Public Document Pack

Date of meeting	**Tuesday, 24th July, 2012**
Time	**7.00 pm**
Venue	**Committee Room 1. Civic Offices, Merrial Street, Newcastle-under-Lyme, Staffs ST5 2AG**
Contact	Julia Cleary

Audit and Risk Committee

AGENDA

PART 1– OPEN AGENDA

1 DECLARATIONS OF INTEREST

To receive Declarations of Interest from Members on items included in the agenda

To consider the minutes of the previous meeting(s) held on 16 April 2012.

14 URGENT BUSINESS

To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

Members: Councillors Loades, Waring, Miss Baker, Jones, Mrs Peers, Turner and Taylor.M

‘Members of the Council: If you identify any personal training / development requirements from the items included in this agenda or through issues raised during the meeting, please bring them to the attention of the Committee Clerk at the close of the meeting’

Officers will be in attendance prior to the meeting for informal discussions on agenda items.

AUDIT AND RISK COMMITTEE

Monday 16 April 2012

Present:- Councillor D Richards – in the Chair

Councillors Boden and Loades

1. **APOLOGIES**

There were none.

2. **DECLARATIONS OF INTEREST**

Councillor Loades declared an interest in item 4 indicating that he was a member of the Aspire Board.

3. **MINUTES OF PREVIOUS MEETINGS**

Resolved:- That the minutes of the previous meeting of this Committee held on 30 January 2012 be approved as a correct record.

4. **CORPORATE RISK MANAGEMENT REPORT - JANUARY TO MARCH 2012**

Consideration was given to a report providing Members with an update on the progress made by the Council in enhancing and embedding risk management for the period January to March 2012, including progress made in managing the identified corporate risks.

The report dealt with two concerns expressed at the last meeting of the committee namely:-

(i) Reduced income from the sale of former council houses; and
(ii) The issue of the management of community centres being included in the Risk Register.

Having regard to the issue around the sale of former council houses on appendix was circulated with the officer's report giving examples of how income could be reduced dependent on the level of discount granted. However, it was considered that it was too early to accurately estimate the effects that changes to discounts would have on income to the Council because changes may encourage more people to buy their homes or the current economic climate may mean that in the next four years any loss of income may be minimised.

It was recognised that the national changes to the Right to Buy Scheme presented a risk to the Borough in providing sufficient affordable housing to residents in housing need. The changes took effect at the beginning of April and it was difficult to predict how many tenants eligible for Right to Buy may take up the enhanced discount offer.

It was agreed that the Economic Development and Enterprise Overview and Scrutiny Committee should be asked to include this matter in its work plan for 2012/13.

Furthermore, the implications of the Localism Act were uppermost in the committee's thoughts and it was agreed that training for Members in this area should be treated as a priority by the Council's Member Training Panel

Referring to the management of community centres, Members were advised that a considerable amount of work was being undertaken in this area and that with which the matter was included in the Council's Forward Plan for discussion by Cabinet in September 2012.

Resolved:- (a) That the information be received.

(b) That the Economic Development and Enterprise Overview and Scrutiny Committee be asked to include the implications of the changes to the Right to Buy Scheme in its work plan for 2012/13 and that a further report on this matter be considered at the next meeting of this Committee.

(c) That a training session for Members on the implications of the Localism Act be organised as a priority.

5. **EXTERNAL AUDIT PLAN 2011/12**

The Committee considered the External Audit Plan for 2011/12.

Resolved:- That the External Audit Plan for 2011/12 be approved.

6. **CODE OF CORPORATE GOVERNANCE**

Consideration was given to a report reminding Members of the requirements of the Code of Corporate Governance. It was indicated that Good Governance was about how local authorities ensured that they were doing the right things, in the right way, for the right people in an open, honest and accountable manner. In adopting the Code, the authority has able to demonstrate its commitment to ensuring that Good Governance was delivered in every aspect of its business.

The CiPFA/SOLACE Framework for developing and maintaining a local Code of Corporate Governance and the six core principles upon which the Framework was based were set out in the officer's report.

It was indicated that the Council's Code of Corporate Governance had been received for the year 2011/12 and as there had been no updates to the above framework it had not been necessary to make any amendments to it. It was felt that the Code in its present form remained effective in demonstrating the Council's commitment to delivering your governance in all aspects of its business.

It was stated that the Council's Annual Governance Statement produced alongside the Council's Statement of Accounts would report publicly the extent to which the Authority was complying with its own Code of Corporate Governance and by producing this statement annually the Authority was able to demonstrate how the effectiveness of the governance arrangement had been monitored and report on any important or changes it planned to make in the coming year.

Resolved:- (a) That the requirements of the Code of Corporate Governance be noted.

(b) That a covering letter signed by the Chair and Vice-Chair of this Committee be sent to all Members reminding them that a copy of the Code of Corporate Governance is available in the Members' Room and on the Council's Intranet site.

7. UPDATES TO THE COUNCIL'S ANTI-FRAUD AND CORRUPTION FRAMEWORK

It was reported that the above policies had been presented to the committee in November 2011 following the incorporation of updates to take account of provisions of the Bribery Act 2010.

The policies had been re-examined as part of the scheduled annual review process to ensure their relevance for the next financial year and were submitted for the committee's approval. It was indicated that as there had been no new legislative changes, the policies remained unchanged from when they were last considered and approved.

Resolved:- That the Anti-Fraud and Corruption Framework, the Whistleblowing Policy and the Fraud Response Plan be approved.

8. AUDIT COMMISSION REPORT - PROTECTING THE PUBLIC PURSE 2011

The committee considered a report outlining the contents of the above report published by the Audit Commission in November 2011 on the key risks and pressures facing Council's and identifying good practice in fighting fraud and where the Council should be reviewing its current arrangements.

It was indicated that the Council already had a set of policies and procedures in place to help prevent and deter fraud from occurring. The policies were reviewed annually against best practice and ensured that as an organisation, the Council proactively encouraged all officers and Members to raise any concerns that they may have.

A Fraud Awareness Guide was made available to mangers who were asked to complete and review a Self Assessment checklist for their own service area on an annual basis with the completed lists being used to help inform the audit planning process.

The Council also had an on-line training package in relation to Fraud and Corruption that demonstrated the Council's commitment to ensuring staff awareness and training in relation to fighting fraud. The training package had recently been updated to include the Bribery Act, Procurement Fraud and a section on Misuse and Abuse of Time and Resources on the Council's E-mail and Internet facilities. The training package had been made mandatory for all Executive Directors, Head of Service, Business Managers and others who it was thought may benefit from it.

Resolved:- That the information be received.

9. ANTI MONEY LAUNDERING POLICY

Consideration was given to a report seeking approval of an Anti-Money Laundering Policy that outlined the Council's commitment to creating an anti-fraud culture and maintaining high ethical standards in its administration of public funds.

A copy of the policy was attached to the report as an appendix together with details of the role of the Council's Money Laundering Reporting Officer.

Resolved:- That the Anti-Money Laundering Policy as submitted be approved.

10. **REVIEW OF THE COMMITTEE'S TERMS OF REFERENCE**

The committee received a presentation from the Council's Audit Manager and was invited to review its Terms of Reference.

A short discussion took place with regards to the current and proposed Terms of Reference for the committee. There was also a discussion around size of the committee and how Members felt the new set up had worked during the current municipal year. On the whole it was felt that the new structure had worked well although reference was made to the fact that the size of the committee should be raised back up to 9 members. It was agreed that this was something that would need to be taken back to the 'new committee'. In relation to the Terms of Reference, members of the committee asked that they be circulated to those members who were unable to attend so that all Members could consider these and report back as necessary any comments.

Resolved:- (a) That the information be received.

(b) That copies of the committee's current and proposed Terms of Reference be forwarded to all members of the committee for consideration and that any comments received be discussed at a future meeting.

D RICHARDS
Chair

HEALTH AND SAFETY ANNUAL REPORT

Submitted by: **Jane Kent, Corporate Health and Safety Officer**

Portfolio: **Resources and Efficiency**

Ward(s) affected: **None**

Purpose of the Report

To inform Members of issues and trends regarding health and safety at the Council.

Recommendation

That the report be noted.

1. **Background**

1.1 Attached at Appendix A is the sixth health and safety annual report submitted to the council. It covers the period April 2011 to March 2012.

2. **Legal and Statutory Implications**

2.1 The Council is required to comply with all relevant Health and Safety legislation.

3. **Equality Impact Assessment**

3.1 Our health and safety policy and procedures apply equally to all employees. Training is available to all employees as required.

4. **Financial & Resource Implications**

4.1 The majority of health and safety training courses are carried out in-house by the Corporate Health and Safety Officer. On occasions, external providers are required to conduct specialist training courses. The cost of this is met from within the existing Corporate Training budget.

5. **Risks**

5.1 Failure to adopt best practice health and safety standards could result in wastage of council resources and the provision of an inefficient service.

6. **Issues**

6.1 There are no particular trends or emerging themes in comparison to previous years.

7. **List of Appendices**

Appendix A – Health and Safety Annual Report April 2011 – March 2012
Annex A – H&SO Work Plan 2012/13

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Newcastle-under-Lyme Borough Council

HEALTH AND SAFETY ANNUAL REPORT APRIL 2011 – MARCH 2012

1. INTRODUCTION

1.1 This report outlines the current state of health and safety matters during the year from April 2011 to March 2012.

1.2 This year has been marked by both low and high points. Regrettably, the council was prosecuted for a breach of health and safety legislation (see section 3). However, on a positive note there was a successful outcome to the Health and Safety Executive's inspection of waste and recycling services delivered or managed by the council.

2. POLICIES AND GUIDANCE

2.1 An update of the General Health and Safety Policy was commenced with the intention of it being presented for approval at the Corporate Health and Safety Committee meeting on 12 March 2012. However, it was held in abeyance pending an external health and safety audit due in April 2012, in case the auditor made any further recommendations for inclusions or changes to the policy. It will now be presented at a Safety Committee meeting later in 2012.

3. HEALTH AND SAFETY EXECUTIVE LEGAL INTERVENTION

3.1 In December 2011 the council pleaded guilty to charges of failing to ensure the health and safety of the public and failing to manage health and safety, and was fined the sum of £20,000 plus costs.

3.2 This case had arisen due to an incident in April 2009 when members of the public were exposed to carbon monoxide due to failure to maintain the gas boiler in a community centre. Following extensive internal investigation of the incident, a range of measures were put in place to ensure that this cannot happen again.

4. TARGET 100

4.1 Target 100 is the Council's corporate health and safety system. Training for users continued with a further four courses during the first half of the year and refresher training in February 2012 for those who wanted a skills update or who had become new users.

4.2 Usage of the program is monitored by monthly system audit reports which are presented and discussed at the Corporate Health and Safety Committee.

4.3 During the year, a considerable amount of work has been done to embed the use of Target 100, including 1:1 sessions, workshops and a "Tidy Target 100 Friday".

4.4 Benefits to health and safety, and thus to the Council, from the use of Target 100 include –

- Easier access to a group of global assessments intended to standardise risk assessments for common risks.
- Immediate access for users to a comprehensive library of health and safety information, which is kept updated by Business Safety Systems.
- Immediate notification of changes in legislation.
- An auditable trail showing who has used the system, how often and for what.
- A more effective means of recording health and safety training courses, including the ability to attach copies of the training material used, course manuals and certificates, as well as attendances.
- When the accident and incident reporting section is introduced, as well as a more efficient reporting process, the system will give a clearer indication of trends in accidents and comparison of accident types within or between services.

4.5 When the program was introduced, it was decided to concentrate initially on the risk assessment and action plan modules. However, during 2012/13 this will be extended to include accident and incident reporting. This will greatly improve the efficiency of accident reporting, since the Corporate Health and Safety Officer will receive an automatic e-mail notification whenever a report is added, which will speed up the investigation process and, where relevant, reporting to the Health and Safety Executive.

5. HEALTH AND SAFETY TRAINING

5.1 The following health and safety training was completed during the year:

- Basic Health and Safety Refresher – 26 further courses
- Corporate Induction – 4 courses
- Skills Update for First Aiders – July 2011
- Target 100 Users – August 2011
- Display Screen Equipment User Training – August 2011
- Streetscene/Waste Services Refresher – January-February 2012

- Target 100 refresher courses for users – February 2012

5.2 Further training courses planned for 2012/13 include Safe Use of Ladders/Work at Height, Defibrillator refresher, First Aid refreshers for the Museum, Cemetery and Crematorium and a full First Aid At Work course to provide additional First Aiders for the Depot and other work areas.

6. ACCIDENT REPORTS

6.1 During the year 35 work-related accidents were reported, in the following categories –

- Musculo-skeletal 5
- Hit fixed/other object 8
- Slip/trip/fall 10
- Cuts/bruises/grazes 9
- Other 2
- Animal attack 1

Three of the musculo-skeletal injuries were reportable to the HSE as Major Injuries (one broken bone in foot, one hairline fracture of ankle and one chipped bone in wrist).

6.2 These three reportable accidents resulted in a total of 60 days lost from work, with an average of 0.1 days lost per employee. This is a considerable improvement on last year's figure and is comparable with those recorded in previous years –

Year	Number of accidents	Number reportable	Total days lost	Average days lost per employee
2006/07	36	3	88	0.14
2007/08	35	2	73	0.11
2008/09	30	3	71.5	0.11
2009/10	38	1	18.5	0.03
2010/11	31	4	150	0.23
2011/12	35	3	60	0.10

6.3 The average days lost per employee is half that of the latest available annual statistics published by the Health and Safety Executive for 2009/10 of 0.22[1] average days lost through work-related injury per employee (source: HSE Statistics 2009/10, http://www.hse.gov.uk/statistics/overall/hssh0910.pdf).

6.4 Additionally, two dangerous occurrences were reported, as follows:

[1] Unfortunately the HSE's statistics for the year 2010/11 were not available at the time of writing this report.

- Part of a ceiling outside the Civil Enforcement Officers' room in Civic Offices collapsed, due to the weight of construction rubble which had not been cleared when the toilets in the Council Suite were remodelled some years ago.
- A vision panel with attached beading fell out of the door between the staffroom and kitchen at the old Jubilee Pool. On investigation, this could only have happened by the panel being violently hit or pushed out. Despite considerable efforts made by the Leisure Operations Manager, it was never determined exactly how or by who this was done.

6.5 Eight verbal abuse/violence reports were received, as follows:

- One was as a result of information passed to the council by Aspire
- Five were incidents of abusive behaviour by members of the public towards council employees
- Two were more serious incidents involving intimidating and threatening behaviour, both of which resulted in the police being informed.

6.6.1 In February 2012 an incident occurred when a council employee collapsed and unfortunately died in the workplace. Although this was not in any way work-related, it did test the council's response to a traumatic incident.

6.6.2 It is pleasing to note that all available first aiders responded promptly to the call-out and acted in accordance with their training, including a defibrillation attempt. After the event, Human Resources wrote to all who had been involved in any way, offering counselling support if needed.

6.6.2 Members can be assured that everything possible was done, both at the time for the individual, and afterwards for those who had been involved.

7. HEALTH AND SAFETY INSPECTIONS

7.1 The Corporate Health and Safety Officer, as part of her annual work plan, undertakes routine inspections of Council premises to identify and advise on any health and safety matters within the workplace. The following workplace inspections have been carried out during the year –

- Park pavilions
- Bradwell Crematorium
- Kidsgrove Customer Service Centre
- Midway Car Park
- Civic Offices
- St. George's Chambers
- Knutton Depot

- Madeley Rural Hub
- Depot Transport Workshop

7.2 The Corporate Health and Safety Committee members also undertake inspections of Council premises to identify any Health and Safety matters, in order to remedy or alter the matters identified. Members of the committee carried out the following inspections:

- Jubilee Pool (the old pool)
- Guildhall
- Jubilee 2

7.3 Following the above inspections, reports were sent to the premises manager or other responsible officer outlining the findings and advising on any necessary corrective action.

8. KNUTTON DEPOT

8.1.1 The Knutton Lane Health and Safety Committee held meetings on 6 June, 6 September and 8 December 2011 and 8 March 2012.

8.1.2 Projects in hand arising from the meetings include:

- Installation of the few remaining signs from the traffic improvement plan
- The preparation of round-specific risk assessments for Collection Services
- A policy and schedule for winter gritting of council premises
- Provision of hepatitis B vaccinations as outlined in section 8 below

8.2 The few outstanding items of work from the Depot traffic management plan were completed during the first half of the year. A repeat in-house audit was carried out on 21 December 2011 by the Head of Operations and the Corporate Health and Safety Officer and the traffic management plan was signed off.

8.3 The Depot will be included in the external audit arranged by the Head of Environmental Health Services.

8.4 The Health and Safety Executive undertook an inspection of the Council's waste and recycling service in March 2012, which is reported fully in section 10 below.

8.5 The Transport Manager is arranging for an external audit of the Transport Workshop, which will take place in May 2012. Any health and safety-related advice arising from the audit will be planned and implemented as part of the ongoing Depot improvement programme.

8.6 Further work to be implemented during the year 2012/13 will include the introduction of a noise and vibration assessment and monitoring programme for Streetscene. This was identified in the light of an internal noise measurement report and also following advice from the HSE Inspector who conducted the inspection of the waste and recycling service. A working group has been set up to oversee the project and progress will be reported at the Depot and Corporate Health and Safety Committees.

9. HEPATITIS B VACCINATION PROGRAMME

9.1 Work on the hepatitis B vaccination programme has continued during the year. Letters were sent out to all employees who had been identified as being at risk of contact with the hepatitis B virus due to their work activities. 61% of those circulated accepted the offer of vaccination.

9.2 These individuals were initially asked to contact their General Practitioner to see whether they would be prepared to carry out the vaccination free of charge. A very few GPs agreed to do this but the majority of employees will require the council to arrange vaccination through an occupational health provider.

9.3 At the close of this year's report an invitation to quote for the provision of this service was being prepared and will be sent to selected occupational health providers.

10. HSE INSPECTION OF WASTE/RECYCLING SERVICES

10.1 In 2009 the Health and Safety Executive announced that between October 2010 and October 2013 they would be conducting a national inspection intervention, visiting every Local Authority in the country to inspect their procurement and management of waste and recycling services. Their aim was to improve health and safety within the industry by reducing the incidence of injury and ill health.

10.2 Officers from the Council attended the launch of the HSE's guidance on procuring/managing waste services in January 2010. The information gathered from this event was used and implemented in preparation for the visit.

10.3 In February 2012 the Corporate Health and Safety Officer was contacted by an HSE Inspector to arrange the inspection, and accordingly it was agreed that she would visit the council for 2 days on 5 and 6 March, with a further visit to Acumen, the council's recycling contractor, to be arranged at a later date. Meetings were arranged with the Chief Executive, Executive Director Regeneration and Development, the Heads of Service and Business Managers for Operations and Recycling and with Union representatives. She also undertook an inspection of the Depot and viewed the collection rounds in operation and talked to the crews.

10.4 The HSE were very pleased with the Council's management and delivery of the collection service. The inspector gave some verbal advice but did not feel that it was necessary for her to make any material intervention by writing a letter. This is a very positive outcome for the Council.

10.5 The successful outcome to the inspection reflects the hard work which has been put in over the last few years by many officers to raise the profile of health and safety within the Council and particularly in improving the safety culture at the Depot.

11. CORPORATE HEALTH AND SAFETY COMMITTEE

11.1 The Corporate Health and Safety Committee held four meetings during the period, on 7 June, 13 September and 12 December 2011 and 12 March 2012.

11.2 Projects in hand arising from the meetings include:

- The ongoing programme of workplace inspections.
- Continuing to drive forward the use of Target 100, as outlined in section 4 above.
- Monitoring progress on the Hepatitis B vaccination programme.
- The trial of the Guardian24 lone worker protection system.
- The introduction of a Use of Violent Warning Markers policy and database maintenance programme.
- A review of lone working arrangements at the Council.
- Monitoring progress on the Streetscene noise and vibration project.
- Monitoring the statutory inspection and testing programme carried out by Facilities.

11.3 The committee also discussed the following items, throughout the year:

- Accident statistics
- New/forthcoming legislation
- Statutory inspections/testing
- Workplace inspections by the Committee
- Standing agenda items on safety at other sites
- Review of policies
- Information from outside sources such as Trade Unions

- Hepatitis B vaccination programme
- Facilities inspections
- Monitoring of Target 100
- Health and Safety Executive reports/information

12. FORTHCOMING LEGISLATION/HSE GUIDANCE

12.1 The proposed amendment to the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (the extension from 3 days to 7 days of the absence period which triggers the accident report to the Health and Safety Executive) was approved and became law in April 2012. In addition to the reports given to the Safety Committees, a briefing paper was circulated to all Heads of Service and Business Managers and an announcement was put on e-voice to notify all staff.

12.2.1 The Health and Safety Executive's proposal for recovering costs incurred when visiting organisations will go ahead but will not commence until October 2012 at the earliest. Organisations who materially breach health and safety law (that is, where the inspector issues a letter or formal notice following a visit) will be charged at a rate of £124 per hour.

12.2.2 Had cost recovery been in operation when the HSE inspected the waste and recycling services, there would have been no charge to the Council as the inspector did not feel it necessary to issue a letter.

12.3 The Health and Safety Executive have also set up an independent regulatory challenge panel to look into complaints about advice given by their inspectors which the complainant feels is incorrect or which goes beyond that which is required to adequately control a risk.

12.4.1 The Government's review of health and safety legislation (the Lofstedt report) which was about to commence at the close of last year's annual report, was completed and its recommendations for consolidating and simplifying health and safety legislation accepted. The Work At Height Regulations are one of those which are to be reviewed – there are quite a lot of council employees who use ladders for access purposes.

12.4.2 At the close of this year's report it has been announced that an update has been commissioned to report on progress by the end of January 2013 and if necessary revise the deadlines for full implementation of the proposed changes. The effect of this on the Council will become clearer once the outcome of the report is known.

12.5 The Corporate Health and Safety Officer will monitor the Health and Safety Executive and other websites and will ensure that council officers are notified in good time of any matters which will have an effect on its work activities.

