rate exposure for borrowing and investments was set at £75m and £30m 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.

SECTION 3 : Statement of Accounts

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

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. The Council now operates a very restricted counterparty list which is actively managed to reflect continued developments in the banking and financial sector.

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 £12.167m 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, 2013 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 collectability over the last three financial years, adjusted to reflect current market conditions.

| Restated | | | | | |
|------------------------------------------------------|-------------------------------------------|----------------------------------|---------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------|
| Estimated maximum exposure at 31 March 2012 £000s | | Amount at 31 March 2013 £000s | Historical experience of default % | Adjustment for market conditions at 31 March 2013 % | Estimated maximum exposure to default at 31 March 2013 £000s |
| 1,138 | Trade Debtors & General and Other Debtors | 6,278 | 18.29% | 18.29% | 1,148 |
| <u>1,138</u> | | | | | <u>1,148</u> |

* Estimated maximum exposure at 31 March 2012 has been restated to include General and Other Debtors in addition to Trade Debtors previously disclosed.

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 £0.878m of the £6.278m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

| 31 March 2012 £000s | | 31 March 2013 £000s |
|------------------------|------------------------|------------------------|
| 520 | Less than three months | 244 |
| 112 | Three to six months | 163 |
| 91 | Six months to one year | 154 |
| 304 | More than one year | 317 |
| <u>1,027</u> | | <u>878</u> |

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 £105m, equal to the operational boundary.

The maturity structure of financial liabilities (borrowing and finance leases) at the year end was as follows:

| 31 March 2012 £000s | | 31 March 2013 £000s |
|---------------------------|--------------------------------------|---------------------------|
| 162 | Less than one year | 252 |
| 419 | Between one and five years | 201 |
| 332 | Between five and ten years | 313 |
| 301 | Between ten and fifteen years | 312 |
| 342 | Between fifteen and twenty years | 355 |
| 402 | Between twenty and twenty-five years | 394 |
| 363 | Between twenty-five and thirty years | 378 |
| 443 | Between thirty and thirty-five years | 461 |
| 541 | Between thirty-five and forty years | 563 |
| 1,202 | Between forty and forty-five years | 2,092 |
| 46,822 | More than forty-five years | 45,810 |
| <u>51,329</u> | | <u>51,131</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, 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | <u>£000s</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Increase in interest payable on borrowings | 514 |
| Increase in interest receivable on variable rate investments | (342) |
| Impact on Surplus or Deficit on the Provision of Services | <u>172</u> |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) | <u>(9,495)</u> |

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 movements

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|------------------------------------------------------------------------------------------|--------------------------------|
| (8,982) | Depreciation | (8,922) |
| (10,955) | Impairment and Downward Valuations | (6,625) |
| (1,177) | Downward Valuation of Investment Property | (151) |
| 1,279 | (Increase) / Decrease in Provisions | 211 |
| 4,280 | (Increase) / Decrease in Creditors | (105) |
| (4,952) | Increase / (Decrease) in Debtors | 3,580 |
| (141) | Increase / (Decrease) in Inventories | 82 |
| (194) | Pension Liability | (6,858) |
| (2,147) | Carrying amount of Non-Current Assets Sold | (11,018) |
| - | Other Non-Cash Items charged to the Net (Surplus) / Deficit on the Provision of Services | - |
| (22,989) | | (29,806) |

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

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|--------------------------------------------------------------------------------------------|--------------------------------|
| 28,356 | Capital Grants credited to surplus or deficit on the provision of services | 11,445 |
| - | Proceeds from Short-term (not considered to be cash equivalents) and Long-term Investments | - |
| 861 | Proceeds from the Sale of Property, Plant and Equipment and Investment Property | 787 |
| 29,217 | | 12,232 |

Note 41: Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

| <u>2011/12</u> <u>£000s</u> | | <u>2012/13</u> <u>£000s</u> |
|--------------------------------|-------------------|--------------------------------|
| (342) | Interest Received | (253) |
| 1,969 | Interest Paid | 2,180 |