13. WORK PLAN 2011/12

13.1 The Corporate Health and Safety Officer's work plan for 2012/13 is attached as Annex A.

13.2 The major challenges for the year are identified below –

- Implementation of the accident reporting component of Target 100
- Completion of the hepatitis B vaccination programme
- The introduction of a noise and vibration assessment and monitoring programme for Streetscene
- Completion of the planned programme of health and safety audits and inspections
- The delivery of health and safety training courses to external organisations
- A review of lone working arrangements at the Council and participation in the Guardian24 lone worker protection trial

M J Kent CMIOSH
Corporate Health and Safety Officer
June 2012

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Annex A

H&SO WORK PLAN 2012-13

	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	March	
Annual Report for Audit & Risk Comm													5 days prep + 2 hr meeting
Annual Report - 6-monthly update													2 days prep + 2 hr meeting
Corporate Health & Safety Committee													20 days inc prep, admin and action time
Civic Offices Tenants Joint Liaison Group 4 x 2 hrs													1 day
Depot Health & Safety Committee													10 days inc action time
Corporate Governance Work Group - 2 hr x quarterly													1 day
Assets Review Group - 2 hr x bi-monthly													1.5 days
Attend Team Briefings - 1 1/2 hrs x monthly													2.5 days

Annex A

Target 100 admin/ assistance													15 days
8 x 1 day refresher training Streetscene/ Waste Services													10 days inc prep time
Corporate H&S Induction 1½ hr x quarterly approx													1 day
CIEH H&S L2 Certificate 2 x 1 day courses													4 days inc prep time
First Aid At Work course - 3 days													5 days inc prep and admin time
First Aid At Work refresher course 2 days													3 days inc admin
Arrange/attend Defibrillator refresher trg 1/2 day													1 day inc admin
Working groups for events held on council land													Variable – estimate 5 days
Organise training as required approx													15 days

Inspect work operations and sites within Borough 1 per month		CEOs	Leisure Services	Markets Super-visor	Community Sports event	Parks Attendant	Waste Services	Litter picking	Pest Control	Customer Service Agent	Facilities	Building Cleaning	12 days inc report writing
Follow-up visit to work operation/site visit													6 days
Organise fire drills 2 per year CO, Depot, Kidsgrove TH, Guildhall, St George's Chmbs													2 days
Return To Work RAs for HR approx 2 per month													15 days inc report writing
Maternity RAs for pregnant employees approx 10 per year													1 day inc admin
Streetscene noise monitoring project													5 days
Organise Hep B vaccination programme for selected staff													5 days

Annex A

Annual review of safety policies			General			Stress			Smoking			Mobile phones	4 days
Service and individual requests - 5 per month approx													30 days
Investigation of accidents to employees or public													5 days
Check insp/ testing on UNIFORM	Gas + Crem	Fire + CO	Legnella + Depot	PAT + Jub 2	Asb + Kidsgrove T Hall	Fire ext + Museum	Lifts + St G Ch	Evac chair + KSC	Elecs + Cemy	Vent + G'hall	Gas + Depot Houses	Fire + Comm Centre	30 min per month 1 day
Renew First Aid At Work certificate													2 days
Maintaining CPD status - 3 yr cycle													Av 10 "points" p.a., 10 days approximately

CORPORATE RISK MANAGEMENT

Submitted by: **Head of Business Improvement and Partnerships**

Portfolio: **Communications, Transformation and Partnerships**

Ward(s) affected: **All**

Purpose of the Report

To provide to Members the updated Risk Management Policy and Strategy documents as at Appendix A.

Recommendations

The Committee is asked to:-

(a) Note the updated Risk Management Policy & Strategy found at Appendix A

(b) Approve the minor changes as listed on the documents found at Appendix A.

(c) Make any suggestions for further changes as deemed necessary

Reasons

The risk management process was previously adopted in 2011 to allow for changes in the way the council recognises and rates risks. The review is in line with the recommendations of both ALARM (Association of Local Authority Risk Managers) and Governance arrangements.

The report allows Members of the Committee to review the Risk Management Policy & Strategy to understand the way the council views risks and to guide them in their roles and responsibilities when dealing with decisions that will affect the council, partners and stakeholders in the Borough.

1. **Background**

1.1 The attached documents were previously agreed in 2011 after a full review of the old Policy and Strategy documents.

2. **Issues**

None

3. **Outcomes Linked to Corporate and Sustainable Community Priorities**

3.1 Good risk management is key to the overall delivery of Council and local improvement priorities.

4. **Legal and Statutory Implications**

4.1 The Accounts and Audit Regulations 2003 as amended in 2006, state that:

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control,

which facilities the effective exercise of that body's functions and which includes arrangement for the management of risk"

5. **Equality Impact Assessment**

   There are no differential equality impact issues in relation to this report.

6. **Financial and Resource Implications**

   None.

7. **List of Appendices**

   Appendix A

8. **Background Papers**

   None

APPENDIX A

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

RISK MANAGEMENT POLICY STATEMENT 2012/13

Date of Approval:	July 2012
Approved by:	Audit & Risk Committee
Next review due:	June 2013
Version:	3.0
Changes:	See below

Date of Approval:	June 2011
Approved by:	Audit & Risk Committee
Next review due:	June 2012
Version:	2.1
Changes:	Compare with previous version 1.0 April 2010

Previous Date of Approval:	April 2010
Approved by:	Audit & Risk Committee
Next review due:	April 2011
Version:	1.0

Changes	07/07/2011	1. Pg 6 – rating on matrix changed from Green 3 to Amber 3 – this is followed through on the Annexes as requested by Audit & Risk Committee

Changes	08/06/2012	1. Page 1 – Title date changed to 2012/13
		2. Page 2 para 2.2 – changed transformation to change
		3. Page 3 para 3 – full stop inserted after third bullet point
		4. Page 4 para 6 – full stop inserted at end of list

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

RISK MANAGEMENT POLICY STATEMENT 2012/13

1. Purpose

The purpose of this policy statement is to recognise and communicate the responsibility of Newcastle-under-Lyme Borough Council ('the council') in managing both external and internal risks through identified and endorsed best practice as described by the Association of Local Authority Risk Managers (ALARM), CIPFA and other relevant bodies connected to effective risk management. There is also an agreed responsibility on the council to identify, examine and cost effectively control risks to ensure they are eliminated or reduced to an acceptable level.

The overall policy, therefore, demonstrates the Council's ongoing commitment to maintain risk management as an important part of the daily operations of the council.

2. Commitment to Risk Management

The Leader of the council, the council's Cabinet portfolio holders and the council's Executive Management Team (EMT) are committed, collectively, to:-

- Identifying and adopting best practice, where possible, in the identification, evaluation and cost effective control of risks:
- Ensuring risks are reduced to a level that sits within the council's appetite, and/or eliminated; and;
- Maximising opportunities to achieve the council's corporate priorities and to deliver core service provisions at all times

2.1 It is acknowledged that some risks will always exist and will never be eliminated. These risks, therefore, will be tolerated or mitigated by the council and the council will ensure that they are reviewed and reported on a regular basis to ensure they do not worsen.

2.2 All employees must understand the nature of any risk and accept responsibility for those risks associated with their area of work. In doing so they will receive necessary support, assistance and commitment from senior management and elected Members.

2.3 The council's risk management objectives are an important part of good management and effective governance practices. These objectives need the full and continuing support of elected Members and the active participation of Executive Directors and Heads of Service in ensuring that they are realised and actioned where possible.

Risk management is one of the principal elements of Corporate Governance and is a key contributor to ensuring a sound internal control environment at any organisation. Through the implementation and embedding of an effective risk management framework, the council will ensure that it is better placed to positively manage its levels of performance, achieve its corporate priorities and provide an enhanced level of service to its stakeholders, including the citizens of the Borough.

2.4 This strategy, therefore, sets out and demonstrates how the council is discharging its responsibility to manage risk effectively and also how it is maximising opportunities to do so by using a structured and focused approach to risk management.

2.5 The council will continue to develop and maintain a systematic framework and process for managing strategic, operational, project and partnership risks and will review this framework annually. This will include assessing risks for impact and likelihood, identifying and allocating responsibility for their mitigation and receiving assurances about ongoing management of these risks.

2.6 The key benefits of this framework and a strong risk culture throughout the organisation are:-

- A consistent focus on what needs to be done to achieve our objectives.
- The encouragement of enhanced partnership working to identify, manage and mitigate the risks facing the community as a whole.
- Delivering improvements in meeting the needs of the community, minimising complaints and achieving improvements in service delivery.
- Supporting the use of innovative approaches to improving outcomes and achieving better value in the use of public money.
- Better management and delivery of change programmes.
- Greater control of insurance costs, including reductions/limitations in insurance premium costs.
- Protection and enhancement of the reputation of the council.
- To anticipate and respond proactively and reactively to the changing social, environmental, political, legislative, economic, technological context the council works within and also to deal with a whole range of competitive and citizen-based requirements.

2.7 Newcastle-under-Lyme Borough Council is committed to genuinely embedding risk management and all its elected Members, employees, service providers, partners and stakeholders are encouraged and expected to commit to developing the culture, ethos and practice of risk management in every activity they undertake. The overall risk management approach for the organisation will therefore focus on pragmatic, meaningful assessment and treatment of risks and will discourage the capturing of generic, intangible corporate risks or non-relevant information where possible.

2.8 Risk is not restricted to potential threats but can be connected with opportunities. Good risk management can facilitate proactive, rather than merely reactive, defensive responses. Measures to manage adverse risks are likely to help with managing opportunities both in the short and the long terms.

This policy, therefore, provides a clear statement of direction for risk management as it is operated in the council and also by the council in dealings with other bodies.

3. **The council,** in providing a risk management function: -

- Recognises that good risk management practice is an integral part of management responsibilities if the highest quality services are to be delivered to the community in the most cost effective way.
- Recognises that risk management can be used as a valuable tool at a corporate level as well as at operational/service/functional level.
- Is committed to manage all of its activities in a way which minimises risks to people, property, services and its finances and to protect its assets through effective and efficient risk management.
- Recognises that effective risk management is an integral part of robust performance management and good governance within the Council, as managing identified risks and controlling the potential negative consequences, whilst identifying opportunities, helps to ensure the delivery of objectives and priorities.

The council's key corporate priorities, as set out in the Corporate Plan, are:-

(a) A Cleaner, Safer and Sustainable Borough.
(b) Creating a Borough of Opportunity.
(c) Creating a Healthy and Active Community.
(d) Transforming our Council to Achieve Excellence.

Each of these priority areas has a number of objectives within them which the council works towards on an on-going basis as part of service planning and organisational development. Progress against these is measured and publicly reported through a number of different channels.

The council has a statutory responsibility to have in place arrangements for managing risks as stated in the Accounts and Audit Regulations:-

'A local government body shall ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk.'

4. In order to manage risks the council has adopted an approach that is used across all services. The Council acknowledges that risks occur in the day to day delivery of services, the delivery of individual projects and initiatives and in relation to any important decisions facing the council and its key partners. We should do what is reasonable to prevent or minimise the impact of these risks and to maximise opportunities when they arise.

5. The rationale behind the risk management process is that the predictable risks are identified and managed, allowing the greatest level of control possible to be put in place. In this sense the risk management process then allows managers to free up capacity to deal with any as-yet unidentified risks as they emerge.

6. To meet the responsibilities above, the council will:-

- Ensure that risk management retains a high profile in the culture of the council;
- Ensure clarity as to what needs to be done to achieve objectives.
- Manage risk in accordance with best practice in line with ALARM & CiPFA guidance and advice.
- Anticipate and respond to changing social, environmental, legislative, political, economic, technological, competitive and citizen requirements.
- Prevent injury, damage and losses and reduce the cost of risk where possible.
- Protect the council's assets.
- Provide the best possible service to customers.
- Maintain the reputation of the council.
- Realise opportunities.
- Promote innovation to achieve objectives.
- Ensure that risk management arrangements with our partners are robust.

7. The above will be achieved by:-

- Reporting risk to individual Executive Directors and Heads of Service; Departmental Management Teams (DMTs), Wider Management Team (WMT), EMT and the council's Audit & Risk Committee.
- Implementing a Risk Management Strategy that establishes clear roles, responsibilities, escalation and reporting lines within the council for risk management.
- Providing opportunities for shared learning around risk management across the council.
- Offering a platform for identifying and prioritising risk areas.
- Reinforcing the importance of effective risk management as part of everyday work of employees.
- Incorporating risk management considerations into all aspects of the council's work including risk management capabilities in to policy and strategy making, service and financial plans and performance challenge of Heads of Service.
- Monitoring arrangements on an ongoing basis.
- Regularly reviewing its arrangements to ensure it is following best practice and will consult with stakeholders.
- Engaging with stakeholders, including key partners and contractors, to develop their understanding of risk management and to ensure that they are engaged in effective risk management themselves.

8. The Chief Executive and Leader of the Council will be asked to sign off the policy and strategy as part of displaying both their commitment to risk management and also the organisation's commitment to these processes.

Signed: ______________________________________ Date: ___________

Councillor G Snell
Leader of the Council

Signed: ______________________________________ Date: ___________

Mr J Sellgren
Chief Executive

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NEWCASTLE·UNDER·LYME BOROUGH COUNCIL

RISK MANAGEMENT STRATEGY 2012/13

1. Purpose

The purpose of this strategy is to:-

- Demonstrate how the Risk Management policy is to be implemented through Newcastle-under-Lyme Borough Council's commitment to risk management.
- Describe the objectives of risk management and provide a framework for embedding risk management further across the organisation with defined roles and responsibilities and a structured process. This will then ensure that opportunities are maximised and risks minimised.
- Enable the council to develop risk management further through its effective use in its management and decision making processes.

2. Objectives of the Risk Management Strategy

The objectives of the strategy are:-

- To clearly identify the roles and responsibilities of people at all levels and ensure that all parties understand how they should contribute to effective risk management.
- To ensure a consistent process for identifying, evaluating, controlling, reviewing, reporting and communicating risks across the council is implemented, understood and embraced by all staff and members.
- To embed risk management into the ethos, culture, policies and practices of the council.
- To ensure that risk management is a key and effective contributor to the Annual Governance Statement.
- To manage risk in accordance with recognised best practice through guidance provided by the Association of Local Authority Risk Managers (ALARM) & CIPFA (together with other relevant bodies).

3. Achievement of Objectives

3.1 *To clearly identify the roles and responsibilities of people at all levels and ensure that all parties understand that they should contribute to effective risk management.*

Responsibility for risk management runs throughout the council and involves elected Members, senior officers and all other employees (see Annex A). Clear identification of roles and responsibilities will ensure that risk management is embedded in all policy making, decision making, policy approval (strategic) processes and service delivery (operational) processes, as well as providing sufficient resources to both implement this strategy and thus ensuring systems are sustainable.

The roles and responsibilities are outlined at Annex A.

3.2 *To ensure the implementation of a consistent process for the identifying, evaluating, controlling, reviewing, reporting and communicating of risks across the council that is understood and embraced by all key stakeholders*

To assist with the approach to risk management and to ensure consistency across the council, a guidance document (Annex B) on the council's risk management process has been devised and developed for use by relevant individuals, services and organisations.

By effectively managing risks and opportunities the council will be in a stronger position to deliver its: -

- Objectives;
- Services to the public;
- Partnership working agenda;
- Best value/value for money procedures and processes; and
- Identified outcomes

It will also inform the business processes of the council including: -

- Strategic/corporate planning;
- Financial planning;
- Service planning;
- Policy making and policy reviews;
- Performance management framework;
- Project management processes and frameworks;
- Partnership working;
- Internal controls and internal audit; and
- Business continuity and emergency planning arrangements

With responsibility for achieving objectives sits identifying risks, assessing them, developing controls and warning mechanisms, reviewing and reporting on progress by key individuals within the organisation.

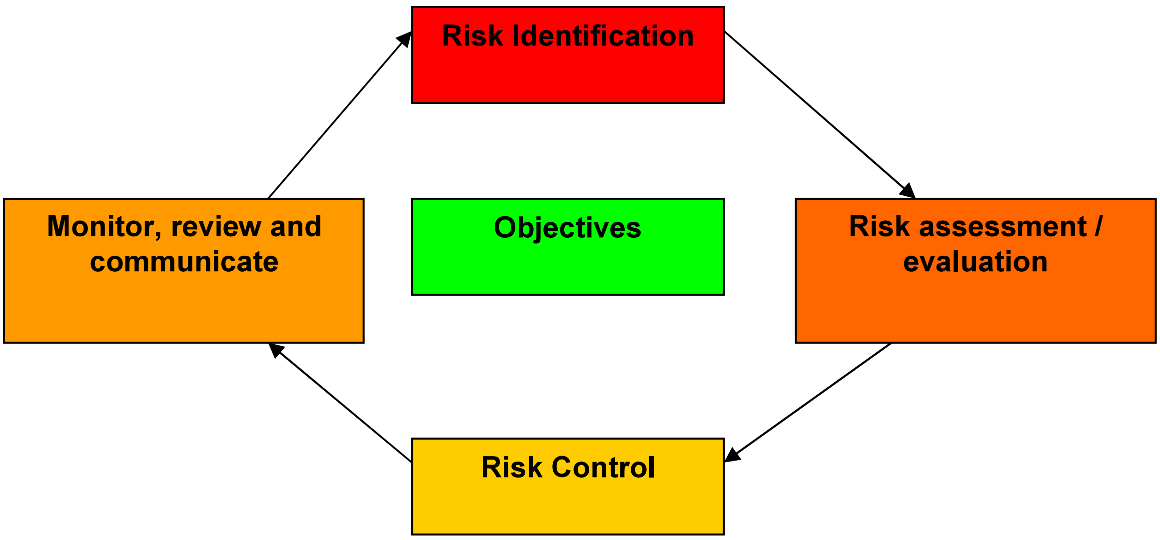
Some objectives, however, are reliant on external organisations with whom the council works e.g. key partners and contractors. Working with external organisations could affect the achievement of objectives and this also must be taken into account when delivering the key elements of this strategy.

The strategic risk champion and other nominated risk champions have responsibilities including the support, challenge and recording of risks within their directorates or service areas. They will assist in the compiling of risk registers, whilst ensuring that the risk management strategy is adhered to as far as is possible. Officers who are involved in specific projects or operational activities will be responsible for identifying, assessing, developing, reviewing and reporting of risks. This will enable constructive discussions of the identification of risks, further actions and controls for the profiles to be undertaken on an ongoing basis.

The management of risk is an important part of the corporate planning and policy making/decision making processes and also in the key areas of project and change management.

Below is a summary of the council's risk management process. For an in-depth explanation, please refer to Annex B.

<u>Summary Guide</u>



3.2.1 <u>Objectives</u>

Any organisation is primarily concerned with the achievement of objectives. You need to know what you are trying to achieve before you can start to think about the risks that could have an impact on your success.

The more clearly objectives are defined, the more it will help you consider those risks that could actually impact on your objectives. When setting objectives remember to make them **S**pecific, **M**easurable, **A**greed, **R**ealistic and **T**ime bound (SMART).

At strategic level - the Council has four Corporate Priorities to which strategic risks are linked.

At operational level - each service has a number of business objectives contained within each service and financial plan to which operational risks are linked.

At project level - the relevant project brief or project initiation document details the aims and objectives of the project.

At partnership level - the partnership agreement or other formally agreed arrangements will detail the aims and objectives of the partnership.

3.2.2 <u>Risk identification</u>

What could go wrong?	Use available documents e.g. Corporate Plan, Service Plan, appraisals etc to establish what is planned and start to identify what risks could occur as a result of these plans
Ensure risks are structured – what are the key elements to each risk? **What type of risk is it?**	E.g. if we don’t review and manage our budgets, is there a risk we could overspend? What things are we looking at in terms of a risk like this? Strategic, Operational, Project
What category is it?	e.g. political, e-Government/ICT, regulatory, financial/fraud, opportunities, reputation, management, assets, new partnership/project, customer/client/citizen Environmental (see Annex B(i))

At strategic level, Executive Directors identify strategic and cross-cutting risks through facilitated awareness sessions. The risks identified are:

- Those that could significantly impact on the achievement of the Council’s overall priorities.

- Those that are recorded in the Strategic Risk Register.
- Those that can be used to inform policy decisions.

At operational level - Business Managers identify operational risks which may prevent them from achieving business objectives identified in their service plans, as well as any measures and actions to manage these risks. The risks identified are: -

- Those that could significantly impact on the achievement of the Business objectives.
- Those that are recorded in each Directorate's Operational Risk Register.
- Those that can be used to inform meetings/actions between Business Managers and Heads of Service, and completion of the day to day services.

At project level - Project Managers will identify the risks that could impact on the successful delivery of the project. The risks identified are: -

- Those that could significantly impact on the achievement of the project;
- Those that are recorded in the Project Risk Register;
- Those that can be used to inform both strategic and operational risk identification

At partnership level - the Council has developed a Code of Practice for Partnerships which should be adopted for all new and existing partnerships which will: -

- Provide a corporate framework for all staff involved in considering new partnership workings.
- Assist Members and officers wishing to review existing arrangements.

3.2.3 Risk Assessment/Evaluation

In assessing and evaluating the risks identified, you need to ask a number of fundamental questions. From this, you will get a risk 'score' (or rating). This 'score'/rating will determine your future actions.

What would be the impact on the council if the risk actually happened?

How likely is it to happen?

Based on the answers above, plot the rating on the table opposite

LIKELIHOOD				
	HIGH	Amber 7	Amber 8	RED 9
	MEDIUM	Green 4	Amber 5	Amber 6
	LOW	Green 1	Green 2	Amber 3
		Low	Medium	High
		Impact		

The bold line on the matrix is the limit of the council's risk appetite, i.e. how much risk it is willing to take before intervention begins. Control of the risks should effectively move the final risk ratings to the amber and green sections of the table (see Annex B (ii)

3.2.4 Risk Control

Risk control is the name given to the process of working towards mitigating the identified risks. This is done by identifying possible actions which may reduce either the impact or the likelihood of the risk and will therefore mean that the final rating is contained within the council's risk appetite (the green and amber sections of the table above). In undertaking risk control a number of questions can be asked as part of the risk management process.