SECTION 3 : Statement of Accounts

Note 42: Cash Flow Statement - Investing Activities

| 2011/12 £000s | | 2012/13 £000s |
|------------------|------------------------------------------------------------------------------|------------------|
| 18,445 | Purchase of Property, Plant and Equipment and Investment Property | 20,286 |
| 6,500 | Purchase of Short-term and Long-term Investments | - |
| 31 | Other Payments for Investing Activities | 15 |
| (862) | Proceeds from the sale of property, plant and equipment, investment property | (787) |
| - | Proceeds from Short-term and Long-term Investments | (1,000) |
| (22,383) | Other Receipts from Investing Activities | (10,056) |
| 1,731 | Net Cash Flows from Investing Activities | 8,458 |

Note 43: Cash Flow Statement - Financing Activities

| 2011/12 £000s | | 2012/13 £000s |
|------------------|-------------------------------------------------------------------------------------------|------------------|
| (8,701) | Cash receipts of short-term and long-term borrowing | (1,723) |
| 322 | Cash payments for the reduction of the outstanding liabilities relating to finance leases | 126 |
| 5,970 | Repayments of short- and long-term borrowing | 73 |
| (2,703) | Other payments for financing activities | - |
| (5,112) | Net cash flows from financing activities | (1,524) |

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 2012/2013 amounted to £4.613m (£4.558m in 2011/2012) which represented 14.1% of pensionable pay (14.1% in 2011/2012). £0.013m was paid as added years contributions (£0.003m in 2011/2012).

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

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

| 2011/12 £000s | | 2012/13 £000s |
|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Comprehensive Income and Expenditure Statement | | |
| | <u>Cost of Services:</u> | |
| 9,887 | Current Service cost | 12,324 |
| - | Past Service cost | - |
| 571 | Curtailement | 116 |
| | <u>Financing and Investment Income and Expenditure</u> | |
| 19,490 | Interest cost | 19,861 |
| (20,405) | Expected return on scheme assets | (16,716) |
| 9,543 | Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 15,585 |
| | <u>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</u> | |
| 82,039 | Actuarial (gains) and losses | (18,369) |
| 91,582 | Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | (2,784) |
| Movement in Reserves Statement | | |
| (9,543) | Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (15,585) |
| 9,349 | Actual amount charged against the General Fund Balance for pensions in the year: Employers' contribution payable to scheme | 8,727 |
| (194) | Transfer from Pensions Reserve | (6,858) |

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement for the year ending 31st March 2013 is a loss of £28.412m (£46.781m cumulative actuarial loss at 31st March 2012).

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):

| 2011/12 £000s | | 2012/13 £000s |
|------------------|--------------------------------------|-------------------------|
| (354,402) | Opening balance at 1 April | (430,974) |
| (9,887) | Current Service Cost | (12,324) |
| (19,490) | Interest Cost | (19,861) |
| (3,229) | Contributions by scheme participants | (3,027) |
| (57,204) | Actuarial gains and (losses) | (9,511) |
| 12,836 | Benefits paid | 12,965 |
| - | Past service costs | - |
| (571) | Curtailments | (116) |
| 973 | Unfunded Pension Payments | 921 |
| <u>(430,974)</u> | Closing balance at 31 March | <u>(461,927)</u> |

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

| 2011/12 £000s | | 2012/13 £000s |
|------------------|--------------------------------------|-----------------------|
| 302,546 | Opening balance at 1 April | 296,885 |
| 20,405 | Expected rate of return | 16,716 |
| (24,835) | Actuarial gains and (losses) | 27,880 |
| 9,349 | Employer contributions | 8,727 |
| 3,229 | Contributions by scheme participants | 3,027 |
| <u>(13,809)</u> | Benefits paid | <u>(13,886)</u> |
| <u>296,885</u> | Closing balance at 31 March | <u>339,349</u> |

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 gain of £44.596m (2011/12: £4.43m loss).

Reconciliation of opening and closing surpluses / (deficit) :

| 2011/12 £000s | | 2012/13 £000s |
|------------------|------------------------------------|-------------------------|
| (51,856) | Opening balance at 1 April | (134,089) |
| (9,887) | Current Service Cost | (12,324) |
| (19,490) | Interest Cost | (19,861) |
| (82,039) | Actuarial gains and (losses) | 18,369 |
| - | Past service costs | - |
| (571) | Curtailments | (116) |
| 973 | Unfunded Pension Payments | 921 |
| 20,405 | Expected rate of return | 16,716 |
| 8,376 | Employer contributions | 7,806 |
| <u>(134,089)</u> | Closing balance at 31 March | <u>(122,578)</u> |

SECTION 3 : Statement of Accounts

Note 45: Defined Benefit Pension Schemes

Scheme history

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|----------------------------------------------|----------|-----------|----------|-----------|------------------|
| | £000s | £000s | £000s | £000s | £000s |
| Present value of liabilities (A) | 254,994 | 400,384 | 354,402 | 430,974 | 461,927 |
| Fair value of scheme assets (B) | 200,291 | 278,772 | 302,546 | 296,885 | 339,349 |
| Surplus/(deficit) in Scheme (B)-(A) | (54,703) | (121,612) | (51,856) | (134,089) | (122,578) |
| Experience Adjustments on Scheme Assets | (53,067) | 64,152 | 5,472 | (24,835) | 27,880 |
| Experience Adjustments on Scheme Liabilities | 0 | 3,983 | (7,402) | 0 | 525 |

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £122.578m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £113.339m. 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 31 March 2014 is £8.63m.

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 Aon Hewitt Limited, an independent firm of actuaries, estimates for the Council being based on the latest full valuation of the scheme as at 31st March 2013.

The principal assumptions used by the actuary have been:

| | 2011/12 | 2012/13 |
|-----------------------------------------------------------------|---------|-------------|
| Long-term expected rate of return on assets in the scheme: | | |
| Equity investments | 6.1% | 7.8% |
| Property | 4.3% | 7.3% |
| Gilts | 3.3% | 2.8% |
| Bonds | 4.6% | 3.8% |
| Cash | 3.0% | 0.9% |
| Other investments | 6.1% | 7.8% |
| Mortality assumptions: | | |
| Longevity at 65 for current pensioners: | | |
| Men | 19.0 | 19.2 |
| Women | 23.1 | 23.2 |
| Longevity at 65 for future pensioners: | | |
| Men | 21.0 | 21.1 |
| Women | 25.0 | 25.1 |
| Other assumptions: | | |
| Rate of inflation - RPI | 3.3% | 3.4% |
| Rate of general increase in salaries | 4.7% | 4.4% |
| Rate of increase in pensions - deferred and pensions in payment | 2.5% | 2.5% |
| Rate for discounting scheme liabilities | 4.6% | 4.4% |

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:

| | 2011/12 % | 2012/13 % |
|--------------------|--------------|--------------|
| Equity investments | 83.0 | 77.4 |
| Property | 4.0 | 5.3 |
| Gilts | 6.0 | 7.2 |
| Other Bonds | 2.0 | 2.0 |
| Cash | 5.0 | 5.2 |
| Other Investments | 0.0 | 2.9 |
| | 100.0 | 100.0 |

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

| | 2008/09 % | 2009/10 % | 2010/11 % | 2011/12 % | 2012/13 % |
|--------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Differences between the expected and actual return on assets | (26.5) | 23.0 | 1.8 | (8.4) | 8.2 |
| Experience gains and (losses) on liabilities | - | (1.0) | 2.1 | - | 0.1 |

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 2012/13 the contingent liabilities are as follows:

- In 1989 the Council gave a loan guarantee of £3m to North Housing Association (now Home Housing Association) for sums borrowed on the money markets that would come into operation should the 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 former North East Assembly.
- A guarantee given to the Middleborough 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 entered into a contract in relation to the Tall Ships Festival which may exceed the resources previously set aside within the Council's reserves to meet the potential liability. It is not possible at this stage to quantify the potential liability or when settlement might be reached. The information usually required under IAS 37 Provision, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of the process.
- During 2011/12 the Council placed Compulsory Purchase Orders on 85 properties in the Raby Road corridor. There was uncertainty relating to potential compensation costs. In 2012/13 the Council reached agreement in respect of 71 of the 85 properties. Therefore the liabilities of 14 remaining properties are yet to be concluded by agreement or Lands 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.
- A group of Property Search Companies are pursuing a national claim for the refund of fees paid to Councils to access land charges data. Proceedings have not yet been issued. The claimants have also intimated that they may also claim for alleged anti-competitive behaviour. It is not possible at this stage to quantify the potential liability to the Council. The Council has a provision (see note 25) for its estimate for its liability prior to this national claim.
- There remain a number of cases which have been issued under the Equal Pay Act which have yet to be finalised. The information usually required by IAS37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of the process.