Who owns the risk?

What could should be done to reduce the impact and/or likelihood of the risk?

What else do you need to do in controlling the risk?

(see Annex B(iii))

Priority	Review Period (months)	Action			
		Tolerate	Treat	Transfer	Terminate
High	1		√	√	√
Medium	2 - 6	√	√	√	√
Low	9 - 12	√	√	√	√

3.2.5 Monitor, Review and Communicate

Key questions to consider as part of this process:-

- Are the controls you have put in place effective?
- Has the risk changed either as a result of what you have done or other factors?
- Does it need escalating, having gone through all the checks you need to make?

- Are new risks evolving as a result of the existing risk or due to other factors?
- Who do you need to inform – internally and externally to the council?

Key to what prompts what kind of action: -

Red	High risk, prompt action, contingency plan, monitor at least monthly
Amber	Medium Risk, contingency plan, monitor at least quarterly
Green	Low risk, monitor at least half annually

3.3 To embed risk management into the ethos, culture, policies and practices of the council

Risk management is well established at the council but this strategy is seeking to build on it. The aim is to ensure that risk management plays an integral part in decision making and the day to day business of the council in a structured uniform manner.

Risk management will be part of and included in the council's processes, policies and documents but not limited to: -

- Development and maintenance of the Constitution.
- Sustainable Community Strategy.
- Corporate Plan.
- Medium Term Financial Strategy.
- Service Plans.
- Code of Corporate Governance.
- Code of Practice on Procurement.
- Reports to support key decisions.
- Performance management.
- Policy planning.
- Financial management.

3.4 To continue to ensure that risk management is a key and effective contributor to the Annual Governance Statement

To achieve this:-

3.4.1 Heads of Service are required to make statements as to the effectiveness or otherwise of their systems for identifying, monitoring and managing corporate and operational risks. This is confirmed by each Executive Director signing a Controls Assurance Statement each year.

3.4.2 Confirmation is obtained from the Corporate Governance Working Group and the Audit & Risk Committee and internal Audit, who use

CiPFA best practice that the council's risk management framework is judged to be sufficiently robust and that assurance statements properly reflect the risk environment and its management of those risks.

3.4.3 The risk registers of the council will be a factor in internal audit planning.

3.5 To manage risk in accordance with best practice

3.5.1 The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations:

'A local government body shall ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk'.

Risk management is recognised as an important element of good governance. The CIPFA/SOLACE governance framework "Delivering Good Governance in Local Government" seeks to ensure that risk management is embedded into the culture of the authority with members and officers recognising that risk management is part of their jobs.

3.5.2 Good internal control ensures that the processes and procedures operate in an orderly and efficient manner, statutory and management requirements are complied with, assets are safeguarded and records complete and accurate.

3.5.3 Performance monitoring ensures the treatment of risk remains effective and the benefit of implementing risk control measures outweighs the costs of doing so. It is a continual review not only of the whole process but also of individual risks or projects and of the benefits gained from implementing risk control measures.

3.5.4 Data quality needs to ensure that the data used for performance monitoring and to inform decision making is accurate, reliable, timely and fit for purpose. If data is misleading, it could lead to flawed decision making, wasted resources, services that may not improve and the development of ill-founded policy.

3.5.5 The business continuity process is a form of risk management applied to the whole council and its ability to continue with its service provision in the event something occurring which potentially affects that ability. The council must ensure risk management processes are applied throughout the business continuity lifecycle.

3.5.6 The achievement of effective Health and Safety policies, processes and procedures has been committed to by the council with the development of policy and guidance specifically addressing the management of health and safety risks.

4. Conclusion

By embracing risk management, the council will make the most of the opportunities which it faces whilst operating within a risk-aware environment.

Date of Approval:	**July 2012**
Approved by:	**Audit & Risk Committee**
Next review due:	**June 2013**
Version:	**3.0**
Changes:	**See below**

Date of Approval:	**June 2011**
Approved by:	**Audit & Risk Committee**
Next review due:	**June 2012**
Version:	**2.1**
Changes:	**Compare with previous version 1.0 April 2010**

Previous Date of Approval:	**April 2010**
Approved by:	**Audit & Risk Committee**
Next review due:	**April 2011**
Version:	**1.0**

Changes	**07/07/2011**	**1. Pg 6 – rating on matrix changed from Green 3 to Amber 3 – this is followed through on the Appendices as requested by Audit & Risk Committee**

Changes	**04/07/2012**	**1. Pg 1 – Year amended from 2011/12 to 2012/13**
		2. Pg 2 – para 3.2 comma removed
		3. Pg 4 – para 3.2.2 “At Operation Level” – removed ‘and financial’
		4. Annex A – Portfolio Holder title amended to read Communications, Transformation and Partnerships Portfolio Holder, and grammar change in role description
		5. Annex B – step 5 – grammatical changes to the fourth bullet point and a space removed from last para.

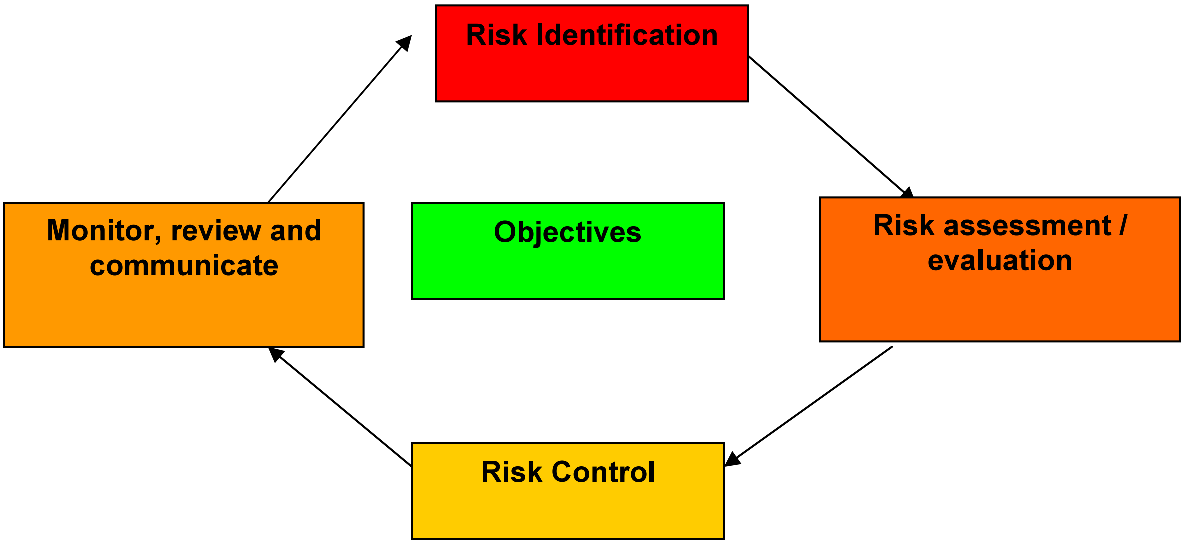
Group/Individual	**Roles and Responsibility**
Leader of the Council	• Promotes the concept and practice of risk management across the organisation and amongst all elected Members.
Communications, Transformation and Partners Portfolio Holder	• Member risk champion. • Promotes the concept and practice of risk management across the organisation and amongst all elected Members. • To receive quarterly updates on risk from the Head of Business Improvement and Partnerships for inclusion in Informal Cabinet meetings where appropriate.
Audit & Risk Committee	• Approves and agrees changes to the risk management policy, strategy and action plan. • Monitors the council's risk management arrangements. • Monitors the council's high level risks as and when they occur. • Provides independent assurance that the risk management framework and associated control environment is being managed effectively and the statement of internal control correctly reflects the risk environment.
All elected Members	• Advocate good risk management processes. • Ensure that risks have been robustly assessed in reports presented to elected Members.
Chief Executive	• Ultimate responsibility for strategic and operational risk management across the council. • Ensures that all strategies and policies contain risk management as an inherent part of their structure which helps drive the organisational change leading to excellence. • Ensures that risk management practices across the council reflect best practice. • Ensures that risk management issues are fully considered in the decision making process. • Drives excellence through the council with strong support and well managed risk taking. • Ensures that the council manages its risks effectively through the development and monitoring of its risk management strategy.
Executive Director (Resources & Support Services) - Chair of Corporate Governance Working Group (CGWG)	• Ensures that Executive Management Team (EMT) are aware of any issues that have been escalated by the CGWG and cannot be resolved and ensures that these are noted in minutes of EMT and actioned accordingly either by or on behalf of EMT. • Provides assurance to the Audit & Risk Committee as appropriate that the risks are being managed in accordance with the Risk Management Strategy
Executive Directors (EMT)	• Ensure that the risk management process is promoted, developed, managed and implemented effectively in their service areas. • Make decisions with their heads of service as to which service risks may warrant inclusion on their strategic risk register.

	• Take ownership of strategic risks in their directorates and include them in the strategic risk register. • Disseminate relevant information to service managers and employees. • Escalate where necessary any issues that cannot be resolved to the Audit & Risk Committee for advice on decisions. • Establish and monitor a rolling programme of operational risk reviews. • Promote good risk management practice throughout the council in conjunction with CGWG. • Ensuring that when Cabinet reports are written by their officers, that a relevant up to date risk assessment is provided where applicable, before being signed off for submission to Cabinet. • Ensure that the appropriate portfolio holder is aware of detailed risk assessments when discussions begin on any proposal.
Corporate Governance Working Group (CGWG)	• Promote good risk management practice throughout the council in conjunction with EMT. • Support the development of the risk management process, share experience on risk and aid/advise in the review of risk management reviews. • To review the risk management policy and strategy where necessary. • To identify trends and priorities across the council. • Liaise with specialist risk groups in order to inform the strategic risk registers. • Ensure processes are in place to report any new/perceived (key) risks or failures of existing control measures. • Report on key performance results to EMT and Audit & Risk Committee. • To accept and make decisions on the course of action of any issues brought to them by DMT or the strategic risk champion. • To escalate any issues to EMT brought to the group by DMT or the strategic risk champion, where a stronger decision is needed and cannot be resolved at this level.
Directorate Management Teams (DMTs) Wider Management Team (WMT)	• Ensure the completion of project risk registers where appropriate (DMT). • Liaise with specialist risk groups in order to inform the any relevant strategic and operational risk profiles (e.g. Health & Safety, legal, environmental) (DMT/WMT). • To accept and make decisions on any issues escalated to them by the risk champions (DMT). • To escalate, where necessary, any risks, overdue actions and reasons for such, overdue risk reviews to the CGWG, where a higher decision is needed and cannot be resolved at this level (DMT). • Monitor the implementation of action plans and control assurance programmes (DMT/WMT). • Report key performance results (DMT).

	• Promote and share best practice across the directorate (DMT). • Monitor (and share with the director) situations where:- - risks are rising in the level of security; - circumstances where managers have been unable to implement the agreed mitigating actions; - risks could potentially have an impact on other services (DMT). • To understand the escalation process of risks, action plans and issues (DMT/WMT). • To accept the notification of any incidents or near-misses reported to them by employees or risk champions, and record them appropriately (DMT).
Head of Business Improvement & Partnerships (BIP) Business Improvement Manager (BIM) Business Improvement Officer (Risk) (BIO)	• Develop and maintain a risk management process reflecting established best practice (BIP/BIM/BIO). • Lead on the annual review of the risk management policy, strategy and methodology, helping to ensure all aspects of the process remain robust. (BIP/BIM/BIO). • Ensure risks are reviewed and reported to management in line with the timelines in the risk management framework (BIM/BIO). • Collate and administer the strategic risk registers (BIO). • Prepare annual and quarterly risk management reports for the Audit & Risk Committee (BIM/BIO). • Identify and communicate risk management issues to DMT/EMT for dissemination to services and assist in undertaking risk management activity through guidance, training or direct support. (BIM/BIO). • Promote risk management process throughout the council with both members and officers ensuring the process is embedded, effective and reflects best practice. (BIP/BIM/BIO). • Consult with Executive Directors concerning risk issues (BIP). • Act as a lead support officer for the CGWG (BIP/BIO). • Manage the insurance fund and external insurance contract (BIO). • Liaise with external insurers to ensure that future premiums reflect all risk management activities being undertaken (BIO). • Administer the designated risk management system for managing and controlling risks (BIO). • Monitor and report to the CGWG any issues that arise either from strategic risk reviews, overdue risk review reports, non-compliance with guidelines laid out in the risk management framework/approach by employees of the council, reported to them by the operational risk champions (BIP/BIM/BIO). • Identify any emerging risks and incorporate into the relevant risk registers (BIO). • Report to the CGWG any further support required (BIP).

Operational Risk Champions	• Create and maintain operational risk registers in conjunction with heads of service. • Monitor and report to their respective DMTs any high risks and any issues that may arise in respect of overdue actions/overdue reviews and other problems they encounter for them to either deal with or to escalate to the CGWG via the strategic risk champion. • Update the operational risk profiles on the designated risk management system. • Report to the BIO any further support required. • Ensure that incidents occurring or near-misses are reported to DMT.
Employees	• Manage risks effectively in their jobs. • Raise any perceived/new risks for their service area with the appropriate line manager/business manager/head of service or risk champion for inclusion in the risk register. • Report any incidents or near-misses to their risk champion or head of service.

RISK MANAGEMENT PROCESS



Step	Title	Description
1	**Objectives**	Start of the process – concerned with achievement of objectives – the clearer the objectives then more chance there is of achieving them. Objectives must be SMART – Specific, Measurable, Agreed, Realistic, Timeband. ***Strategic***: the council has four priorities to which strategic risks are linked. ***Operational***: each service has a number of business objectives contained within the Service Plan to which operational risks are linked. ***Project***: each project unitation document details the aims and objectives of the project. ***Partnership***: the partnership agreement or formally agreed arrangements will details the aims and objectives of the partnership.
2	**Risk identification**	Risk identification tries to identify the council's exposure to uncertainty. You need to use your imagination, creativity, involvement and experience in this part of the process. Identify the risks that *may* stop you from meeting your objectives – it may be useful to use the list of risk categories as a guide: political; e-government; regulatory; financial/fraud; opportunities; reputation; management; assets; new partnerships/projects; customers/clients/citizens/children; environmental (a description of these can be found at annex B(i).

		Strategic risks are those that: • Could impact significantly on the achievement of the council's four priorities. • Are recorded in the strategic director risk assessments. • Used to inform policy decisions. Operational risks are those that: • Impact significantly on the business objectives. • Are recorded in the individual service risk registers. • Are used to inform the Heads of Service. Project risks are those that: • Could impact significantly on the achievement of the project. • Are recorded in the project risk register. • Are used to inform both strategic and operational risk identification. Partnership risks are those that: • Could significantly impact on the achievement of the partnerships aims and objectives. • Are recorded in the partnership risk registers. • Are used to inform both strategic and operational risk identification. There are three elements to any risk scenario: • The **vulnerability** describes the situation (that may be perceived) that exposes the council to risk. • The **trigger** is an event or change in situation that has a negative/positive result. • The **consequences** are the events that follow should the risk occur.
3	**Risk assessment/ evaluation**	Areas of potential risk need to be systematically and accurately assessed. The process requires an assessment of:- • The *impact* it would have if a risk event occurs. • The *likelihood* of the risk event occurring. • Possible resources needed and other implications. • The priority of the risk for action in relation to the council's risk tolerance level (amber and green areas on the table/matrix of risk ratings). Once threats and opportunities have been identified their potential "inherent" risk is evaluated – i.e. with no controls in

		place and using the matrix found in annex B (ii). The risk is then re-evaluated taking into account the effectiveness of the controls in place. This result is the "residual" risk rating, or – put another way – the final risk rating.
4	**Risk control**	Some risks cannot be eliminated completely. Risk management is the process of taking action to minimise the likelihood of the risk occurring and/or to reduce the impact if it does happen. To control the possibility of the event occurring, you need to determine a course of action to try to reduce the risk. Such actions are likely to include the following: tolerate (live with the risk), treat (deal with the risk), transfer (move the risk onto another organisation) or terminate (stop doing whatever it is that is creating the risk) – those actions can be determined by the further action plans you put in place to control the risk further (if any). A description of the action categories can be found at annex B(iii). Clear responsibility for managing the risk to an appropriate 'risk owner' must be assigned. The risk owner can then give responsibility of further action to designated officers that enable them to still influence the risk. The further actions must be <u>SMART</u> and must be developed appropriate to the risk identified. Any such actions are entered into the risk register and monitored.
5	**Monitor, review and communicate**	There **must** be monitoring and review of: • The risk itself. • The implementation of the *agreed* control measures. • The effectiveness (or otherwise) of any further actions. • Were an incident to occur, it is recorded and used to inform a lessons-learnt report. As part of the review cycle, risks and actions will be re-analysed and the cycle will continue as shown in the cycle at the top of this annex. Review and communication of the risks, controls and actions must be reported in line with the timescales shown at annex B(iv) and dealt with accordingly – i.e. escalated, received and agreed.

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Check List for Risk Identification – Categories (not exhaustive)

Political	Politicians and politics, including Member support/approval. Electorate dissatisfaction, election changes and new political arrangements.
E-Government	Using new or existing technology. Lack of, or failure, of technology. Lost or stolen data, Inaccurate or poor quality data, Disaster recovery, jacking or corruption of data, breach of security.
Regulatory/Legislative	Central government policy, Legislation, internal policies and regulations, grant funding conditions, Data Protection. Freedom of Information, Race Equality and Diversity. Disability Discrimination, Human Rights, Employment Law, TUPE, Health & Safety, Potential for legal challenges, judicial reviews.
Financial/Fraud	Budgetary pressures, loss of/reduction in income cost of living, interest rates, inflation etc. Financial management arrangements, Investment decisions, Sustainable economic growth. Affordability models and financial checks, Inadequate insurance cover. External funding issues including loss of (or reduction in) funding. System/procedure weaknesses that could lead to fraud.
Opportunities	Opportunities to add value or improve customer experience/satisfaction. Reduce social exclusion and disparities, Increase employment, education and training. Improve health, reduce health inequalities and promote healthy lifestyles. Opportunities to reduce waste and inefficiency and minimise the use of natural resources, increase Recycling, minimise air, soil, water, light, noise pollution, greenhouse gas emissions and energy use. Reduce the need to travel and encourage the use of public transport, cycling and walking. Encourage local sourcing of food, goods and materials, Conserve, restore and enhance biodiversity. Reduce crime, fear of crime and anti-social behaviour.
Reputation	Consultation and Communication, Negative publicity (local and national) from service or project failure, legal challenges.
Management	Key personalities, loss of key staff, recruitment and retention, management arrangements/protocols. Lack of/or inadequate management support, poor communication. Capacity issues – enough, training issues, availability, sickness absence etc. Emergency preparedness/Business continuity.
Assets	Land, property, listed buildings and ancient monuments, equipment, information, cultural and recreational assets. Includes health and safety or business continuity, abuse of intellectual property, data protection.
New/ongoing **P**artnerships/	New initiatives, new ways of working, new arrangements/relationships.

Projects/**C**ontracts	New policies/procedures. Managing change.
Customers/**C**itizens **C**lients/**C**hildren	Demographic change. Current and changing needs and expectations of customers Impact on customer of service or project failure, Consumer protection. Crime and disorder, Health and Safety risks, Impacts on health inequalities. Effects on physical and mental health and sense of social wellbeing, loss of independence and need for social care support.
Environment	Policies/plans that significantly affect the environment need a sustainability impact appraisal. Recycling, green issues, energy efficiency, land use and green belt issues, noise, contamination, pollution, increased waste or emissions, conservation and wildlife, habitats and species issues. Impact of planning or transportation policies. Climate change such as increased temperatures and flooding, Ecological footprint, flood plains. Environmental assets such as landscape, countryside, historic environment and open space.

IMPACT MEASURES AND CLASSIFICATION

	High (red)	Medium (amber)	Low (green)
Health & Safety	Death, abuse, life threatening OR permanent disability.	Serious injury OR long-term absence from work (over 7 days).	Minor injury OR short-term absence from work (less than 7 days).
Cost	More than £350k.	Between £100-£350k.	Between £20-£100k.
Reputation	National media attention, potential public interest report, third party intervention.	Sustained local media attention, Executive Director reporting, Member interest.	Short term local media attention, Wider Management Team reporting.
Service Delivery	Serious service failure directly affecting partners, stakeholders (more than 1 month).	Service failure but not directly affecting partners or stakeholders (up to 1 month).	Service disruption (between 1 day to 2 weeks).
Project Delivery	Project failure impacting on council's priorities and performance.	Project failure impacting on Directorate's performance and priorities.	Project delay impacting on service performance and priorities.
Legal implications	Statutory body, partner or enforcement agency.	Member and Executive Management Team.	Wider Management Team.

Likelihood Measures

	High (red)	Medium (amber)	Low (green)
Timescale	Highly likely to occur (90%+ chance).	Likely to happen (50-89% chance).	Possible (1-49% chance).
	An incident has occurred in the past year OR is highly likely to occur in the next year.	An incident has occurred in the past 2-5 years OR is likely to occur in the next 2-5 years.	An incident has occurred in the past 6+ years OR is likely to occur in the next 6+ years.

LIKELIHOOD	High	7 Amber	8 Amber	9 Red
	Medium	4 Green	5 Amber	6 Amber
	Low	1 Green	2 Green	3 Amber
		Low	Medium	High
		IMPACT		

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ACTION CATEGORIES

Action	**Description**
Tolerate	This action is appropriate when you judge that the control measures in place are sufficient to keep the risk at a tolerable level and there is no added value to doing more.
Treat	Some risks will need additional treatment to reduce their likelihood and/or impact to an acceptable level. This response is most likely where there have been further actions identified that are SMART and the risk rating has been identified as high (red) or in some cases medium (amber).
Transfer	Some risks can be transferred to an insurer or some other party eg legal liability, property and vehicles etc. Some service delivery risks can be transferred to a contractor by way of a contract or written agreement. However some risks cannot be transferred eg reputational risks.
Terminate	Sometimes a risk can be so serious that there is no option but to terminate the activity that is generating the risk.