Note 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

There have been no prior period adjustments to the Primary Financial Statements.

SECTION 3 : Statement of Accounts

THE 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.

| 2011/12 | | 2012/13 | Notes |
|------------------------|----------------------------------------------------|------------------------|--------------|
| £000 | | £000 | |
| | INCOME | | |
| | Council Tax : | | |
| (34,073) | Billed to tax payers | (35,093) | |
| (12,944) | Council Tax Benefits transferred from General Fund | (12,958) | |
| <u>(47,017)</u> | | <u>(48,051)</u> | 1 |
| | Non Domestic Rates : | | |
| (25,884) | Income Collectable from Business Ratepayers | (27,589) | 2 |
| - | Reduced Provision for Non-Payment of NNDR | (154) | |
| <u>(25,884)</u> | | <u>(27,743)</u> | |
| <u>(72,901)</u> | TOTAL INCOME | <u>(75,794)</u> | |
| | EXPENDITURE | | |
| 46,736 | Precepts | 47,056 | 3 |
| 128 | Increased Provision for Non-Payment of Council Tax | 268 | |
| 113 | Increased Provision for Non-Payment of NNDR | - | |
| <u>241</u> | | <u>268</u> | |
| | Non Domestic Rates : | | |
| 25,646 | Payment to National Pool | 27,619 | 2 |
| 124 | Cost of Collection Allowance | 124 | |
| | Contributions for previous years estimated | | |
| | Collection Fund Surplus/(Deficit) : | | |
| 208 | Hartlepool Borough Council | 14 | |
| 28 | Cleveland Police Authority | 2 | |
| 9 | Cleveland Fire Authority | 1 | |
| <u>245</u> | | <u>17</u> | |
| <u>72,992</u> | TOTAL EXPENDITURE | <u>75,084</u> | |
| 92 | (Surplus)/Deficit for the year | (710) | |
| <u>(258)</u> | (Surplus)/Deficit brought forward | <u>(166)</u> | |
| <u>(166)</u> | (Surplus)/Carried forward | <u>(876)</u> | |

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 32,936 Band D equivalents in 2012/13 (33,169 for 2011/12) and the basic amount of council tax for a Band D property was £1,679.61 (£1,670.51 in 2011/12).

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 | 24,279 | 16,186 | 945.80 | 129.61 | 44.33 | 1,119.74 | 27,186 |
| B | 7/9 | 6,837 | 5,333 | 1,103.43 | 151.21 | 51.72 | 1,306.36 | 8,932 |
| C | 8/9 | 5,684 | 5,059 | 1,261.07 | 172.81 | 59.11 | 1,492.99 | 8,486 |
| D | 9/9 | 2,938 | 2,938 | 1,418.70 | 194.41 | 66.50 | 1,679.61 | 4,935 |
| E | 11/9 | 1,446 | 1,767 | 1,733.97 | 237.62 | 81.28 | 2,052.87 | 2,968 |
| F | 13/9 | 582 | 838 | 2,049.23 | 280.82 | 96.06 | 2,426.11 | 1,412 |
| G | 15/9 | 421 | 703 | 2,364.50 | 324.02 | 110.83 | 2,799.35 | 1,179 |
| H | 18/9 | 56 | 112 | 2,837.40 | 388.82 | 133.00 | 3,359.22 | 188 |
| TOTALS | | 42,243 | 32,936 | | | | | 55,286 |

The income of £48,051,000 for 2012/13 (£47,017,000 for 2011/12) is receivable from the following sources :

| 2011/12 £000 | | 2012/13 £000 |
|-----------------|--------------------------------------|-----------------|
| 55,379 | Opening Liability | 55,286 |
| (488) | Net increase/(decrease) in liability | 349 |
| (88) | Disabled Relief | (100) |
| (5,656) | Discounts | (5,267) |
| (2,029) | Exemptions | (2,103) |
| (101) | Write Offs | (114) |
| 47,017 | | 48,051 |

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 45.0p in 2012/13 (42.6p in 2011/12) and, the Non Domestic Rate Multiplier which was 45.8p in 2012/13 (43.3p in 2011/12). 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 £27.619m (£25.646m in 2011/12).

The total non-domestic rateable value at the year end was £97,429,440.

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

| 2011/12 £000 | | 2012/13 £000 |
|-------------------------------|---------------------------------------------|-------------------------------|
| 41,079 | Gross Rates payable | 44,551 |
| (4,182) | Mandatory Reliefs | (5,828) |
| (10,846) | Transitional Relief / Surcharge | (10,423) |
| (104) | Discretionary Reliefs set against NNDR pool | (80) |
| (50) | Write Offs | (627) |
| (13) | Interest on Refunds of Overpayments | (4) |
| <u>25,884</u> | Income Collectable From Ratepayers | <u>27,589</u> |
| (125) | Cost of Collection | (124) |
| <u>(113)</u> | (Increase)/Decrease in Bad Debt Provision | <u>154</u> |
| <u>25,646</u> | Contribution to NNDR Pool | <u>27,619</u> |

Note 3 - Precepts and Demands on the Collection Fund

| Restated 2011/12 | | | | 2012/13 | | |
|-------------------------|--------------------------------------------|----------------------|----------------------------|-------------------------|--------------------------------------------|----------------------|
| Precept / Demand | Share of (Surplus)/ Deficit in Year | Total | | Precept / Demand | Share of (Surplus)/ Deficit in Year | Total |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| 39,695 | 78 | 39,773 | Hartlepool Borough Council | 39,750 | (599) | 39,151 |
| 5,252 | 10 | 5,262 | Cleveland Police Authority | 5,444 | (83) | 5,361 |
| 1,789 | 4 | 1,793 | Cleveland Fire Authority | 1,862 | (28) | 1,834 |
| <u>46,736</u> | <u>92</u> | <u>46,828</u> | | <u>47,056</u> | <u>(710)</u> | <u>46,346</u> |

SECTION 3 : Statement of Accounts

MEMORANDUM NOTES - TRUST FUNDS

During 2012/13 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; and
- Pursuit of Education awards.

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

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

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

| | Balance at 1st April 2012 £000 | Income £000 | Expenditure £000 | Balance at 31st March 2013 £000 |
|-----------------------------------------------------|---------------------------------------------------|------------------------|-----------------------------|----------------------------------------------------|
| Preston Simpson & Sterndale Scholarship in Music | 63 | 7 | (6) | 64 |
| Education Trust Funds | 119 | 4 | (1) | 122 |
| Doughty Fund | 5 | 0 | 0 | 5 |
| | 187 | 11 | (7) | 191 |

The Preston Simpson & Sterndale Scholarship in Music Fund consisted of a cash investment of £63,735 with Hartlepool Borough Council as at 31st March, 2013. The Trust also held two separate external investments valued respectively at £94,887 as at 5th April 2013 (£85,367 as at 5th April 2012) and £16,674 as at 31st March 2013 (£14,842 as at 31st March 2012).

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

As at 31st March, 2013, the Doughty Fund consisted wholly of a cash balance investment with the Council.

SECTION 4 : Annual Governance Statement

Scope Of Responsibility

Hartlepool Borough Council is responsible for ensuring that:

- Its business is conducted in accordance with the law and proper standards,
- Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging these overall responsibilities, Hartlepool Borough Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at www.Hartlepool.gov.uk or can be obtained from the Councils Contact Centre. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, Regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

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 services and value for money.

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 to manage them efficiently, effectively and economically. The governance framework has been in place at the Council for the year ended 31st March 2013 and up to the date of approval of the statement of accounts. It should be noted that the Annual Governance Statement includes references to the old mayoral structure rather than the new Committee structure, however, the underlying governance arrangements otherwise remain unchanged.