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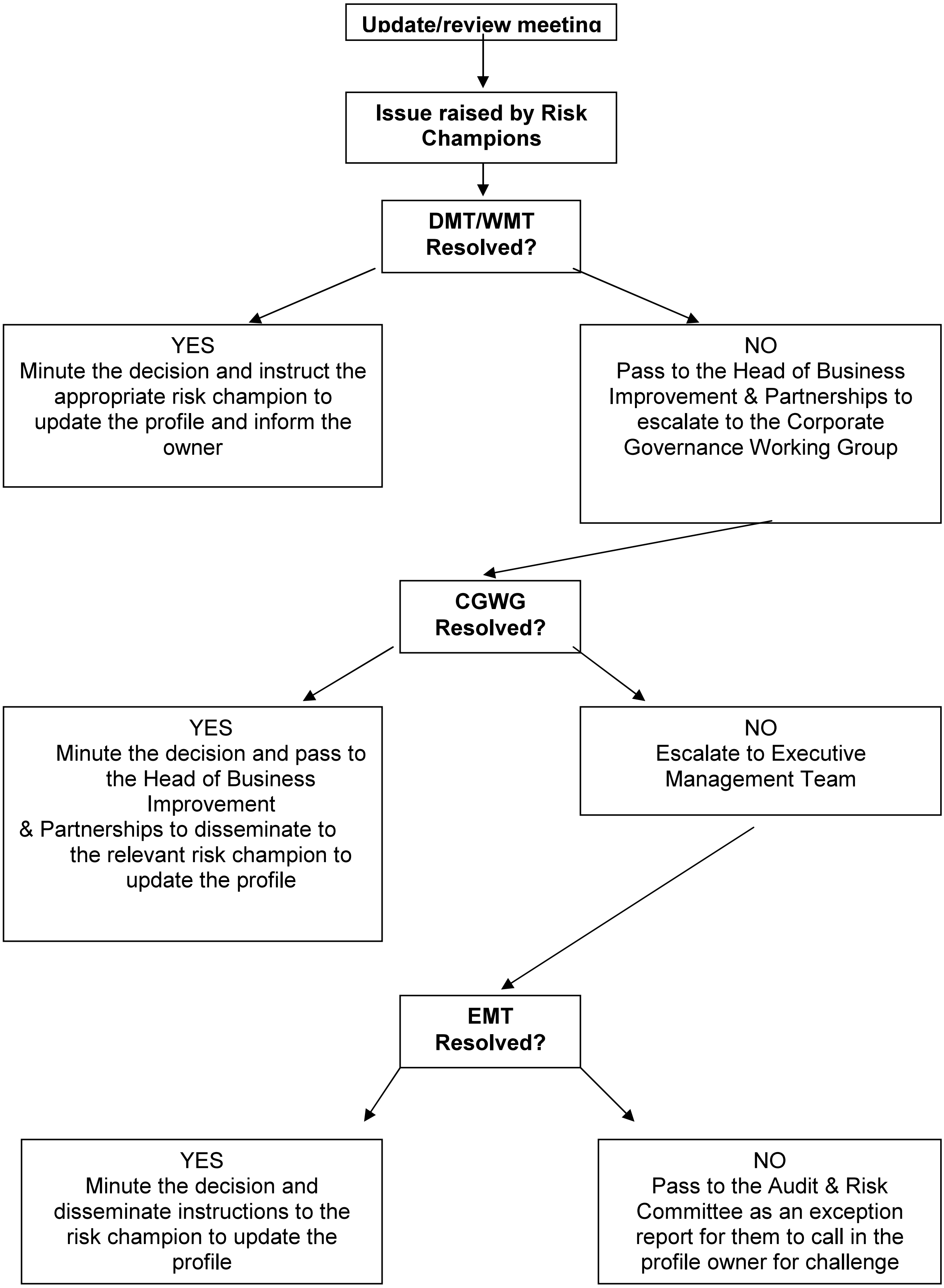
RISK MANAGEMENT REVIEWING & REPORTING, COMMUNICATING FRAMEWORK

Final Risk Rating	Risk Action	Management Action Required	Review/Reporting Required
Red 9	Treat Terminate Transfer	This level of risk is not acceptable and immediate action is required to assess how the risk can be reduced to an acceptable level. Where the impact might result in death, abuse, life threatening <u>OR</u> permanent disability, wherever possible the activity should cease until the risk is effectively managed. Escalation of issues to go to DMT (via risk champion) or WMT (where appropriate), CGWG (via strategic risk champion), EMT and Audit & Risk Committee if no resolution is found.	The appropriate Executive Director must be made aware immediately and the risk must be escalated to the appropriate group – the Departmental Management Team (DMT) or Corporate Governance Working Group (CHWG), where the effectiveness of the suggested further action, or a decision for the way forward, must be considered. If the risk could affect the whole council or, if wider support is required to manage it, the risk must be escalated to the Executive Management Team (EMT). Progress to manage this risk must be reviewed by the relevant DMT (or WMT where appropriate) and risk owner on a monthly basis and it is expected that the outcome of such a review will be minuted in the appropriate minutes and a comment recorded in the relevant risk register.
Amber 8 Amber 6 Amber 5	Transfer Treat Tolerate	Whilst this level of risk can be accepted, management must first consider all reasonable steps that could be taken to reduce this risk in terms of both likelihood and potential impact. Escalation of issues to go to DMT (via risk champion) or WMT (where appropriate), CGWG (via strategic risk champion), EMT and Audit & Risk Committee if no resolution found.	The appropriate Head of Service must be made aware of the final rating of this risk and they must consider the effectiveness of the suggested further action and make a decision as to whether the risk should be escalated to the Corporate Governance Working Group. If wider support is required to control this risk, it must be escalated to the appropriate Executive Director. Progress to manage this risk must be reviewed quarterly by the Head of Service and risk owner. The outcome of the review will be minuted in appropriate minutes or 1:1 meetings and a comment recorded in the relevant risk register.
Amber 7 Amber 3	Transfer Treat Tolerate	In view of the low likelihood of this risk occurring, this level of risk can be accepted, however management must first consider that all reasonable steps have been taken to reduce this risk in terms of the potential impact. Escalation of issues to go to DMT (via risk champion) or WMT (where appropriate), CGWG (via strategic risk champion), EMT and Audit & Risk Committee if no resolution found.	The appropriate Head of Service must be made aware of the final rating of this risk and they must consider the effectiveness of the suggested further action and make a decision as to whether the risk should be escalated to the Corporate Governance Working Group. If wider support is required to control the risk, it must be escalated to the appropriate Executive Director. Progress to manage this risk must be reviewed quarterly by the Head of Service and risk owner. The outcome of the review will be minuted in appropriate minutes or 1:1 meetings and a comment recorded in the relevant risk register.
Green 4 2 1	Transfer Treat Tolerate	Whilst this level of risk is generally acceptable, management should consider whether this risk could be reduced in terms of either likelihood or impact. Escalation of issues to go to DMT (via risk champion) or WMT (where appropriate),	The appropriate Business Manager must be made aware of the final rating of this risk and they must consider the effectiveness of the suggest further action (if applicable) and make a decision as to whether the risk should be escalated to the appropriate Head of Service. If wider support is required to control this risk, it must be escalated to the Departmental Management Team. Progress to manage this risk must be reviewed at least annually (or sooner if circumstances change

		CGWG (via strategic risk champion), EMT and Audit & Risk Committee if no resolution found.	significantly) and a comment recorded in the relevant risk register.

Annex B(v)

ESCALATION PROCESS



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AUDIT COMMITTEE REVISED TERMS OF REFERENCE

Submitted by: **Audit Manager**

Portfolio: **Resources & Efficiency**

Ward(s) affected: **All**

Purpose of the Report

To provide Members with details of the proposed changes to the revised Terms of Reference for the Audit and Risk Committee.

Recommendations

That the Audit and Risk Committee revised Terms of Reference be agreed.

Reasons

The revised terms of reference have been updated to reflect more accurately the work of the committee and to enable members to have a full understanding of their roles and responsibilities in relation to the nature of the reports that will be presented to them.

1. **List of Appendices**

   Appendix A – Revised Terms of Reference – April 2012.

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Newcastle-under-Lyme Borough Council – Audit & Risk Committee

Revised Terms of Reference – April 2012

Audit Activity

- To receive, review and approve, but not direct the annual internal audit plan, annual strategy, terms of reference and audit protocol.
- To review quarterly Internal Audit progress reports and the main issues arising and to seek assurance that action has been taken where necessary.
- To consider reports from Internal Audit on agreed recommendations not implemented within a reasonable timescale and to monitor the Council's response to ensure that this is acceptable.
- To ensure that there are effective relationships between external and Internal Audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- To consider the Audit Managers annual report and opinion, and the level of assurance internal audit can give over the Council's corporate governance arrangements.
- To consider any reports dealing with the management or arrangements for the provision of the internal audit service.
- To ensure the internal audit section is adequately resourced and has appropriate standing within the Council.
- To receive, review and approve but not direct the annual external audit plan.
- To consider the external auditors annual audit and inspection letter, relevant reports to those charged with governance, delegating the consideration of such reports and any investigations to other committees as necessary.
- To consider specific reports as agreed with the external auditor.
- To monitor the Councils response to the external auditor's findings and the implementation of external audit recommendations.

Regulatory Framework

- To consider the internal control environment and the level of assurance that may be given as to its effectiveness, to include the review of the Annual Governance Statement and the recommendation to the Council of its adoption.
- To satisfy itself that the Council's assurance statements including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- To monitor the effectiveness of the Councils risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management. To review the effectiveness of corporate governance arrangements to ensure that the Council complies with best practice.
- To monitor the effectiveness of the Council's policies and arrangements for Anti-Fraud, Anti Corruption, Bribery and Anti Money Laundering.
- To review any issue referred to it by the Chief Executive, Section 151 Officer, Monitoring Officer, Executive Director or any Council body.
- To maintain an overview of the Councils Constitution in respect of Standing Orders in relation to Contracts and Financial Regulations and make recommendations to Council in consultation with the Monitoring Officer and Section 151 Officer for any amendments.
- To receive annual reports on exceptions and exemptions to the councils Financial Regulations and Standing Orders in Relation to Contracts.

Accounts

- To approve the Council's Statement of Accounts.
- To consider the external auditors report to those charged with governance on issues arsing from the audit of the accounts.

Other Areas

- To consider reports from external inspectors (for example Office of the Surveillance Commissioner, Health & Safety Executive).
- To receive reports from the Corporate Health & Safety Officer.
- To receive reports in respect of the Councils Treasury Management arrangements.

AUDIT COMMITTEE PLAN OF WORK 2012/13

Submitted by: **Audit Manager**

Portfolio: **Resources and Efficiency**

Ward(s) affected: **All**

Purpose of the Report

To provide Members with details of the proposed work plan for the Audit and Risk Committee for 2012/13

Recommendation

That the Audit and Risk Committee Work Plan be received

Reasons

By providing a plan of work for the committee, this will assist the committee in being able to identify any potential area for challenge or areas that they feel they need to receive more information on

1. **List of Appendices**

   Appendix A – Audit Committee Plan of Work 2012-13

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APPENDIX A

AUDIT AND RISK COMMITTEE PLAN OF WORK

2012/13

Committee Date	**Reports**
24 July 2012	1. Outstanding Recommendations & Assurance Qtr 4. 2. Annual Report of Internal Audit Service. 3. Review of Effectiveness of Audit Committee. 4. Review of Effectiveness of Internal Audit/Updates & 5. Action Plan. 6. AGS with Supporting Evidence. 7. Health and Safety Annual Report 2011-12. 8. Risk Management Policy and Strategy. 9. Unaudited Statement of Accounts.
26 September 2012	1. Qtr 1 Progress. 2. Qtr 1 Outstanding Recommendations & Assurance. 3. Risk Management Report – April to June 2012. 4. Audited Statement of Accounts. 5. Annual Governance Report (Audit Commission). 6. Fighting Fraud Locally.
17 December 2012	1. Qtr2 Progress. 2. Qtr 2 Outstanding Recommendations & Assurance. 3. Health and Safety Half-Year Report April-September 2012. 4. Risk Management Report – July to September 2012. 5. Mid-Year Review of Treasury Management Activities.
18 February 2013	1. Qtr 3 Progress. 2. Qtr 3 Outstanding Recommendations & Assurance. 3. Internal Plan 2013/14. 4. Revised Audit Strategy and Terms of Reference. 5. Risk Management Report – October to December 2012. 6. Annual Audit Letter (External Audit). 7. External Audit Strategy 2012/13.
15 April 2013	1. Anti Fraud & Anti Corruption Polices – Review & Update. 2, Anti Money Laundering Policy. 3. Code of Corporate Governance. 4. Risk Management Report – January to March 2013. 5. Certification of Claims and Returns (External Audit). 6. Overview of the Councils Constitution in respect of Standing Orders and Financial Regulations.

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QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JANUARY TO 31 MARCH 2012

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

To report on any outstanding high risk recommendations to the Audit and Risk Committee on a quarterly basis and where necessary to request Members' approval to the Executive Directors requested actions in respect of the recommendations and proposed target dates.

To provide Members with an assurance opinion on internal controls over Council Services.

Recommendation

That the action of your officers and levels of assurance be noted.

Reasons

High risk recommendations are those agreed with management that are key controls in providing assurance as to the efficiency and effectiveness of the system, service or process under review. By agreeing to prolong target dates Members are accepting the risk of not implementing the control. Delayed implementation of such controls should be challenged to identify reasons behind this and solutions to the delay. Delays may be a result of external or internal influences, lack of resources or inertia. Such delays in the implementation of recommendations will affect the assurance opinion provided on each Service.

1. Background

1.1 High risk recommendations are those where action is considered imperative to ensure that the authority is not exposed to high risks and to do this it needs to be implemented within 1 month of the recommendation being agreed with managers.

1.2 Recommendations are reported to committee on an exception basis, i.e. reports where high risk recommendations have been followed up with Managers on more than two occasions are brought to the attention of Members. In addition the Chair and Vice Chair receive exception reports quarterly where high risk recommendations have been followed up with Managers after the initial implementation date has expired.

1.3 With the production of the Annual Governance Statement in conjunction with the Statement of Accounts the follow up and implementation of recommendations is increasingly important, since they provide both officers and Members with assurance as to the effectiveness of key internal control.

1.4 Assurance is provided on an annual basis as part of the Annual Report on the Internal Audit Service. It is also provided to each Executive Director on a monthly basis, based on the number of recommendations that have been implemented, and where the target date has been changed more than twice on either medium or high risk recommendations.

2. **Issues**

2.1 In the fourth quarter there were seven high risk recommendations which were due for review, five of which have previously had one target date change and as such have been reported separately to the Chair and Vice Chair of the Committee. There were two recommendations at their first review date and as such no further action is required at this time.

2.2 A copy of the Assurance Summary for March 2012 can be found at Appendix A.

2.3 At the end of the fourth quarter there were differing levels of assurance for each of the directorates. Both Chief Executives and Regeneration and Development directorates were showing as substantial assurance whilst Resources and Support Services had limited assurance and Operational Services had little assurance. This was due to a number of outstanding recommendations at the end of the financial year. At the time of writing this report the majority of the outstanding recommendations have been actioned.

3. **Reasons for Preferred Solution**

3.1 Reasons for each Director proposal are specific to the actions required.

4. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

4.1 The systems, services and processes reviewed by Internal Audit link to and support the four priority themes of the Council, by reviewing these Audit is making the best use of the Council's resources and improving efficiency and this is further reinforced by managers as they implement the recommendations made.

5. **Legal and Statutory Implications**

5.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices'.

6. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

7. **Financial and Resource Implications**

7.1 The majority of recommendations are met within existing resources; where additional resources are required these will form part of a separate report.

8. **Major Risks**

8.1 The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working properly. High Risk Recommendations identify areas where action is required in order to avoid exposure to risk. If managers fail to act upon fundamental audit recommendations assurance cannot be given on the adequacy of the systems of internal control.

9. **Key Decision Information**

Not applicable

10. **Earlier Cabinet/Committee Resolutions**

10.1 Where high risk recommendations show a target date change; this identifies the number of times the recommendation has been referred back to Executive Directors and Heads of Service for consideration of the risks prior to agreeing an extended implementation date or other action.

11. **List of Appendices**

Appendix A - Audit Recommendations Summary of Assurance for March 2012

12. **Background Papers**

Internal Audit PI and Assurances file

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Audit Recommendations
Summary of Assurance

March 2012

	Full	Substantial	Limited	Little
Chief Executives Directorate		√		
Resources and Support Services Directorate			√	
Operational Services Directorate				√
Regeneration and Development Directorate		√		

Opinions are classified as:

Full	The Internal Audit did not reveal any control weaknesses based on the samples at the time of the audit	94% - 100%
Substantial	The Internal Audit identified areas that required necessary action to avoid exposure to significant risk	70% - 93% or target changed > 2 on medium risk recommendations
Limited	The Internal Audit identified areas where it was imperative to act to avoid exposure to risk	50% - 69% or target changed > 2 on high risk recommendations
Little	The Internal Audit identified very little evidence of key controls being in place or a repetition of evidence that known action has not taken place to avoid exposure to high risk i.e.: as identified in previous audits. This exposes the Council to high risks that should have been managed.	Below 50%

Full assurance can be given where the Council achieves 95% of all recommendations implemented as the agreed performance measure for 2011/12.

Where target dates for the implementation of recommendations are changed or renegotiated we cannot give our full assurance. If the ongoing risk was considered as:

High Risk: (*action that is considered imperative to ensure that the authority is not exposed to high risks; (Implemented within 1 month)*)
Medium Risk: *(action that is considered necessary to avoid exposure to significant risks: (Implemented within 3 months))*
By changing the date the risk is not being managed and therefore you may wish to seek additional assurance as to the security of the controls in place.

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INTERNAL AUDIT SECTION ANNUAL REPORT 2011-12

Submitted by: **Audit Manager**

Portfolio: **Resources and Efficiency**

Ward(s) affected: **All**

Purpose of the Report

To consider the annual report of the Internal Audit Section for the financial year 2011-12 enclosed as Appendix A.

Recommendation

That the Internal Audit Section Annual Report for 2011-12 be received.

Reasons

Internal Audit's Strategy is "*To deliver a risk-based audit plan in a professional manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make the recommendations to improve it".* This report outlines how Internal Audit has achieved this during the 2011-12 financial year.

1. **Background**

1.1 Internal Audit is an independent appraisal function within the Borough Council which reports directly to the Section 151 Officer who is the Executive Director (Resources and Support Services). The Section also provides a service to management by giving assurance that there are adequate internal controls in operation, ensuring the proper, economic, efficient and effective use of resources, to include the security of assets and data and to assist management in preventing and detecting fraud. This is achieved by the completion of routine system and regularity audits and, under a wider remit, by value for money and special audits.

1.2 The Council's Internal Audit Section consists of 4 staff and is managed by the Audit Manager.

1.3 This report aims to provide information about the programme of work undertaken by Internal Audit during the financial year 2011-12, which has been extracted from the Internal Audit time monitoring system. Monitoring of the Section's performance against plan is completed and an analysis undertaken of actual work areas across major audit areas.

1.4 The section has continued to contract in specialist external computer support. The contract for 2011-12 was awarded to Fit Business Solutions Ltd.

1.5 As required by the Chartered Institute of Public Finance and Accountancy's (C.I.P.F.A.) Code of Practice for Internal Audit in Local Government in the UK 2006, the Audit Manager has developed a Strategy for delivering the Internal Audit Service as per the Terms of Reference, reviewed by Audit and Risk Committee in February 2011. The Strategy states how Internal Audit will contribute to the Council's review of corporate governance arrangements, risk management processes, key internal control systems and how the assurance for the annual statement on internal control will be demonstrated. It establishes the resources and skills required for its delivery and the allocation of audit work.

1.6 The Internal Audit year-end report also builds upon the assurance given by the section in support of the Annual Governance Statement on internal control.

1.7 In considering planning and resource requirements the expectations of the Audit Commission in terms of the 'Managed Audit' have also been considered. This is where Internal Auditors undertake the type and level of work previously undertaken by the District Auditor under his supervision. The aim of this is to increase the effectiveness of Internal Audit activity and the extent to which the District Auditor can and will rely upon their work and ensuring minimum duplication of audits and minimisation of cost. .

2. **Issues**

2.1 The Audit and Risk Committee approved the Audit Plan for 2011-12 on the 31 January 2011. The plan accounted for 491 audit days.

2.2 Internal Audit have maintained a good level of productivity, 83% against a target of 74%, and completed 92% of the audit plan. Productivity for Internal Audit is measured in terms of the available resource which is calculated in terms of audit days, with each day representing 7.4 working hours. The total available days is then adjusted to take into account annual leave, sickness, training, supervision, corporate work and a contingency allowance. The resulting sum is classed as productive days available for the year, for this reason it is not possible to achieve 100% staff productivity.

2.3 The percentage of Internal Audit recommendations implemented by your officers has increased to 88% against a target of 95%. This is due to an increase in the number of recommendations made and also an increase in requests to change the target dates which resulted in a larger number of recommendations that remained outstanding at the end of the year. There are no high or medium risk recommendations that are considered as not receiving adequate management attention.

2.4 The work of Internal Audit shows the Council to have an adequate, effective and reliable framework of internal control, which provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.

3. **Options Considered**

3.1 The provision of specialist computer skilled auditors is bought in as a more economically and effective option to training and trying to retain the same quality of staff internally.

4. **Proposal**

Not applicable

5. **Reasons for Preferred Solution**

Not applicable

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 Internal Audit contributes to the prevention, identification and investigation of fraud and corruption and contributes to promoting an anti-fraud culture.

6.2 Internal Audit helps to ensure that best use is made of the Council's resources and contributes to improving efficiency whilst underpinning the remaining priorities of the Council.

7. **Legal and Statutory Implications**

7.1 The Local Government Accounts and Audit Regulations 2011 require every Local Authority to maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with proper internal audit practices.

8. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

9. **Financial and Resource Implications**

9.1 The total budget, for the Section for 2011/12 was £283,130

10. **Major Risks**

10.1 Risk issues are covered in the main report, attached Appendix A.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Report to Audit & Risk Committee 31 January 2011 – Internal Audit Plan 2011-12
Report to Audit & Risk Committee 31 January 2011– Internal Audit Strategy and Terms of Reference

13. **List of Appendices**

Appendix A – Annual Report of the Internal Audit Section 2011-12

15. **Background Papers**

APACE time recording system
CIPFA Code of Practice for Internal Audit in Local Government

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

ANNUAL REPORT OF THE

INTERNAL AUDIT SERVICE

2011/12

CONTENTS

1. INTRODUCTION

The Annual Reporting Process

1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of the system of internal control. This report is the culmination of the work during the course of the year and seeks to:

- provide an opinion on the adequacy of the control environment;
- comment on the nature and extent of significant risks; and
- report the incidence of significant control failings or weaknesses.

1.2 This report is a summary of the work of the Section throughout 2011-12. As such it presents a snapshot picture of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by Managers to address the weaknesses identified. The recommendations made will be progressing through the normal management processes.

Requirement for Internal Audit

1.3 The **role of internal audit** is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of a Council's internal control system because it measures and evaluates the adequacy and effectiveness of controls so that:

- Members and senior management can know the extent to which they can rely on the whole system; and
- Individual managers can know how reliable the systems are and the controls for which they are responsible.

1.4 The internal control system is comprised of the whole network of systems and controls established to manage the Council to ensure that its objectives are met. It includes financial and non-financial controls, and also arrangements for ensuring that the Council is to achieve value for money from its activities.

1.5 The requirement for an Internal Audit function derives from local government legislation including Section 151 of the Local Government Act 1972 which requires authorities to "make arrangements for the proper administration of their financial affairs". Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2011, in that a relevant body must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control"

2. ADEQUACY AND EFFECTIVENESS OF THE INTERNAL CONTROL ENVIRONMENT

How Internal Control is reviewed

2.1 The Audit Manager prepares an annual risk based audit plan which takes into account the adequacy of the organisations risk management, and other assurance processes. The plan outlines the areas that will be reviewed in terms of their priority and resources required to undertake the review.

2.2 The assessment comprises the two key elements of risk:-

(i) Impact i.e. the materiality/importance of the system in achieving the Council's objectives; and
(ii) Probability, which includes:-

- the results of previous work in the service area/system, both internal and external reviews and also takes into account the last time it was audited;
- the inherent risk, i.e. the underlying potential for fraud; and
- the nature and volume of the transactions, which includes financial materiality.

2.3 This risk based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:-

- system based reviews of all key financial systems that could have a material impact on the accounts e.g. payroll, creditors, council tax and housing benefits;
- regulatory audits of Council establishments e.g. leisure centres;
- systems based reviews of departmental systems/service areas e.g., planning, human resources, and health and safety;
- corporate reviews e.g. corporate governance arrangements and risk management, and
- a small contingency for special investigations and the provision of ad hoc advice.

Internal Audit Opinion for 2011-12 and the Annual Governance Statement (AGS)

2.4 Regulation 4 of the Accounts and Audit Regulations 2011 requires that:-

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes risk management arrangements."

"The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall publish a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish."

2.5 Internal Audit, along with other assurance processes of the Council, have a responsibility to provide assurance from the work they undertake during the year in respect of the internal control systems operating within the Council.

> *Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide **reasonable assurance** that the Council's systems of internal control were operating adequately and there were no breakdown of controls resulting in material discrepancy.*

2.6 However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

3. SIGNIFICANT ISSUES ARISING 2011-12

3.1 Internal Audit examined 45 systems in 2011-12. During the conduct of our audit work we have had regard to the following objectives of internal audit:

- to review and appraise the soundness, adequacy and application of the whole system of internal control;
- to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
- to ascertain the extent to which the assets and interests entrusted to or funded by the Authority are properly controlled and safeguarded from losses of all kinds;
- to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
- to ascertain the integrity and reliability of information provided to management including that used in decision making, and
- to ascertain that systems of controls are laid down and operate to achieve the most economic, efficient and effective use of resources.

3.2 Within the Audit Plan there are 9 review areas that are categorised as High Risk Business Critical Systems. These reviews are covered as part of the managed audit, and as such are audited annually. A summary of the level of assurance for each review area together with the number of recommendations made is shown in the table below;

Audit Area	**Level of Assurance Given**	**Number of Recommendations made**		
		High	**Medium**	**Low**
Payroll*	Well Controlled	0	2	0
Asset Management (Capital)	Well Controlled	0	0	0
Cash Management	Well Controlled	0	0	0
Council Tax	Well Controlled	0	1	1
Creditors*	Well Controlled	0	0	0
Treasury Management*	Well Controlled	0	0	0
NNDR*	Well Controlled	0	0	0
General Ledger	Well Controlled	0	0	0
Housing Benefits	Well Controlled	0	1	1

** denotes systems where only key controls examined in 2011-12*

3.3 A summary of the level of assurance, for all of the main systems areas covered in 2011/12 by risk category, is given in the table below:-

Risk	Assurance			
	Full	Substantial	Limited	Little
High (A)	8	9	1	0
Medium (B)	0	17	9	1
Low (C)	0	0	0	0

Opinions are classified as:

Full: The audit did not reveal any control weaknesses based on the samples at the time of the audit.

Substantial: The audit identified areas that required necessary action to avoid exposure to significant risk.

Limited: The audit identified areas where it was imperative to act to avoid exposure to high risks.

Little: The audit identified very little evidence of key controls being in place or a repetition of evidence that known action has not taken place to avoid exposure to high risk, i.e. as identified in previous audits. This exposes the Council to high risks that should have been managed.

3.4 Whilst there are 10 audits that have been classified as Limited Assurance most of these do not have a significant impact on the Council as a whole, many require a small number of changes to be introduced which will lead to significant improvements in the control environment. With regards to the area showing as Little Assurance, this was in relation to Section 106 agreements where a number of weaknesses were identified in system processes. It is pleasing to report that good progress and significant improvements have been made in relation to the issues identified.

3.5 The main recurring themes across the audits are (figures in brackets demonstrate proportions of outstanding recommendations in these risk areas for 2011/12):

- the lack of written procedures and standards. Without these inconsistencies in working practices can develop, controls can be lost and cover in the event of absences can be haphazard. There is a need to ensure that all employees are made aware of the working practices that they should be following to ensure that they comply with the correct procedures. During 2011/12 procedure notes were found to be in place for the majority of the business critical systems, in some instances it was found that these required updating. In addition there were still a number of areas where procedure notes and policies required updating for example Business Continuity, the Content Management System, Member Services and Licensing. (35 per cent).
- Non compliance with Standing Orders and Financial Regulations was found in a number of areas particularly in relation to the lack of stock and inventory controls, there were also a few relatively minor issues in relation to compliance with contract procedures (9 per cent)
- Completion of risk assessments and ensuring that risk assessments were kept up to date is another common area where recommendations were made. 5 per cent of the recommendations outstanding at the end of the financial year related to risk assessments.
- Another key area that Internal Audit reviews as part of their work is issues of Information Security. 28 per cent of the recommendations outstanding related to this area, and included issues such as ensuring compliance with the Council's policies on Information Security Management.

- The remaining 23 per cent of recommendations were categorised in terms of completeness and accuracy of records (11 per cent), incomplete management information (2 per cent) staffing issues, particularly in relation to training matters (3 per cent), issues of physical security (2 per cent), separation of duties (2 per cent) and inadequate review processes (3 per cent).

3.6 In addition to the planned audits 6 special projects were carried out, these were due to various breaches of council policy, procedures and regulations. In all cases where a lack of managerial controls were found to contribute to the improper conduct of officers; a managerial report is completed which highlights the weakness and makes recommendations accordingly. The recommendations from these reports are followed up in the usual way.

3.7 Of the 6 special projects identified above, 2 were as a result of the Council's Whistleblowing Policy, and 4 from management.

3.8 In relation to main systems, recommendations arising are analysed further in the following section.

4. ANALYSIS OF COMMON OR MATERIAL WEAKNESSES

Analysis of recommendations

4.1 During the period 1/4/11 to 31/3/12 a total of 912 recommendations have been made, of these 106 recommendations were outstanding as at the 31 March 2012. In total 806 recommendations have been implemented, 88%. Recommendations are classified as:

High: Action that is considered imperative to ensure that the authority is not exposed to high risks:
Medium: Action that is considered necessary to avoid exposure to significant risks:
Low: Action that is considered desirable and which should result on enhanced control or better value for money.

In this context, 'risk' may be viewed as the chance, or probability, of one or more of the association's objectives not being met. It refers both to unwanted outcomes that might arise, and to the potential failure to realise desired outcomes.

4.2 The following table shows the spilt of recommendations over high, medium and low for those that were due for implementation by the 31 March 2012:

	ALL	IMPLEMENTED	OUTSTANDING
High	147	131	16
Medium	545	481	64
Low	220	194	26
TOTAL	**912**	**806**	**106**

Target 2011/12	95%	
Per Centage Implemented since April 2011		88%
Proposed target 2012/13	96%	

4.4 Compliance with the agreed action plan will ensure that these risks are addressed. Management has given assurance that the action plans will be completed in accordance with the timetables specified.

Details of major findings not acted upon

Acceptance of recommendations

There were no recommendations rejected by Management during the year.

Recommendations not receiving adequate management attention

4.5 There are no high or medium risk recommendations that we consider are not receiving adequate management attention. Outstanding fundamental recommendations are reported to Audit and Risk Committee on a quarterly basis.

5. AUDIT PERFORMANCE

Work planned to be completed

5.1 The following table gives a summary of the results of the performance indicators since 2009/10, together with details of the target and actual figures for 2011/12;

Indicator	2009/10 actual	2010/11 actual	2011/12 target	2011/12 actual
Percentage of audit plan completed	90%	93%	90%	92%
Productivity of staff	74%	76%	74%	83%
Recommendations implemented	93%	83%	95%	88%
Medium to high satisfaction of the service from surveys	91%	86%	85%	93%

5.2 The table below indicates the performance against the audit plan for 2011/12, split over the 3 different risk categories for audits and for the audit plan in total.

	Planned	Actual	Actual (%)
High Risk Audits	29	27	93%
Medium Risk Audits	24	21	91%
Low Risk Audits	0	0	0
Achievement of the Audit Plan	53	48	92%

5.3 The 2011/12 audit plan as approved by Audit and Risk Committee provided for 491 days of audit work.

5.4 The level of productivity within the Section met was 83% against the target of 74% that was set at the start of the year. Each year the total resources available in Internal Audit are evaluated in terms of audit days, each day representative of 7.4 working hours. This figure is adjusted for leave, training, sickness, supervision, corporate work and a contingency allowance. The resulting sum is classed as productive days available for the year, for this reason it is not possible to achieve 100% staff productivity.

5.5 Out of 53 planned audits, 48 were completed, 92% against a target of 90%.

5.6 Completion of audits against the total plan does include some of the Audit Manager's time, since with the time being recorded direct to audit areas it is not practical to identify and remove it completely.

5.7 Satisfaction levels in terms of the service remained high at 96% this is above the set target of 85 per cent. Any comments and feedback that is received following each audit is constantly reviewed to ensure that the service continues to meet the expectations of our customers.

Factors affecting the extent of our internal audit work

5.8 There are a number of issues that have affected the extent of our internal audit work during the year, they are:

- the audit technicians have continued to gain knowledge and understanding of their roles which has been evident in the completion of a high percentage of the audit plan in addition to completing a number of special projects.
- the completion of training for a number of auditors in relation to risk management, health and safety and ECDL (European Computer Driving Licence). These are key learning needs required to improve the delivery of audits;
- the completion of work as part of a number of special investigations that has absorbed in excess of 93 days audit time, 19% of the original available planned time.
- the Audit Manager completed a diploma with the Chartered Management Institute, this course of study was delivered internally by Euroscale as part of the management development programme.
- The Audit Manager has worked with members of the Business Improvement Team to deliver a number of procurement briefings to all staff involved with procuring goods or services for the council. The aim of the briefings which were mandatory was to ensure compliance with the Councils Standing Orders and Financial Regulations, in addition the briefings included a section on the implications of the Bribery Act which came into force in July 2011.
- An on line training package in relation to Fraud and Corruption has been rolled out to all staff. The package which covers the Bribery Act, Procurement Fraud and Misuse and Abuse on Time and Resources on Email and Internet facilities was made mandatory for Executive Directors, Heads of Service and Business Managers and forms part of the on-going work of internal audit to ensure compliance and raise awareness.

6. NON AUDIT AREAS

6.1 This is work undertaken by the Internal Audit Section that is not directly related to audit areas and includes administration, supporting the corporate management of the authority, professional and staff training and attendance at Staffordshire Chief Auditors Group meetings. Non-audit work in 2011/12 accounted for 173 days.

6.2 The Internal Audit Section provides support; advice and guidance to corporate initiatives, this year this has included attendance at the Jubilee 2 Steering Group, the Corporate Governance Working Group, the Procurement Working Group, Risk Management Group and the Health and Safety Committee and the Information Security Group. In addition the Audit Manager is a member of the Resources and Support Services Departmental Management Team and also a member of the corporate Wider Management Team.

7. OPERATIONAL PLANS FOR 2012/13

7.1 The Section will continue to work with the Audit Commission to maintain and expand its "Managed Audit" approach and work in 2012/13 to avoid duplication and contain costs.

7.2 Internal Audit will continue to identify ways to actively promote awareness of risks in relation to fraud and corruption in line with the national strategy 'Fighting Fraud Locally'.

7.3 The contract for computer auditing will be provided by CW Audit Services. This will be the first year that they will provide computer audit work for the Council.

7.4 The Section will continue to review and improve its service where appropriate. It will also ensure that adequate training is provided and the role of the Audit and Risk Committee is developed in line with best practice.

7.5 The Audit Manager will continue to mentor and coach staff within the section to ensure that the team continues to develop and improve its knowledge and experience in all aspects of audit work.

7.6 The Audit Manager will continue to raise the awareness of Information Security in order to ensure that the Authority maintains high standards in terms of the information/data that is held within the organisation, this will be increasingly important as we begin to share accommodation with external partners etc.

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

For Members to consider the findings of the annual review of the effectiveness of the system of Internal Audit for 2011/12.

Recommendation

That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2011/12, together with the action plan be agreed.

Reasons

That Members agree with the findings of the review which concludes that the system of Internal Audit for 2011/12 can be relied upon when considering the Annual Governance Statement.

1. **Background**

1.1 In accordance with the Accounts and Audit (Amendment) (England) Regulations 2011 the Council is required to undertake an annual review of the effectiveness of its system of Internal Audit.

1.2 A self assessment checklist from CIPFA's Code of Practice for Internal Audit in Local Government 2006 is completed annually by the Audit Manager. This checklist provides an assessment of the work undertaken by Internal Audit during the financial year and provides an evaluation of how the section complies with this code.

1.3 The review which has taken place during 2011/12 has involved updating last years self-assessment for 2010/11 and formulating a revised action plan for work to be completed during the forthcoming financial year.

2. **Issues**

2.1 The results of the self-assessment review undertaken by the Audit Manager are outlined in Appendix A, a summary of the evidence, in the form of a list of contents has been provided at Appendix B.

2.2 Progress against the action plan for 2011/12 is shown in Appendix C. The action identified has been achieved and a formalised retention of records schedule is now in place

2.3 The internal review shows that the system of Internal Audit is operating effectively and can be relied upon when considering the Annual Governance Statement for 2011/12.

2.4 The CIPFA Code of Practice for Internal Audit 2006 is currently in the process of being reviewed and updated by CIPFA. The new guidance which has also been aligned with the Institute of Internal Auditors code of practice will be issued for consultation in July 2012 with a view to the document being published in December 2012. Requirements to comply with the new code will be in place from April 2013.

3. **Options Considered**

3.1 Not to complete a self assessment would be in breach of the legislation already outlined in the background.

4. **Proposal**

4.1 The completed checklist against the Code of Practice and updated action plan have been included as Appendices to this report.

5. **Reasons for Preferred Solution**

5.1 The adoption of 'good practice' processes and procedures inevitably contributes to reducing risks and liabilities to the Council. Internal Audit plays an important role in this regard and clearly its systems and processes should be effective.

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 An effective system of Internal Audit means that the Authority can place reliance on the assurances of the systems of internal control. If controls are operating effectively the potential for fraud and corruption is reduced. There is also an assurance that resources are being used efficiently and effectively as the Council transforms to achieve excellence.

7. **Legal and Statutory Implications**

7.1 Under the Accounts and Audit Regulations 2011 the Council is required to undertake an annual review of the effectiveness of its system of Internal Audit.

8. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

9. **Financial and Resource Implications**

9.1 There are no financial implications identified from this proposal; the Action Plan will be resourced as part of the work plan for the Audit Manager.

10. **Major Risks**

10.1 If the Authority does not maintain an effective system of Internal Audit; reliance cannot be placed on the adequacy of the internal controls operating throughout the Authority.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

Appendix A - Completed Checklist against the CIPFA Code of Practice
Appendix B - Key to Evidence for Self Assessment
Appendix C - Progress against 2011/12 Action Plan.
Appendix D - Updated Action Plan for 2012/13

15. **Background Papers**

File of evidence compiled against the CIPFA Code of Practice Checklist

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APPENDIX A

SELF ASSESSMENT FOR 2011/12 IN ACCORDANCE WITH THE CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Where 'partial' or 'no', you should give reasons for any non-compliance and any compensating measures in place or actions in progress to address this.

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
1	**Scope of Internal Audit**					
1.1	**Terms of Reference**					
1.1.1	Do terms of reference:					
	(a) establish the responsibilities and objectives of Internal Audit?	✓			1	TOR 1,2 & 3
	(b) establish the organisational independence of Internal Audit?	✓			1	TOR 5
	(c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:	✓			1	TOR 3 & 8
	(i) those charged with governance?					
	(ii) those parties to whom the Head of Internal Audit may report?					
	(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?	✓			1	TOR 3 & 4
	(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?	✓			1	TOR 3 & 4
	(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?	✓			1	TOR 3
	(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?	✓			1	TOR 2
	(h) explain how Internal Audit's resource requirements will be assessed?	✓			1	TOR 3 & 7
	(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	✓			1	TOR 6

APPENDIX A

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	✓			2	Report to Audit and Risk Committee – updated and reviewed – 30/01/12.
1.1.3	Have the terms of reference been formally approved by the organisation?	✓			2	TOR are reviewed and updated annually and subsequently reported to Audit and Risk Committee.
1.1.4	Are terms of reference regularly reviewed?	✓			1	TOR are reviewed and updated annually and subsequently reported to Audit and Risk Committee.
1.2	**Scope of work**					
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	✓			3 & 4	Audit strategy sets out objectives for the Service/Audit Planning based on a risk model in the APACE system. Risks are constantly reviewed and updated.
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified: (a) how assurance will be sought? (b) agreed access rights where appropriate?	 ✓ ✓			 1 1 & 5	 TOR 6
1.3	**Other Work**					
1.3.1	Where Internal Audit undertakes consultancy and/ or fraud and corruption work does it have the: (a) skills, and (b) resources to do this?	 ✓ ✓				 Skills are matched to the nature/type of the investigation.
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	 ✓ ✓			 1 1	 TOR 2 TOR 2
1.4	**Fraud and Corruption**					
1.4.2	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	✓			6 & 7	Anti Fraud and Anti Corruption Framework, Fraud Response Plan updated in April 2012.