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

Significant Governance Issues Update from 2011/12 Statement

Progress has been made over the course of 2012/13 to address weaknesses in the system of governance identified as part of the 2011/12 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. | Ongoing audit and corporate mapping of current arrangements. Internal audit review. Identify options for continuous improvement, communicate and provide targeted training to staff. |
| 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, Corporate Management Team and Corporate Management Team Support Group. |
| Selective Licensing Function | Audit and management review undertaken. Detailed action plan for improvement developed and implemented as confirmed by audit follow up. |
| Welfare Reform Act. | Review of financial consequences of proposals undertaken. Update reports to Cabinet, CMT and CMT SG. Working Group undertaking impact review and developing proposals. |
| Health and Social Care Act, re transfer of some Public Health responsibilities to the LA. | Ongoing review of statutory requirements in place. Director of Public Health brings regular update reports to Cabinet, CMT and CMT SG on the Public Health Transition Plan which sets out key actions and responsibility in this work. Liaison has taken place with all relevant parties to shape future delivery proposals. |
| Localism Act | Reports to Council, Portfolio and Cabinet regarding proposed response to Statutory requirements. CMT and CMT SG monitoring of implications of new proposals. |

SECTION 4 : Annual Governance Statement

| Issue Raised | Action Undertaken |
|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Collaborative Working Issues | Ongoing dialogue between officer groups at authorities. Regular briefing of members and staff undertaken. Update reports to Council, Portfolio and Cabinet. |
| Governance arrangements as a result of changes to the council size. | Corporate peer review undertaken in September focussing on governance and bedding down of new council structures. Officer working group to support governance working group to develop proposals for new constitution with new constitution developed and agreed with training for officers and members in respect of the requirements and expectations. |
| Potential for a Mayoral referendum. | Mayoral referendum carried out. New constitution agreed 6 th March 2013. |

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. An officer working group supported the governance working group in developing proposals for the new constitution in line with the outcome of the Mayoral referendum. The new constitution was agreed on 6th March 2013 with training delivered for officers and members in respect of the requirements and expectations.

Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. 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.

The constitution contains financial and contract procedure rules, and a code of conduct for Members, which have been formally approved. Financial procedure rules have been updated and agreed by the 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 9th November 2012 and referred to Council for approval on 14th February 2013. 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 Department of Communities and Local Government guidance. The Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies before making any necessary recommendations to Council. The Chief Finance Officer reports to the Audit Committee how the Authorities financial arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

SECTION 4 : Annual Governance Statement

The full Cabinet and a range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Authority.

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. The Council's corporate plan, departmental plans and performance management arrangements are based around an Outcome Framework which has been developed with partners over a number of years. This integration has enhanced management and political accountability. Following a review of the Council's service planning arrangements in 2012/13, from 2013/14 the Council will produce an annual Council Plan which will incorporate the 3 departmental plans. This will avoid the duplication of reporting that has sometimes happened in previous years and demonstrates how strategic in nature departmental plans have become over the last few years.

CMT has defined what it considers to be its significant partnerships and an assurance framework has been developed to ensure that adequate governance arrangements are in place that are proportional to the responsibilities and risks of each partnership. The Authority has an ongoing programme of monitoring and reviewing arrangements in place in respect of the operation of its key partnerships. A framework of reporting by exception to Corporate Management Team operates and Internal Audit provides annual audit coverage of partnership arrangements. The Audit Committee has highlighted partnerships as a key area of interest and the Council's control framework will be developed further and the committee regularly updated on progress.

All departments produce departmental and service plans using a corporate framework to ensure that they reflect the agreed corporate outcomes. The Council's Outcome Framework is reviewed annually and agreed by Cabinet, most recently in October 2012. 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 Annual Governance Statement (AGS) into the culture and management processes at the council, risks to meeting departmental outcomes and the controls to mitigate those risks are 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 action plans, risks and performance indicators enabling clearer links between corporate, departmental and service planning outcomes, actions, risks and PIs.

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 Authority. The policies are available to employees via the intranet. Reports are made to portfolio holders every six months summarising, for example, the complaints dealt with and the outcome.

SECTION 4 : Annual Governance Statement

The Authority is a member of the IPF Better Governance Forum, the National Anti Fraud Network and also takes part in regular National Fraud Initiative reviews and the North East Fraud Forum. Fraud Awareness assessments took place during 2012-13 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 the Risk Management Framework and Guidance Document in 2011. At this point the structure of the risk registers was changed and a specific risk tolerance level to help prioritise risk activity was introduced. 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 are 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 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.

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.

The Finance and Corporate Services Portfolio Holder is Hartlepool Borough Councils risk 'champion'. Each department also has a risk co-ordinator. Risks and control measures relating to corporate and departmental plans are analysed 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 the ICT re-procurement. Officers that manage risks are notified that 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 2013/14 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 brought together over 116 separate pieces of legislation into one single Act. Combined, they make up a new Act that provides 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

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.

Review of Effectiveness

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 recorded as part of the corporate service planning process at a departmental level. This has brought together risk management, control identification and the process for compiling the evidence needed to produce the AGS. This enables managers to provide documented evidence regarding the controls within their service units as part of the service planning process. The controls in place are designed to negate the identified and recorded risks of not achieving service, departmental or corporate objectives. In order to ensure adequate controls are in place the procedures, processes and management arrangements in place to mitigate identified risks and the officers responsible for them are also documented. Gaps in controls can be addressed as part of the regular reviews of departmental risks and control measures.
- Chief Finance Officer – The CFO carries out a review of the effectiveness of the system of internal audit and reports the findings to the Audit Committee. The CFO reports to the Audit Committee how the Authorities financial arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- Internal Audit – the Council has the responsibility for maintaining and reviewing the system of internal control and reviewing annually Internal Audit. In practice, the Council, and its External Auditors, takes assurance from the work of Internal Audit. In fulfilling this responsibility:
- Internal Audit operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- Internal Audit reports to the Section 151 Officer and Audit Committee.
- The Head of Audit and Governance provides an independent opinion on the adequacy and effectiveness of the system of internal control, quarterly update reports and an annual internal audit performance report to the audit committee.
- Internal audit plans are formulated from an approved risk assessment package.
- External Audit – in their annual audit letter, comment on their overall assessment of the Council. It draws on the findings and conclusions from the audit of the Council.
- Other review and assurance mechanisms: for example, Department of Education, Care Quality Commission, Ofsted, Audit Commission, HMI Probation, Investors in People and Service Excellence.

SECTION 4 : Annual Governance Statement

The 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 & Governance 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 | Delivery of Peer Review Action Plan. | Independent Public Enquiry agreed by Council to review the declaration of prejudicial /pecuniary interests by all councillors over the last five years, paying particular attention to interests in relation to the voluntary and community sector and the health sector. | 2013/2014 | CMT |
| 2 | Delivery of Medium Term Financial Strategy | Revised Savings Programme encompassing key required programme elements at a corporate and department level. Strategic multi year approach to financial management implemented. Member's seminars and staff communication strategy. Budget monitoring and defunding budgets at decision point process. Project planning and management reporting to Finance and Policy Committee, CMT and CMT SG. | 2013/2015 | CMT |
| 3 | Delivery of Council Plan | Implementation of new governance arrangements. Delivery of performance agreements for Chief Executive and Directors. Regular performance monitoring and reporting to members. | 2013/14 | CMT |
| 4 | Welfare Reform Act. | Review of financial consequences of proposals undertaken, including update of Local Council Tax Support Scheme. Update reports to Finance and Policy Committee, CMT and CMT SG. | 2013/14 | 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 Finance and Policy Committee, CMT and CMT SG on known issues. Liaison with all relevant parties to shape future delivery proposals. | 2013/14 | CMT |
| 6 | New governance arrangements. | Ongoing officer review focussing on implementation and bedding down of new council governance structures. Training for officers and members in respect of the requirements and expectations of the new governance arrangements and structures. | 2013/14 | CMT |

SECTION 4 : Annual Governance Statement

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 on behalf of Hartlepool Borough Council:

Leader of the Council

Chief Executive

Chair of Audit and Governance Committee

SECTION 5 : Independent Auditor's Report

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

Opinion on the Council Financial Statements

We have audited the financial statements of Hartlepool Borough Council for the year ended 31 March 2013 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 Council Accounting in the United Kingdom 2012/13.

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 Council Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our 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 us 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, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our 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 2013 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 Council Accounting in the United Kingdom 2012/13.

Opinion on Other Matters

In our 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.

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 our 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 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we 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
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 1 November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission on 1 November 2012, we are 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 2013.

Certificate

We certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Kirkham, Director, for and on behalf of Mazars LLP, Appointed Auditors
The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

Date:

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

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