2	**Independence**					
2.1	**Principles of Independence**					
2.1.1	Is Internal Audit					
	(a) Independent of the activities it audits?	✓			1	TOR 5. Audit Manager has right of access to Chief Executive, Directors, Section 151 Officer, Monitoring Officer, Leader of the Council or the External Auditor as required.
	(b) free from any non-audit (operational) duties?	✓				Internal Audit has a role with regards to Information Assurance with one of the audit technicians being 0.5 FTE of an Information Assurance officer. Information assurance/security forms parts of audits role and is covered in the CIPFA document Role of the Head of Internal Audit, this does not therefore compromise any of our independence.
2.1.2	Where internal audit staff has been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?			✓		In accordance with Code of Practice Internal Audit reserves right to review systems/procedures this does not preclude auditing area at later date.
2.2	**Organisational Independence**					
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	✓			1 & 5	Established via TOR, Financial Regulations and compliance with Code of Practice.
2.2.2	Does the Head of Internal Audit have direct access to:					
	(a) Officers?	✓			1	TOR 5 & 6
	(b) Members?	✓			1	TOR 5 & 6
2.2.3	Does the Head of Internal Audit report in his or her own name to members and officers?	✓			1	TOR 5 & 8
2.2.4	(a) Is there an assessment that the budget for Internal Audit is adequate?	✓			3	Audit Strategy 2012-2015
	(b) Does any budget delegated to service areas ensure that:	✓			3	Audit Strategy 2012-2015
	(i) Internal Audit adherence to the Code is not compromised?	✓				
	(ii) Internal Audit can continue to provide assurance for the Statement on Internal Control?	✓				

	(iii) the scope of Internal Audit is not affected?	✓				
2.2	**Status of the Head of Internal Audit**					
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	✓			8	The Audit Manager reports directly to the Executive Director (Resources & Support Services). The Audit Manager is a member of the Wider Management Team.
2.5	**Independence of Internal Audit Contractors**					
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?	✓				Issue has not previously arisen but would seek to reduce any conflicts in they arose.
2.6	**Declaration of Interest**					
2.6.1	Do audit staff make formal declarations of interest?	✓			9	Actual signed copies are retained on Audit Planning File.
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	✓				Formal note for e.g. Audit Manager has sister who works in Regeneration and Development Directorate – Audit Manager does not undertake any audits in this area.
3	**Ethics for Internal Auditors**					
3.1	**Purpose**					
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	✓			9	Confidentiality Statement, plus all Auditors have seen Code of Practice.
3.2	**Integrity**					
3.2.1	Has the internal audit team established an environment of trust and confidence?	✓				Executive Directors and Heads of Services request advice from Internal Audit which is an indication of trust and respect and often look to Internal Audit for reassurance prior to engaging in new initiatives and advice.
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	✓				Nothing has been identified that shows any weakness in integrity of the Auditor
3.3	**Objectivity**					
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	✓			9	Statement of Independence and Confidentiality.
3.3.3	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?	✓				

3.3.4	Are staff rotated on regular/ annually audited areas?		✓			Try to rotate as much as possible if resources and experience allow, depending on experience and work available. However limitations due to small team. Also there can be advantages to the same person doing an audit on a couple of consecutive occasions and this is done, although would try to rotate every so often to widen experience and avoid cosy relationships or to allow a fresh pair of eyes to look at the system.
3.4	**Competence**					
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of:					
	(a) The organisation's aims objectives, risks and governance arrangements?	✓			1 & 3	Corporate Documents – Strategy, TOR etc circulated.
	(b) The purpose, risks and issues of the service area?	✓			1 & 3	Regular Team Briefings – ensure staff are aware of Corporate Issues.
	(c) The scope of each audit assignment?	✓			1 & 3	Audit Briefs reviewed/updated annually or as required by Auditor and Audit Manager.
	(d) Relevant legislation and other regulatory arrangements that relate to the audit?	✓			1 & 3	
3.5	**Confidentiality**					
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	✓			9	Statement of Independence and Confidentiality.
4	**Audit Committees**					
4.1	**Purpose of the Audit Committee**					
4.1.1	Does the organisation have an independent audit committee?	✓			10	Audit and Risk Committee Terms of Reference
4.2	**Internal Audit's Relationship with the Audit Committee**					
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	✓				Audit Manager has monthly meetings with Chair and Vice Chair of Committee to discuss monthly assurance statements issued to Executive Directors.
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	✓			2, 3 & 11	Approved Strategy for 2012-2015 on 31/01/12, receives quarterly reports on progress.
4.2.3	Does the committee approve the annual internal audit plan and monitor progress?	✓			11 & 12	Audit plan 2012/13 approved by Audit and Risk Committee 31/01/12 and receives quarterly progress reports.
4.2.4	Does the Head of Internal Audit:					

	(a) Attend the committee and contribute to its agenda?	✓				
	(b) Participate in the committee's review of its own remit and effectiveness?	✓			10	
	(c) Ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives?	✓			1 & 3	Internal Audit Terms of Reference Audit Strategy 2012-2015
	(d) Report on the outcomes of internal audit work to the committee?	✓			11	E.g. Quarterly progress report (Qtr 1 Apr to Jun 11) reported to Audit & Risk Committee September 2011
	(e) Establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa?	✓				No changes required in 2012/13
	(f) Present the annual internal audit report to the committee?	✓			13	Internal Audit Report 2010/11
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	✓				
5	**Relationships**					
5.1	**Principles of Good Relationships**					
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with:	✓				
	(a) Management?	✓			1, 32	TOR and Financial Regulations, Audit Protocol Document produced and distributed to Executive Directors and Heads of Service.
	(b) Other internal auditors?		✓			
	(c) External auditors?	✓			14	Protocol exists for working with External Auditors.
	(d) Other regulators and inspectors?		✓		1	TOR 9
	(e) Elected members?		✓		1	
5.2	**Relationships with Management**					
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	✓			22	Monthly Assurance statements sent to Executive Directors
5.2.2	Is the timing of audit work planned in conjunction with management?	✓				Audit Plan is discussed with Management. Audit Briefs issued 5 working days before Audit commences – will try to accommodate management wishes to delay audit – however not always possible to do this.

5.3	**Relationships with Other Internal Auditors**					
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?		✓			The Staffordshire Chief Auditors Group meets on a regular basis and provides a mechanism for sharing information in respect of Audit Programmes etc. In addition Internal Audit provide assurance to Staffordshire County Council in respect of Grant Funding, Pensions and Staffordshire connects
5.4	**Relationships with External Auditors**					
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	✓			14 & 15	External Audit relies on the work of IA after completing a review of files. Annual Audit & Inspection letter acknowledges this.
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	✓				Regular quarterly meetings are scheduled.
5.4.3	Are the internal and external audit plans co-ordinated?	✓				
5.5	**Relationships with Other Regulators and Inspectors**					
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?		✓			Visits by inspectors etc are mainly co-ordinated by the Performance Management Unit within the Corporate Improvement Team.
5.6	**Relationships with Elected Members**					
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	✓			1	
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	✓				Regular meetings with Chair and Vice Chair of the Audit and Risk Committee.
6	**Staffing, Training and Continuing Professional Development**					
6.1	**Staffing Internal Audit**					
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	✓			8	
6.1.1	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	✓				Contract with FIT Business Solutions for provision of IT audits.

6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	✓				The Audit Manager is CIPFA qualified.
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	✓				Audit Manager – 19 years audit experience, 15 years at supervisory role, 5 years in Management capacity.
6.1.3	(a) Do all internal audit staff have up-to-date job descriptions? (b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	✓ ✓			16 17	
6.2	**Training and Continuing Professional Development**					
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor? (b) Are individual auditors periodically assessed against these predetermined skills and competencies? (c) Are training or development needs identified and included in an appropriate ongoing development programme? (d) Is the development programme recorded, regularly reviewed and monitored.	✓ ✓ ✓ ✓			17 & 18 18 18, 19 & 20 18 & 20	. Reviewed annually as part of Employee Appraisal Scheme. Corporate Training Scheme. See also individual Employee Appraisal files.
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	✓			20	Individual Training logs maintained by all auditors.
7	**Audit Strategy and Planning**					
7.1	**Audit Strategy**					
7.1.1	(a) Is there an *internal audit* strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	✓ ✓			3 3	
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) How the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) How Internal Audit's work will identify and address local and national issues and risks? (d) How the service will be provided, i.e. internally, externally, or a mix of the two?	✓ ✓ ✓ ✓			3 3 3 3	

	(e) -The resources and skills required to deliver the strategy?	✓			3	
7.1.3	Has the strategy been approved by the audit committee?	✓			2	Approved 30/01/12 by Audit and Risk Committee.
7.2	**Audit Planning**					
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?	✓			4	
7.2.1	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	✓				
7.2.1	Are stakeholders consulted on the audit plan?	✓			21	All Executive Directors and Heads of Services are consulted on Plan, before and have opportunity to discuss this once completed.
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	✓			3	Audit Plan aims to cover all services provided by Council and Audits referenced to each Directorate. See Audit Plan attached to Strategy under 3
7.2.3	Does the plan:					
	(a) cover a fixed period of no longer than one year?	✓			3 & 4	.
	(b) outline the assignments to be carried out?	✓			3 & 4	
	(c) prioritise assignments?	✓			3 & 4	
	(d) estimate the resources required?	✓			3 & 4	
	(e) differentiate between assurance and other work?		✓		3 & 4	
	(f) allow a degree of flexibility?	✓				
7.2.4	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?	✓				There was no requirement to realign the plan in 2011-12
7.2.4	Has the plan been approved by the audit committee?	✓			12	
7.2.5	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	✓				

8	**Undertaking Audit Work**					
8.1	**Planning**					
8.1.1	(a) Is a brief prepared for each audit?	✓			23	Audit Briefs are e-mailed to each Director and relevant Heads of Services, 5 working days prior to start of Audit not always signed and returned email acknowledgement that the document has been read/opened is retained
	(b) Is the brief discussed and agreed with the relevant managers?	✓			23	
8.1.1	Does the brief set out:					
	(a) objectives?	✓			23	
	(b) scope?	✓			23	Completed examples of Audit briefs can be found on any Internal Audit files.
	(c) timing?	✓			23	
	(d) resources?	✓			23	
	(e) reporting requirements?	✓			23	
8.2	**Approach**					
8.2.1	Is a risk-based audit approach used?	✓			4	Audit risk methodology reviewed as part of every audit and risk model updated accordingly.
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	✓				Any areas of weakness identified as part of audit or drawn to manager's attention at the time, and always prior to report being issued.
8.2.4	Does the audit approach include a quality review process for each audit?	✓			24	Audit checklists are completed for each audit and used for quality control purposes by Audit Manager.
8.3	**Recording Audit Assignments**					
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	✓				Audit Manual – CIPFA electronic copy and various paper folders. These can be viewed in office.
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	✓				See various working files.
8.3.2	Are working papers such that an experienced auditor can easily:					See various audit files
	(a) identify the work that has been performed?	✓			24	Control sheets – used for each test and completed by auditors, these sheets summarise sample sizes and findings etc.

	(b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	✓ ✓				The control sheets document the exact tests completed, where and who the information can be obtained from.
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	✓			25	
8.3.3	Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, Freedom of Information Act, etc., and any organisation requirements?		✓			Only audit staff have access to electronic files. Audit reports do not contain disclaimer/notes re DP/FOI.
8.3.3	Is there an access policy for audit files and records?		✓			Access restricted to these who need to see them. Where audit is completed that covers all Directorates, individual “unique” reports are produced for each Director with issues just relevant to their service.
9	**Due Professional Care**					
9.2	**Responsibilities of the Individual Auditor**					
9.2.1	Are there documents that set out the requirements on all audit staff in terms of:					
	(a) being fair and not allowing prejudice or bias to override objectivity?	✓			9, 26 & 27	Declaration of interests/confidentiality, Employees Handbook and Employees Code of Conduct
	(b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict?	✓			9	
	(c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?	✓			26	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?	✓				Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest?	✓			6 & 7	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed?	✓			6 & 7	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?	✓			9	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(h) disclosing any non-compliance with these standards?	✓			9	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.

	(i) not using information they gain in the course of their duties for personal use?	✓			9	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
9.3	**Responsibilities of the Head of Internal Audit**					
9.3.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained?	✓			9 & 24	File review process, Audit Checklists and Control Evaluation Sheets.
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	✓			6 & 7 28	Anti Fraud and Anti Corruption Framework & Fraud Response Plan Whistle blowing Policy.
10	**Reporting**					
10.1	**Principles of Reporting**					
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	✓				See Audit files.
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	✓				See Audit files.
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	✓				See Audit files.
10.1.5	Are there laid-down timescales for reports to be issued?	✓			32	Covered in the Audit Protocol Document
10.2	**Reporting on Audit Work**					
	Do the reporting standards include:					
10.1.4	(a) format of the reports?	✓				Standard template for Regularity/Systems – stored electronically under Audit Documentation/Templates.
10.1.4	(b) quality assurance of reports?	✓			24	
10.2.2	(c) the need to state the scope and purpose of the audit?	✓				
10.2.1	(d) the requirement to give an opinion?	✓				
10.1.4	(e) process for agreeing reports with the recipient?		✓			No formally defined process.
10.2.1	(f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	✓				
10.2.3	Does the audit reporting process include discussion and agreement of reports?	✓				

10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	✓				
10.2.5	Are areas of disagreement recorded appropriately?	✓				These would be notes in management comments on action plan in the report.
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	✓				
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	✓			23	
10.2.6	(a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	✓ ✓			23	
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that: (a) recommendations that have a wider impact are reported to the appropriate forums? (b) risk registers are updated?	✓	✓			High risk recommendations will be added to the operational risk assessments for the specific service area and monitored through GRACE as part of the normal risk review process There is a process in place for monitoring, reviewing and updating risk registers.
10.3	**Follow-up Audits and Reporting**					
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	✓				Executive Directors and Heads of Service receive copies of outstanding recommendations on a monthly basis. These outstanding recommendations also form the basis of the monthly assurance statements issued for all Directors.
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	✓			1	TOR 8-High Risk recommendations where target date changed twice or more is reported to Audit and Risk Committee. Where a High Risk recommendation has been changed just once these are reported to Chair and Vice Chair of the Committee for their consideration.
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	✓				A revised opinion is given as part of each follow-up
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	✓			4	Previous audit experience is one of the factors used to determine the risk score for each area on the plan.
10.4	**Annual Reporting and Presentation of Audit Opinion**					

10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control?	✓			13	
10.4.2	Does the Head of Internal Audit's annual report:					
	(a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment?	✓			13	
	(b) disclose any qualifications to that opinion, together with the reasons for the qualification?	✓				
	(c) present a summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies?	✓			13	
	(d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control?	✓			13	
	(e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets?	✓			13	
	(f) comment on compliance with the standards of the Code?	✓			13	
	(g) communicate the results of the internal audit quality assurance programme?	✓			13 & 29	
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	✓				Regular reports go to Audit and Risk Committee.
11	**Performance, Quality and Effectiveness**					
11.1	**Principles of Performance, Quality and Effectiveness**					
11.1.1	Is there an audit manual?	✓				CIPFA model plus shared Audit Documentation Area
11.1.1	Does the audit manual provide guidance on:					
	(a) carrying out day-to-day audit work?	✓				CIPFA Audit Manual plus hybrid of paper files and electronic folders.
	(b) complying with the Code?	✓				
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	✓				

11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of:				29	A satisfaction survey is sent to all involved in audit following issue of final report.
	(a) each individual audit?	✓			30	The Audit Manager sends an annual survey to each Executive Director, Head of Service and Business Manager.
	(b) the internal audit service as a whole?	✓				
11.2	**Quality Assurance of Audit Work**					
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	✓				Yes, this is done as far as possible; however, given size of team this is not always practical.
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff is supervised appropriately throughout all audits?	✓				Regular informal updates obtained by audit manager. Due to size of team – advantage in that communication is good.
11.2.3	Does the supervisory process cover:					
	(a) monitoring progress?	✓			24	
	(b) assessing quality of audit work?	✓				
	(c) coaching staff?	✓				Advice and support given where necessary or where staff ask for support. Closer mentoring given to trainee Audit Technicians within the section.
11.2	**Performance and Effectiveness of the Internal Audit Service**					
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	✓			31	PI's are produced and monitored on a quarterly basis.
11.3.2	Does the performance management and quality assurance framework include as a minimum:					
	(a) a comprehensive set of targets to measure performance:	✓				
	(i) which are developed in consultation with appropriate parties?	✓				
	(ii) which are included in service level agreements, where appropriate?		✓		32	This is set out in the Audit Protocol Document
	(iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress?	✓			11	Quarterly reports to Audit and Risk Committee
	(b) user feedback obtained for each individual audit and periodically for the whole service?	✓			29	

	(c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?	✓			3	
	(d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?	✓				Reason for this review.
	(e) an action plan to implement improvements?	✓			3	
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	✓				Monitored and reviewed annually.
11.3.1	Do the results of the performance management and quality assurance programme evidence that the internal audit service is:					
	(a) meeting its aims and objectives?		✓			This is currently being reviewed as part of performance accountability framework which are being developed corporately
	(b) compliant with the Code?		✓			
	(c) meeting internal quality standards?		✓			Audit Protocol document
	(d) effective, efficient, continuously improving?		✓			SCAG Benchmarking
	(e) adding value and assisting the organisation in achieving its objectives?		✓			SCAG Benchmarking.
11.3.4	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	✓			13	
11.3.5	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	✓				Audit and Risk Committee will receive report on this review.

Internal Audit – Self Assessment Against Code of Audit Practice Checklist 2011/2012

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APPENDIX C

SELF ASSESSMENT AGAINST CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT PROGRESS AGAINST 2011/12 ACTION PLAN

Ref	Actions	Person Responsible for Implementation	Timescale	Update on Progress
8.3.3	A formal document retention and access policy should be established for Internal Audit covering both manual and electronic files. Documents should then be disposed of in accordance with the policy. These should be produced to ensure compliance with corporate and statutory requirements	Audit Manager	Completed	A formal policy is now in place.

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APPENDIX D

SELF ASSESSMENT AGAINST CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT ACTION PLAN FOR 2012-13

Ref	Actions	Person Responsible for Implementation	Timescale
All	CIPFA Code of Practice is currently in the process of being reviewed, updated and aligned with the Institute of Internal Auditors Code of Practice. Consultation on the new code will start in July 2012 with the final document being published in December 2012. The requirements to comply with the new code will be from April 2013.	Audit Manager	31 March 2013

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ANNUAL GOVERNANCE STATEMENT

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

To recommend that the Annual Governance Statement 2011/12 be approved for inclusion in the financial statements.

Recommendation

That Members approve the Annual Governance Statement 2011/12 (AGS).

Reasons

To seek Members approval of the Annual Governance Statement 2011/12 based upon their satisfaction that it is based upon relevant and reliable evidence.

1. **Background**

1.1 Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal.

1.2 The Council has approved and adopted a Code of Corporate Governance. A copy of the Code is on our website.

1.3 Under the Accounts and Audit Regulations 2011 the Council is required to publicise an AGS with the financial statements and emphasise the importance of embedding internal control, including the process of risk management throughout the Council. In response the Council produced an Annual Governance Statement for 2011/12 covering corporate governance, financial and other key control issues.

1.4 The AGS is published with the financial statements. In considering the approval of the AGS Members should satisfy themselves that the statement is based upon relevant and reliable evidence. Details of the evidence relied upon when collating the AGS will be placed in the members area on the Council's intranet site, and can also be made available by contacting the Audit Manager.

1.5 The AGS includes the following headings:

- Scope of responsibility;
- Delivering Good Governance in Local Government: Framework;
- The governance framework;
- Review of effectiveness and
- Significant governance issues.

2. **Issues**

2.1 In preparing the AGS your officers have considered the Chartered Institute of Public Finance and Accountancy's (C.I.P.F.A.'s) and the Society of Local Authority Chief Executives (S.O.L.A.C.E) 'Delivering Good Governance Framework' guidance document

2.2 The AGS has been produced combining findings from a Corporate Governance review, Assurance statements from Executive Directors, informed by Heads of Service, the work of Internal Audit and various corporate working parties and comments from external auditors and other review agencies.

2.3 Section 5 of the AGS identifies those areas, following the review of internal controls for the financial year 2011/12 that need addressing. Action plans where not already in place will be drawn up by your officers to address the issues highlighted.

3. **Options Considered**

3.1 Not to complete an AGS would be in breach of the legislation already outlined in the background. Completion of the Statement is best practice and demonstrates to Stakeholders the transparency of the Council's Governance arrangements for 2011/12.

4. **Proposal**

4.1 The statement is provided as Appendix A.

5. **Reasons for Preferred Solution**

5.1 The statement identifies areas of good practice provided from various sources where internal controls are strong and those areas for improvement.

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 The Council has adopted a Code of Corporate Governance which demonstrates that it is complying with the principles of openness and inclusivity, integrity and accountability.

6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing value for money services.

7. **Legal and Statutory Implications**

7.1 Under the Accounts and Audit Regulations 2011 the Council is required to publicise an AGS with the financial statements.

8. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

9. **Financial and Resource Implications**

There are none for the AGS, resource requirements linked to action plans will be brought to Members as separate projects if required.

10. **Major Risks**

10.1 If internal controls are not managed effectively and within the law, public resources will not be safeguarded from waste or properly accounted for.

10.2 If internal controls are not reviewed regularly, continuous improvement may not be exercised.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

Appendix A - Annual Governance Statement 2011/12

14. **Background Papers**

Executive Directors, Corporate and Service Managers - Assurance Statements
Corporate Governance Reviews
Audit Commission Annual Audit and Inspection Letter 2010-11
CIPFA/SOLACE guidance – Delivering Good Governance in Local Government

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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT 2011/12

1.0 Scope of responsibility

1.1 Newcastle-under-Lyme Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Newcastle-under-Lyme Borough 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.

1.2 In discharging this overall responsibility, Newcastle-under-Lyme Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

1.3 Newcastle-under-Lyme Borough 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 the Council's website at http://www.newcastle-staffs.gov.uk/corporategov or can be obtained from the Audit Manager. This statement explains how Newcastle-under-Lyme Borough Council has compiled with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2011 in relation to the publication of a Statement on Internal Control.

2.0 Delivering Good Governance in Local Government: Framework

2.1 The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

2.2 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 and embedded process designed to identify and prioritise the risks to the achievement of Newcastle-under-Lyme Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at Newcastle-under-Lyme Borough Council for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts.

3.0 The governance framework

3.1 The Council operates a number of systems, policies and procedures that constitute or contribute to the operation of the internal control environment and support the principles set out in the Code of Corporate Governance as detailed in the tables below:

Core Principle 1	Focusing on the purpose of the Authority and on the outcomes for the community and implementing a vision for the local area.

- Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users
- Reviewing the authority's vision and its implications for the authority's governance arrangements
- Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

The Corporate Plan sets out the vision for the council and the corporate priorities inform the overall business planning process for the organisation. These priorities were originally drawn from the Borough's Sustainable Community Strategy that was produced under the auspices of the Newcastle Partnership. This Strategy is still in place, but the Partnership's priorities have now changed to encouraging economic growth and tackling vulnerability. The Borough Council is seeking to refresh its Corporate Plan to take account of these developments.

The Council has developed targets against which progress is monitored throughout the year through the performance management framework. This framework is currently under review, in order to focus more clearly on outcomes. Targets will then be matched to outcomes. Currently, targets are organised in the Corporate Plan on the basis of Cabinet portfolios.

Individual service plans - completed as part of the overall budget and corporate planning process - clearly demonstrate how each service contributes to the overall delivery of the Council's vision. In turn, Service Plans are translated and communicated to employees via the Appraisal Process, Team Briefings and Executive Bulletins via Heads of Service and Business Managers. This process and the overall governance arrangements for the Authority are undertaken annually. The Council also communicates via the Reporter Newspaper and its Annual Report both produced for the wider community and both available in different formats to suit all needs.

Service quality and being able to demonstrate that services are providing the best value for money are key requirements to the Service Plans and value for money is a key outcome for the council. As part of these plans, managers are required to clearly evidence that the service they provide is making best use of the resources available. Benchmarking exercises are undertaken by service areas and also corporately as a means of demonstrating value for money; but it has been acknowledged that - as a tool for improvement - the organisation needs to learn more from best practice examples found elsewhere and also needs to understand and reflect customer needs more effectively.

The Council continues to monitor delivery of its services, ensuring that resources follow priorities and this year has again issued their General User Satisfaction Survey. The Council is undertaking, with its partners, the potential development of a Borough – building on the key partnership priorities of encouraging economic growth and tackling vulnerability.

In addition to this engagement and consultation work, the council and its partners across all sectors have reviewed and extensively restructured the partnership environment to deliver against national Government's agenda across the whole arena of public sector working. Additionally, key partners have sought to develop service delivery approaches which are in line with citizen requirements and which meet the expectations of citizens. The review of the Partnership's Community Engagement Strategy has been instigated and developed against a background of development of the Government's localism agenda and its implementation. In taking forward localism, a further review of Locality Action Partnerships has been undertaken to ensure that they are fit for purpose in delivering these agendas.

A programme of changes to the way consultation is carried out by the organisation has been devised and is in the process of being implemented. Moving away from 'paper and post' surveys, the focus of consultation will shift towards community based engagement and an emphasis on the role of members as champions for their areas.

The Corporate Complaints Compliments and Comments policy ensures continuous improvement in the services that we deliver by responding and reflecting on the challenges raised by our customers. As part of the Council's continued commitment to improving its services for the customer a Customer Standards Strategy ensures a quality assurance process in respect of the frontline services that we deliver and a Customer Charter ensures consistency in our interactions with customers. Technology is in place that measures customer demand and preferences and this is used to identify avoidable contact that can be used to enhance our services.

The Third Sector Commissioning Framework continues to demonstrate the Council's commitment to collaborative working, and is being supplemented by a local review of grant funding and also works being done at County level around commissioning of the Third Sector across Staffordshire. The council is a part of this development.

The Council's Constitution commits the organisation to working in partnership with others to assist with the delivery of its priorities. Before entering into any partnership a full assessment of the aims, objectives, and risks to the Authority of entering into that Partnership is completed. To assist with this process a toolkit has been developed. All of the Council's significant partnerships have been assessed against the toolkit and all future proposals for partnership working will also be assessed in the same way.

There are four Overview and Scrutiny Committees that reflect each of the Council's Corporate Priorities. The terms of reference for each of these committees set out to ensure that performance is effectively monitored and challenged.

Core Principle 2	**Members and Officers working together to achieve a common purpose with clearly defined functions and roles.**

- Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.

The Council's Constitution and Scheme of Delegation set out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to the local people. Further detail is provided via the Council's Financial Regulations.

Core Principle 3	**Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

- Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff
- Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

The Authority's Codes of Conduct for Employees and Members are regularly reviewed and updated. Both Officers and Members are reminded annually of their need to ensure compliance with these codes, and the need to declare any outside interests, private work or the receipt of any gift or acceptance of hospitality. Any instances of non compliance are dealt with under the Council's disciplinary process in respect of Employees and the Standards Committee in respect of Members.

Members receive training on an annual basis in respect of Ethical Standards. It has been acknowledged that a formal training programme for employees needs to be put in place and this will form part of the Workforce Development Plan.

The Council's Standing Orders, Financial Regulations and Scheme of Delegation are all reviewed annually and approved as part of the Council's Constitution.

A regular programme of work is completed by Internal Audit which reviews the compliance with established procedures.

All new employees go through a corporate induction process to ensure they are informed of all corporate policies and procedures. In addition regular reminders are given to all employees via the Appraisal Process, Team Briefings and Executive Bulletins. A copy of all Council policies and procedures are available on the internet and intranet sites.

Risk Management is now embedded throughout the organisation. Risk Champions have been identified at both operational and strategic levels within all Directorates. All operational risks are aligned to the business objectives, whilst at a strategic level risks are linked to the Council's corporate priorities. Risk assessments are in place for all of the Council's significant partnerships and in addition a formal risk assessment is required to be completed for all major projects which are being undertaken within the Council. All reports to members contain a section on risk implications. In addition, the Risk Management Strategy is reviewed annually and this has been done for 2011/12, including changes to the risk rating process and also the way risks are escalated in the organisation.

Work has continued during 2011/12 to raise the awareness and profile of Information Security. A programme of mandatory briefings was delivered to all officers these covered a number of key messages in relation to information security and also covered the launch of the revised and updated Information Security Management Policies. In addition each of the policies has been taken in turn and communicated in more detail to all staff via the 'core brief' from Executive Management Team. Employees are also encouraged to report any concerns they have, any concerns or security incidents can be logged via an on-line form on the council's intranet.

Core Principle 4	**Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

- Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful
- Whistle-blowing and for receiving and investigating complaints from the public

The terms of reference for the Audit and Risk Committee are in accordance with the CIPFA model. A self assessment to ensure compliance with the CIPFA model has been completed by the Audit Manager in consultation with the Chair of the Audit and Risk Committee. This self assessment concluded that the Audit and Risk Committee is effective and can be relied upon when considering this Annual Governance Statement.

The Head of Central Services has the statutory role of Monitoring Officer to ensure that the

Core Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

relevant laws and regulations are complied with, whilst the Executive Director (Resources and Support Services) has the statutory responsibility under Section 151 of Local Government Act to ensure the proper administration of the Council's financial affairs.

Following the completion of an independent review of the Authority's arrangements for Health and Safety it has been acknowledged that there is a requirement to strengthen the Authority's' arrangements in respect of this matter. An action plan to address and a programme of training for all managers has been completed along with the implementation of Target 100, a software package that assists with the management of all Health and Safety matters.

The Authority continues to review and monitor its arrangements in respect of Information Security to ensure continued compliance to the Government's Code of Connection.

Following the introduction of the Bribery Act in July 2011 the council's policies in relation to Anti-Fraud and Anti Corruption were reviewed and updated. An on-line training package was then rolled out across the council to ensure that the requirements of the Act were communicated throughout the organisation. This training was mandatory for all senior management which included Executive Management Team, Heads of Service and Business Managers.

The Authority's Whistleblowing Policy actively promotes officers, members, contractors and the public to report any concerns they may have in respect of any potential wrong doing. A helpline number is included amongst the A-Z list of Council Services. The policy is also available on the Council's website, in addition to this the Authority subscribes to Public Concern at Work, an independent charity set up to deal with any concerns that the Public may have in respect of any potential fraud, corruption or wrong doing.

Core Principle 5	Developing capacity and capability of members and officers to be effective

- Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

A robust recruitment process is followed up by induction training and ongoing training identified as part of the employee appraisal process ensuring that staff are appropriately qualified and trained to undertake the role for which they are employed and to aid succession planning. A Management Development Strategy is in place that incorporates a Competency Framework for senior officers. Senior managers are trained in specific management competencies.

All elected members receive induction training. Specific training was provided for members in relation to Financial Management and Treasury Management, as well as more detailed training for members of Audit and Risk Committee, Scrutiny Committee, Planning Committee and Licensing Committee in relation to their roles for that particular committee.

A Member Development Programme is now in place and Charter Status has been achieved. Work continues in this area towards the next level of Charter Status.

Core Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability

- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation
- Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships

Core Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability

and reflecting these in the authority's overall governance arrangements.

All meetings of the Authority are held in public, unless the Part II requirements are met in terms of confidentiality, copies of all the minutes and agendas for these meetings are available on the Council's website.

There are a number of ways of ensuring that the Authority communicates with all sections of the community, including the website, an E-panel, face-to-face engagement and the Reporter newspaper. In addition the Council has a 'Compact' in place to guide the ways in which it engages with third sector organisations. Also the Council's Statement of Community Involvement helps to support its statutory Local Development Scheme.

The Council's Financial Regulations and Partnership Toolkit ensure that there are sound governance arrangements in place for all of the Council's significant partnerships.

4.0 Review of effectiveness

4.1 Newcastle-under-Lyme Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive directors within the authority who have responsibility for the development and maintenance of the governance and internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The Code of Corporate Governance adopted by Newcastle-under-Lyme Borough Council demonstrates the Council is committed to ensuring that the principles of good governance flow from a shared ethos or culture, as well as from sound management systems, structures, and processes that are transparent to all its stakeholders. By making explicit the high standards of self-governance the Council aims to provide a lead to potential partners, to the public, private or voluntary sectors and to all citizens.

4.3 The Audit and Risk Committee effectively monitors the system of internal control, this has been demonstrated through the completion of a self assessment against CIPFA's checklist on 'Measuring the Effectiveness of the Audit Committee'. The Committee receives regular reports on both the Audit and Risk issues and has demonstrated effective challenge to senior officers in instances of non-compliance; it can therefore be relied upon when considering the Annual Governance Statement for 2011/12.

4.4 The Overview and Scrutiny function continues to ensure effective monitoring and challenge. There are four Overview and Scrutiny Committees that reflect each of the Council's Corporate Priorities. The terms of reference for each of these committees set out to ensure that performance is effectively monitored and challenged

4.5 Internal Audit is responsible for monitoring the quality and effectiveness of the systems of internal control. A risk model is used to formulate a twelve month plan which is approved by the Audit and Risk Committee, and from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Executive Director. The report includes recommendations for improvements that are included within an action plan and require agreement, or rejection, by Directors. The process includes follow ups on a monthly basis, the results of which are reported quarterly to the Audit and Risk Committee in terms of fundamental recommendations and the level of assurance that can be given for that directorate based on the implementation of their recommendations. Internal Audit has continued to receive very positive reports from the Audit Commission in respect to the coverage of their work and high professional standards.

4.6 Internal Audit can provide reasonable assurance that the Council's systems of internal control are operating adequately, from their work in 2011/12. Whilst the Internal Audit Service has identified some material deficiencies in controls, the service is satisfied that based upon assurances from Management, action is now being taken to address the issues raised.

4.7 A self assessment on the effectiveness of the system of internal control has been completed in respect of the financial year 2011/12. The internal review showed that the system of internal control can be relied upon when considering the Governance Statement for 2011/12. This was informed by the completion of the CIPFA checklist on 'Code of Practice for Internal Audit in Local Government 2006'

4.8 An assessment of the role of the Chief Finance Officer (CFO) has been completed in accordance with the 'CIPFA Statement on the role of the Chief Financial Officer in public service organisations'. The statement produced by CIPFA seeks to strengthen governance and financial management throughout the public sector, in addition it sets out the core responsibilities, personal skills and professional standards that are crucial to the role. It requires that the CFO is professionally qualified, reports directly to the Chief Executive and is a member of the Leadership team. Having undertaken the assessment of the role of the CFO within the Council it can be confirmed that the Authority complies with this statement.

4.9 The role of the Head of Internal Audit has been reviewed in accordance with 'CIPFA Statement on the role of the Head of Internal Audit'. The role of the Head of Internal Audit occupies a critical position within any organisation helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role on promoting good corporate governance. The main aim of the CIPFA statement is to promote and raise the profile of the Head of Internal Audit within public service organisations.

4.10 The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution each year at its Annual Meeting.

4.10 The refinement and annual use of specific statements of assurance from Executive Directors, informed by Heads of Service with regard to the adequacy of internal controls in their area of responsibility

4.11 There are various specialist working groups, i.e. Capital Assets Review Group, Corporate Governance, Information Security, Procurement, Health and Safety and Employee's Consultative Committee that agree, oversee and review the various disciplines giving assurance that the Council complies with statute, identifies and manages its risks.

4.12 The Annual Audit and Inspection letter from the Audit Commission gave an unqualified opinion on the 2010/11 accounts. Internal Audit work was relied upon by the Audit Commission. The Letter contained some recommendations which will inform future plans. It recognised improvements and emphasised the need to continue with these.

5.0 Significant governance issues

We have been advised on the implications of the result of the review of the effectiveness of the governance framework as set out in Section 3 of this Statement and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The following issues have been identified as issues that need to be addressed in order to further improve the Council's overall governance arrangements;

- To ensure that the Council continues to deliver services that meet the needs of our customers and respond to any issues our customers may have with the current level of service provision. Working with our partners we will review the Sustainable Community Strategy to ensure that we can deliver against the Governments agenda in line with customer requirements.
- To ensure that our services demonstrate value for money we will continue to review all service areas against best practice and implement actions outlined in Service Plans, in addition we will seek to improve efficiencies across all council services and ensure that the savings identified from this process can be realised.
- To continue to raise the profile and status of Information Security throughout the Council.
- To continue to raise awareness among both Officers and Members in relation to Fraud in line with the new national strategy for 'Fighting Fraud Locally'.
- To continue to develop the capability and capacity of officers through the application of the Workforce Development Strategy.

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 G Snell ____________ **Councillor Gareth Snell, Leader of the Council**

Signed ____________ **John Sellgren, Chief Executive**

Dated 29th June 2012

REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

In order to demonstrate that the Council has good governance and as part of providing evidence to support the Annual Governance Statement, the Council needs to demonstrate that it has an effective Audit Committee. An assessment has been completed on the effectiveness of the Audit Committee for 2011/12 and the results are summarised within this report.

Recommendation

That the report outlining the findings from the review of the effectiveness of the Audit Committee for 2011/12 be noted.

Reasons

That Members agree with the findings of the review which concludes that the effectiveness of the Audit Committee during 2011/12 can be relied upon when considering the Annual Governance Statement.

1. **Background**

1.1 In accordance with the Accounts and Audit (Amendment) (England) Regulations 2011 the Council is required to undertake an annual review of its governance arrangements, which involves the production of an Annual Governance Statement. In producing this statement various forms of assurance are gathered one of which is giving an assurance on the effectiveness of its Audit Committee.

1.2 This is the third formalised review of the effectiveness of the Council's Audit Committee.

1.3 To assess the effectiveness of the Audit Committee the Audit Manager in consultation with the Chair and Vice Chair of the Committee has completed and formulated a file of evidence in accordance with the CIPFA Checklist for 'Measuring the Effectiveness of the Audit Committee'.

2. **Issues**

2.1 The results of this self-assessment are outlined in Appendix A, the supporting file of evidence has been collated and a copy is available in the Members' area on the intranet.

2.2 The results of the self assessment show that the Audit Committee **is effective** and can be relied upon when considering the Annual Governance Statement for 2011/12.

3. **Options Considered**

3.1 Not to complete a self assessment would be in breach of the legislation already outlined in the background.

4. **Proposal**

4.1 The completed checklist against the self assessment together with the results have been included as Appendices to this report.

5. **Reasons for Preferred Solution**

5.1 The adoption of 'good practice' processes and procedures contributes to reducing risks and liabilities to the Council.

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 An effective Audit Committee means that the Authority can place reliance on the assurances of the systems of internal control. If controls are operating effectively the potential for fraud and corruption is reduced. There is also an assurance that resources are being used efficiently and effectively as the Council transforms to achieve excellence.

7. **Legal and Statutory Implications**

7.1 Under the Accounts and Audit Regulations 2010 the Council is required to undertake an annual assessment of the effectiveness of its Audit Committee.

8. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

9. **Financial and Resource Implications**

There are no financial implications identified from this proposal.

10. **Major Risks**

10.1 If the Authority does not maintain an effective Audit Committee; reliance cannot be placed on the adequacy of the internal controls operating throughout the Authority.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

Appendix A - Completed Self Assessment CIPFA checklist – Measuring the effectiveness of the Audit Committee

15. **Background Papers**

File of evidence compiled against the CIPFA Code of Practice Checklist

APPENDIX A

SELF ASSESSMENT FOR 2011/12 IN ACCORDANCE WITH THE CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Where 'partial' or 'no', you should give reasons for any non-compliance and any compensating measures in place or actions in progress to address this.

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
1	**Scope of Internal Audit**					
1.1	**Terms of Reference**					
1.1.1	Do terms of reference:					
	(a) establish the responsibilities and objectives of Internal Audit?	✓			1	TOR 1,2 & 3
	(b) establish the organisational independence of Internal Audit?	✓			1	TOR 5
	(c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:	✓			1	TOR 3 & 8
	(i) those charged with governance?					
	(ii) those parties to whom the Head of Internal Audit may report?					
	(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?	✓			1	TOR 3 & 4
	(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?	✓			1	TOR 3 & 4
	(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?	✓			1	TOR 3
	(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?	✓			1	TOR 2
	(h) explain how Internal Audit's resource requirements will be assessed?	✓			1	TOR 3 & 7
	(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	✓			1	TOR 6

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	✓			2	Report to Audit and Risk Committee – updated and reviewed – 30/01/12.
1.1.3	Have the terms of reference been formally approved by the organisation?	✓			2	TOR are reviewed and updated annually and subsequently reported to Audit and Risk Committee.
1.1.4	Are terms of reference regularly reviewed?	✓			1	TOR are reviewed and updated annually and subsequently reported to Audit and Risk Committee.
1.2	**Scope of work**					
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	✓			3 & 4	Audit strategy sets out objectives for the Service/Audit Planning based on a risk model in the APACE system. Risks are constantly reviewed and updated.
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified:					
	(a) how assurance will be sought?	✓			1	
	(b) agreed access rights where appropriate?	✓			1 & 5	TOR 6
1.3	**Other Work**					
1.3.1	Where Internal Audit undertakes consultancy and/ or fraud and corruption work does it have the:					
	(a) skills, and	✓				Skills are matched to the nature/type of the investigation.
	(b) resources	✓				
	to do this?					
1.3.2	Do the terms of reference define Internal Audit's role in:					
	(a) fraud and corruption?	✓			1	TOR 2
	(b) consultancy work?	✓			1	TOR 2
1.4	**Fraud and Corruption**					
1.4.2	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	✓			6 & 7	Anti Fraud and Anti Corruption Framework, Fraud Response Plan updated in April 2012.

2	**Independence**					
2.1	**Principles of Independence**					
2.1.1	Is Internal Audit (a) Independent of the activities it audits?	✓			1	TOR 5. Audit Manager has right of access to Chief Executive, Directors, Section 151 Officer, Monitoring Officer, Leader of the Council or the External Auditor as required.
	(b) free from any non-audit (operational) duties?	✓				Internal Audit has a role with regards to Information Assurance with one of the audit technicians being 0.5 FTE of an Information Assurance officer. Information assurance/security forms parts of audits role and is covered in the CIPFA document Role of the Head of Internal Audit, this does not therefore compromise any of our independence.
2.1.2	Where internal audit staff has been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?			✓		In accordance with Code of Practice Internal Audit reserves right to review systems/procedures this does not preclude auditing area at later date.
2.2	**Organisational Independence**					
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	✓			1 & 5	Established via TOR, Financial Regulations and compliance with Code of Practice.
2.2.2	Does the Head of Internal Audit have direct access to:					
	(a) Officers?	✓			1	TOR 5 & 6
	(b) Members?	✓			1	TOR 5 & 6
2.2.3	Does the Head of Internal Audit report in his or her own name to members and officers?	✓			1	TOR 5 & 8
2.2.4	(a) Is there an assessment that the budget for Internal Audit is adequate?	✓			3	Audit Strategy 2012-2015
	(b) Does any budget delegated to service areas ensure that:	✓			3	Audit Strategy 2012-2015
	(i) Internal Audit adherence to the Code is not compromised?	✓				
	(ii) Internal Audit can continue to provide assurance for the Statement on Internal Control?	✓				

	(iii) the scope of Internal Audit is not affected?	✓				
2.3	**Status of the Head of Internal Audit**					
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	✓			8	The Audit Manager reports directly to the Executive Director (Resources & Support Services). The Audit Manager is a member of the Wider Management Team.
2.5	**Independence of Internal Audit Contractors**					
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?	✓				Issue has not previously arisen but would seek to reduce any conflicts in they arose.
2.6	**Declaration of Interest**					
2.6.1	Do audit staff make formal declarations of interest?	✓			9	Actual signed copies are retained on Audit Planning File.
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	✓				Formal note for e.g. Audit Manager has sister who works in Regeneration and Development Directorate – Audit Manager does not undertake any audits in this area.
3	**Ethics for Internal Auditors**					
3.1	**Purpose**					
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	✓			9	Confidentiality Statement, plus all Auditors have seen Code of Practice.
3.2	**Integrity**					
3.2.1	Has the internal audit team established an environment of trust and confidence?	✓				Executive Directors and Heads of Services request advice from Internal Audit which is an indication of trust and respect and often look to Internal Audit for reassurance prior to engaging in new initiatives and advice.
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	✓				Nothing has been identified that shows any weakness in integrity of the Auditor
3.3	**Objectivity**					
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	✓			9	Statement of Independence and Confidentiality.
3.3.3	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?	✓				

3.3.4	Are staff rotated on regular/ annually audited areas?		✓			Try to rotate as much as possible if resources and experience allow, depending on experience and work available. However limitations due to small team. Also there can be advantages to the same person doing an audit on a couple of consecutive occasions and this is done, although would try to rotate every so often to widen experience and avoid cosy relationships or to allow a fresh pair of eyes to look at the system.
3.4	**Competence**					
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of:					
	(a) The organisation's aims objectives, risks and governance arrangements?	✓			1 & 3	Corporate Documents – Strategy, TOR etc circulated.
	(b) The purpose, risks and issues of the service area?	✓			1 & 3	Regular Team Briefings – ensure staff are aware of Corporate Issues.
	(c) The scope of each audit assignment?	✓			1 & 3	Audit Briefs reviewed/updated annually or as required by Auditor and Audit Manager.
	(d) Relevant legislation and other regulatory arrangements that relate to the audit?	✓			1 & 3	
3.5	**Confidentiality**					
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	✓			9	Statement of Independence and Confidentiality.
4	**Audit Committees**					
4.1	**Purpose of the Audit Committee**					
4.1.1	Does the organisation have an independent audit committee?	✓			10	Audit and Risk Committee Terms of Reference
4.2	**Internal Audit's Relationship with the Audit Committee**					
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	✓				Audit Manager has monthly meetings with Chair and Vice Chair of Committee to discuss monthly assurance statements issued to Executive Directors.
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	✓			2, 3 & 11	Approved Strategy for 2012-2015 on 31/01/12, receives quarterly reports on progress.
4.2.3	Does the committee approve the annual internal audit plan and monitor progress?	✓			11 & 12	Audit plan 2012/13 approved by Audit and Risk Committee 31/01/12 and receives quarterly progress reports.
4.2.4	Does the Head of Internal Audit:					

	(a) Attend the committee and contribute to its agenda?	✓				
	(b) Participate in the committee's review of its own remit and effectiveness?	✓			10	
	(c) Ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives?	✓			1 & 3	Internal Audit Terms of Reference Audit Strategy 2012-2015
	(d) Report on the outcomes of internal audit work to the committee?	✓			11	E.g. Quarterly progress report (Qtr 1 Apr to Jun 11) reported to Audit & Risk Committee September 2011
	(e) Establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa?	✓				No changes required in 2012/13
	(f) Present the annual internal audit report to the committee?	✓			13	Internal Audit Report 2010/11
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	✓				
5	**Relationships**					
5.1	**Principles of Good Relationships**					
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with:	✓				
	(a) Management?	✓			1, 32	TOR and Financial Regulations, Audit Protocol Document produced and distributed to Executive Directors and Heads of Service.
	(b) Other internal auditors?		✓			
	(c) External auditors?	✓			14	Protocol exists for working with External Auditors.
	(d) Other regulators and inspectors?		✓		1	TOR 9
	(e) Elected members?		✓		1	
5.2	**Relationships with Management**					
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	✓			22	Monthly Assurance statements sent to Executive Directors
5.2.2	Is the timing of audit work planned in conjunction with management?	✓				Audit Plan is discussed with Management. Audit Briefs issued 5 working days before Audit commences – will try to accommodate management wishes to delay audit – however not always possible to do this.

5.3	**Relationships with Other Internal Auditors**					
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?		✓			The Staffordshire Chief Auditors Group meets on a regular basis and provides a mechanism for sharing information in respect of Audit Programmes etc. In addition Internal Audit provide assurance to Staffordshire County Council in respect of Grant Funding, Pensions and Staffordshire connects
5.4	**Relationships with External Auditors**					
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	✓			14 & 15	External Audit relies on the work of IA after completing a review of files. Annual Audit & Inspection letter acknowledges this.
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	✓				Regular quarterly meetings are scheduled.
5.4.3	Are the internal and external audit plans co-ordinated?	✓				
5.5	**Relationships with Other Regulators and Inspectors**					
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?		✓			Visits by inspectors etc are mainly co-ordinated by the Performance Management Unit within the Corporate Improvement Team.
5.6	**Relationships with Elected Members**					
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	✓			1	
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	✓				Regular meetings with Chair and Vice Chair of the Audit and Risk Committee.
6	**Staffing, Training and Continuing Professional Development**					
6.1	**Staffing Internal Audit**					
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	✓			8	
6.1.1	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	✓				Contract with FIT Business Solutions for provision of IT audits.
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	✓				The Audit Manager is CIPFA qualified.

6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	✓				Audit Manager – 19 years audit experience, 15 years at supervisory role, 5 years in Management capacity.
6.1.3	(a) Do all internal audit staff have up-to-date job descriptions? (b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	✓ ✓			16 17	
6.2	**Training and Continuing Professional Development**					
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor? (b) Are individual auditors periodically assessed against these predetermined skills and competencies? (c) Are training or development needs identified and included in an appropriate ongoing development programme? (d) Is the development programme recorded, regularly reviewed and monitored.	✓ ✓ ✓ ✓			17 & 18 18 18, 19 & 20 18 & 20	. Reviewed annually as part of Employee Appraisal Scheme. Corporate Training Scheme. See also individual Employee Appraisal files.
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	✓			20	Individual Training logs maintained by all auditors.
7	**Audit Strategy and Planning**					
7.1	**Audit Strategy**					
7.1.1	(a) Is there an *internal audit* strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	✓ ✓			3 3	
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) How the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) How Internal Audit's work will identify and address local and national issues and risks? (d) How the service will be provided, i.e. internally, externally, or a mix of the two? (e) -The resources and skills required to deliver the strategy?	 ✓ ✓ ✓ ✓ ✓			 3 3 3 3 3	
7.1.3	Has the strategy been approved by the audit committee?	✓			2	Approved 30/01/12 by Audit and Risk Committee.

7.2	**Audit Planning**					
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?	✓			4	
7.2.1	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	✓				
7.2.1	Are stakeholders consulted on the audit plan?	✓			21	All Executive Directors and Heads of Services are consulted on Plan, before and have opportunity to discuss this once completed.
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	✓			3	Audit Plan aims to cover all services provided by Council and Audits referenced to each Directorate. See Audit Plan attached to Strategy under 3
7.2.3	Does the plan:					
	(a) cover a fixed period of no longer than one year?	✓			3 & 4	.
	(b) outline the assignments to be carried out?	✓			3 & 4	
	(c) prioritise assignments?	✓			3 & 4	
	(d) estimate the resources required?	✓			3 & 4	
	(e) differentiate between assurance and other work?		✓		3 & 4	
	(f) allow a degree of flexibility?	✓				
7.2.4	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?	✓				There was no requirement to realign the plan in 2011-12
7.2.4	Has the plan been approved by the audit committee?	✓			12	
7.2.5	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	✓				
8	**Undertaking Audit Work**					
8.1	**Planning**					
8.1.1	(a) Is a brief prepared for each audit?	✓			23	Audit Briefs are e-mailed to each Director and relevant Heads of Services, 5 working days prior to start of Audit not always signed and returned email acknowledgement that the document has been read/opened is retained

	(b) Is the brief discussed and agreed with the relevant managers?	✓			23	
8.1.1	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	 ✓ ✓ ✓ ✓ ✓			 23 23 23 23 23	Completed examples of Audit briefs can be found on any Internal Audit files.
8.2	**Approach**					
8.2.1	Is a risk-based audit approach used?	✓			4	Audit risk methodology reviewed as part of every audit and risk model updated accordingly.
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	✓				Any areas of weakness identified as part of audit or drawn to manager's attention at the time, and always prior to report being issued.
8.2.4	Does the audit approach include a quality review process for each audit?	✓			24	Audit checklists are completed for each audit and used for quality control purposes by Audit Manager.
8.3	**Recording Audit Assignments**					
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	✓				Audit Manual – CIPFA electronic copy and various paper folders. These can be viewed in office.
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	✓				See various working files.
8.3.2	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	 ✓ ✓ ✓			24	See various audit files Control sheets – used for each test and completed by auditors, these sheets summarise sample sizes and findings etc. The control sheets document the exact tests completed, where and who the information can be obtained from.
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	✓			25	

8.3.3	Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, Freedom of Information Act, etc., and any organisation requirements?		✓			Only audit staff have access to electronic files. Audit reports do not contain disclaimer/notes re DP/FOI.
8.3.3	Is there an access policy for audit files and records?		✓			Access restricted to these who need to see them. Where audit is completed that covers all Directorates, individual "unique" reports are produced for each Director with issues just relevant to their service.
9	**Due Professional Care**					
9.2	**Responsibilities of the Individual Auditor**					
9.2.1	Are there documents that set out the requirements on all audit staff in terms of:					
	(a) being fair and not allowing prejudice or bias to override objectivity?	✓			9, 26 & 27	Declaration of interests/confidentiality, Employees Handbook and Employees Code of Conduct
	(b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict?	✓			9	
	(c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?	✓			26	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?	✓				Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest?	✓			6 & 7	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed?	✓			6 & 7	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?	✓			9	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(h) disclosing any non-compliance with these standards?	✓			9	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(i) not using information they gain in the course of their duties for personal use?	✓			9	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
9.3	**Responsibilities of the Head of Internal Audit**					
9.3.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained?	✓			9 & 24	File review process, Audit Checklists and Control Evaluation Sheets.

9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	✓			6 & 7 28	Anti Fraud and Anti Corruption Framework & Fraud Response Plan Whistle blowing Policy.
10	**Reporting**					
10.1	**Principles of Reporting**					
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	✓				See Audit files.
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	✓				See Audit files.
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	✓				See Audit files.
10.1.5	Are there laid-down timescales for reports to be issued?	✓			32	Covered in the Audit Protocol Document
10.2	**Reporting on Audit Work**					
	Do the reporting standards include:					
10.1.4	(a) format of the reports?	✓				Standard template for Regularity/Systems – stored electronically under Audit Documentation/Templates.
10.1.4	(b) quality assurance of reports?	✓			24	
10.2.2	(c) the need to state the scope and purpose of the audit?	✓				
10.2.1	(d) the requirement to give an opinion?	✓				
10.1.4	(e) process for agreeing reports with the recipient?		✓			No formally defined process.
10.2.1	(f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	✓				
10.2.3	Does the audit reporting process include discussion and agreement of reports?	✓				
10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	✓				
10.2.5	Are areas of disagreement recorded appropriately?	✓				These would be notes in management comments on action plan in the report.
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	✓				

10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	✓			23	
10.2.6	(a) Does the reporting process include details of circulation of that particular audit report?	✓				
	(b) Is this included in the brief for each individual audit?	✓			23	
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that:					
	(a) recommendations that have a wider impact are reported to the appropriate forums?	✓				High risk recommendations will be added to the operational risk assessments for the specific service area and monitored through GRACE as part of the normal risk review process
	(b) risk registers are updated?		✓			There is a process in place for monitoring, reviewing and updating risk registers.
10.3	**Follow-up Audits and Reporting**					
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	✓				Executive Directors and Heads of Service receive copies of outstanding recommendations on a monthly basis. These outstanding recommendations also form the basis of the monthly assurance statements issued for all Directors.
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	✓			1	TOR 8-High Risk recommendations where target date changed twice or more is reported to Audit and Risk Committee. Where a High Risk recommendation has been changed just once these are reported to Chair and Vice Chair of the Committee for their consideration.
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	✓				A revised opinion is given as part of each follow-up
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	✓			4	Previous audit experience is one of the factors used to determine the risk score for each area on the plan.
10.4	**Annual Reporting and Presentation of Audit Opinion**					
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control?	✓			13	
10.4.2	Does the Head of Internal Audit's annual report:					
	(a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment?	✓			13	
	(b) disclose any qualifications to that opinion, together with the reasons for the qualification?	✓				

	(c) present a summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies?	✓			13	
	(d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control?	✓			13	
	(e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets?	✓			13	
	(f) comment on compliance with the standards of the Code?	✓			13	
	(g) communicate the results of the internal audit quality assurance programme?	✓			13 & 29	
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	✓				Regular reports go to Audit and Risk Committee.
11	**Performance, Quality and Effectiveness**					
11.1	**Principles of Performance, Quality and Effectiveness**					
11.1.1	Is there an audit manual?	✓				CIPFA model plus shared Audit Documentation Area
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	 ✓ ✓				CIPFA Audit Manual plus hybrid of paper files and electronic folders.
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	✓				
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	 ✓ ✓			29 30	A satisfaction survey is sent to all involved in audit following issue of final report. The Audit Manager sends an annual survey to each Executive Director, Head of Service and Business Manager.
11.2	**Quality Assurance of Audit Work**					
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	✓				Yes, this is done as far as possible; however, given size of team this is not always practical.

11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff is supervised appropriately throughout all audits?	✓				Regular informal updates obtained by audit manager. Due to size of team – advantage in that communication is good.
11.2.3	Does the supervisory process cover:					
	(a) monitoring progress?	✓			24	
	(b) assessing quality of audit work?	✓				
	(c) coaching staff?	✓				Advice and support given where necessary or where staff ask for support. Closer mentoring given to trainee Audit Technicians within the section.
11.2	**Performance and Effectiveness of the Internal Audit Service**					
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	✓			31	PI's are produced and monitored on a quarterly basis.
11.3.2	Does the performance management and quality assurance framework include as a minimum:					
	(a) a comprehensive set of targets to measure performance:	✓				
	(i) which are developed in consultation with appropriate parties?	✓				
	(ii) which are included in service level agreements, where appropriate?		✓		32	This is set out in the Audit Protocol Document
	(iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress?	✓			11	Quarterly reports to Audit and Risk Committee
	(b) user feedback obtained for each individual audit and periodically for the whole service?	✓			29	
	(c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?	✓			3	
	(d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?	✓				Reason for this review.
	(e) an action plan to implement improvements?	✓			3	
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	✓				Monitored and reviewed annually.

11.3.1	Do the results of the performance management and quality assurance programme evidence that the internal audit service is: (a) meeting its aims and objectives? (b) compliant with the Code? (c) meeting internal quality standards? (d) effective, efficient, continuously improving? (e) adding value and assisting the organisation in achieving its objectives?		✓ ✓ ✓ ✓ ✓			This is currently being reviewed as part of performance accountability framework which are being developed corporately Audit Protocol document SCAG Benchmarking SCAG Benchmarking.
11.3.4	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	✓			13	
11.3.5	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	✓				Audit and Risk Committee will receive report on this review.

CHANGES TO EXTERNAL AUDIT ARRANGEMENTS

Submitted by: **Head of Finance**

Portfolio: **Finance and Budget Management**

Ward(s) affected: **All**

Purpose of the Report

To inform Members of changes which are due to take place with regard to external audit arrangements.

Recommendation

That the information be noted.

Reasons

The current arrangements for external audit of the Council are being changed from the Audit Commission to a private sector auditor as a consequence of the abolition of the majority of the Audit Commission's functions.

1. **Background**

1.1 At present the Audit Commission is statutorily responsible for regulating local authority external audit. It appoints the auditor who will carry out each authority's external audit work. Currently this work is carried out across the country by a mixture of private accountancy firms and the Audit Commission's own in house audit practice. Newcastle's auditor has always been the Audit Commission in house practice.

1.2 The audit related work which the auditor carries out includes:

- The annual audit and certification of the Council's Statement of Accounts and underlying accounts and provision of an annual Audit Letter.
- Providing an Annual Governance Statement for the Council including a Value for Money (VFM) Opinion.
- Certification of claims the Council has made to central government and other governmental agencies.
- Carrying out and publishing national research on topics relevant to local authorities generally, often with a VFM focus.
- One-off studies of the situation in individual authorities in relation to particular topics.
- Special investigations where serious fraud or financial impropriety is alleged or where there is a public interest issue.
- Determining whether specific items of expenditure or income can be lawfully expended or received by individual authorities following representations from interested parties.
- Co-ordination of the National Fraud Initiative, an exercise that matches data within and between public bodies in order to detect fraud.

1.3 In August 2010 the Department for Communities and Local Government (DCLG) announced plans to put in place new arrangements for auditing local public bodies. Following consultation, the government confirmed in the Queen's Speech in May 2012 that it intended to publish a draft Bill on the future arrangements for local public audit. The Local Audit Bill has now been published for consultation and outlines how the current audit regime and the Audit Commission will be replaced. The legislation should be enacted in time for the new arrangements to commence on 1 September 2012.

1.4 The Audit Commission's in house practice currently undertakes the majority of audits for local public bodies. In July 2011 DCLG Ministers confirmed their preference for transferring this work to the private sector by outsourcing contracts. Accordingly, the Audit Commission carried out a procurement exercise to give private sector bidders the chance to compete for the Audit Commission's audit work. In March 2012 the Commission announced the results of this exercise, awarding five year contracts to four private accountancy firms, based on bids to carry out work within defined geographical areas.

1.5 The Audit Commission will remain in place until April 2015 (when it will be abolished) to oversee the contracts and other statutory functions but will be significantly smaller after the outsourcing, most of its audit staff having been transferred to their new employers by October 2012. A new body, as yet unspecified, will take over, from April 2015 to manage the final two years of the outsourced local audit contracts.

2. **Issues**

2.1 The firm that will be carrying out the audit work for Newcastle will be Grant Thornton (UK) LLP, who were the successful bidder for the West Midlands contract area, which includes this Council. This is subject to the Audit Commission Board approving their appointment on 26 July. By mid August a letter should have been received formally confirming the appointment. The appointment commences on 1 September 2012.

2.2 The audit of the 2011/12 accounts, which is currently taking place, will be carried out under the present arrangements by the Audit Commission practice. This will include preparing and presenting the Annual Governance Statement, attendance at the Audit and Risk Committee when it and the Statement of Accounts are considered and certification of the 2011/12 accounts. The intention is that the work in relation to the 2011/12 accounts will all be completed by the Audit Commission practice, enabling a "clean" handover to the new firm, which will then be responsible for 2012/13 audit work. Clearly, however, if any issues arise in relation to 2012/13 in the period before 1 September, these will have to be dealt with under the present arrangements since Grant Thornton can only start work at the Council from that date. Grant Thornton will complete the certification of the housing and council tax benefit subsidy claim relating to 2011/12 because this has a submission deadline of 30 November 2012.

2.3 Audit Commission staff currently employed by the Commission will transfer to the new audit firms on 31 October 2012. The current District Auditors within the area have been appointed as "Engagement Leads" for Grant Thornton's Midlands Audit Practice. It seems likely that, in the beginning at least, the Council will be dealing with largely the same audit teams as now exist, although this may well change over time. This should assist with continuity, hopefully avoiding the need for a completely new set of auditors to have to become familiar with Newcastle's financial situation, processes and accounting system, which could take up some of your officers' time as well. It should also be noted that Grant Thornton have substantial experience of public authority auditing, including local authorities, through their absorption in 2008, of accountancy firm Robson Rhodes, who specialised in this area of work. The general approach to the audit process is as yet an unknown quantity but the above factors perhaps indicate that there may not be a radical change from present practices. Other local authorities, including in Staffordshire, have reported positively on their experience of private sector auditors. Hopefully, Grant Thornton will make contact with your finance officers before they become officially responsible in order to discuss their approach to the audit.

Having one firm responsible for the audits of all authorities in a region may also assist in achieving a consistent approach across those bodies. Overall, the principle of the change does not, therefore, give rise to any particular concerns.

2.4 The Midlands Audit Practice is based in Birmingham. It is not clear whether there will be a more locally based office but the firm has said that they intend to have an on site presence, which presumably means audit staff visiting the Council and using the dedicated external audit room on an ad hoc basis in order to keep in touch with audit issues affecting Newcastle and with relevant Council officers. They have said that, as now, they will attend all of the meetings of the Audit and Risk Committee and will liaise with Internal Audit, with whom they would expect to work closely.

2.5 The Audit Commission will continue to update its VFM comparator tool and make it available on its website. This is a useful means of comparing the cost of services over a range of local authorities (which can be selected by the user) and it is pleasing that this is being maintained. There will be no more research studies carried out and published by the Commission. However, the Local Audit Bill gives powers to the National Audit Office (NAO) to undertake studies of thematic value for money issues related to local government and it remains to be seen whether the private sector firms will carry out similar work. The NAO will also be responsible for setting the code of audit practice for local government.

2.6 The National Fraud Initiative will be retained, although Ministers have yet to decide which body its work will transfer to.

2.7 These arrangements are an interim measure. The new contracts will last for five years, although there may be provisions for the successor body to the Audit Commission to extend them for a further period, particularly to spread bids over a year or two to give better opportunity for a wide range of firms to bid. The exact process will not be known until the Bill relating to the future arrangements for local public audit has been enacted. It is intended that once the new contracts expire, local authorities will appoint their auditors themselves, following a procurement process, which will include an independent audit panel to advise on the appointment.

3. Legal and Statutory Implications

3.1 The Council is required to submit its accounts to external audit under provisions contained in the Accounts and Audit Regulations 2011 and the Audit Commission Act 1998.

4. Financial and Resource Implications

4.1 The fees payable by authorities for external audit will reduce by around 40% across the board. This has been made possible by utilising the Audit Commission's bulk purchasing power, offering large contracts to successful bidders and probably by a reduction in central overhead costs which had to be recovered from the audit fees. In Newcastle's case this will result in a saving of a little under £60,000.

5. Major Risks

5.1 It does not appear that there are any major risks attached to the changes. There is no reason to assume that the standard of audit will reduce compared to the present situation.

6. Key Decision Information

6.1 This is not a key decision, being reported for information, and has not been included in the Forward Plan.

7. **Background Information**

7.1 Audit Commission and DCLG websites; handouts from joint Audit Commission/Grant Thornton session “Introductory Events for Audited Bodies” held in Birmingham on 30 April 2012 attended by the Head of Finance.

DRAFT STATEMENT OF ACCOUNTS 2011/12

Submitted by: **Head of Finance**

Portfolio: **Finance and Budget Management**

Ward(s) affected: **All**

Purpose of the Report

To submit the draft Statement of Accounts 2011/12 for consideration by the Audit and Risk Committee and to gain approval for the financing of capital expenditure. The report highlights the key issues which are contained in these accounts including a commentary on the General Fund outturn, the Collection Fund and the Balance Sheet and to note the position regarding the Council's reserves.

At this stage the Statement of Accounts is in a draft stage and is subject to external audit. Once that audit is completed then the Statement will be submitted to this committee for formal scrutiny and approval.

A copy of the draft Statement of Accounts is attached at Appendix A.

Recommendations

(a) That the contents of the draft Statement of Accounts for 2011/12 be noted.

(b) That the financing of capital expenditure incurred during 2011/12, as set out in Appendix B be approved.

Reasons

It is a statutory requirement, contained in the Accounts and Audit Regulations 2011 that the Council produces a Statement of Accounts detailing its financial transactions for the year and its position at the year end. It is also a requirement that the financing of capital expenditure incurred in 2011/12 is approved.

1. **Background**

1.1 The Accounts and Audit Regulations 2011 govern the way in which a local authority should present its financial affairs. These require that a local authority must produce a Statement of Accounts for each financial year detailing its financial transactions for the year and its position at the year end and that this Statement be scrutinised and approved by an appropriate committee, in this case the Audit and Risk Committee, by 30 September. The Statement is produced in a standardised form in line with CIPFA (the Chartered Institute of Public Finance and Accountancy) guidelines.

1.2 The Regulations require the draft Statement of Accounts to be certified by the responsible financial officer, who is the Executive Director (Resources and Support Services), as presenting a true and fair view of the Council's financial position by 30 June and this has been done. On presentation to you for approval the final audited version of the Statement will be recertified by him.

1.3 The annual statutory audit commenced on 2 July 2012 during which the external auditor is required to ascertain that the accounts present a true and fair view of the financial position of the Borough Council and to ensure that they have been produced in accordance with all relevant codes of practice. This should allow time for the audit to be concluded and any amendments required to be made and a final version of the Statement of Accounts produced for submission to your committee for scrutiny and approval at the meeting scheduled for 26 September 2012.

1.4 Whilst 30 September is the date by which formal approval must be given, it is felt that members will want to receive a report on the outturn position for 2011/12 before then. Accordingly, the draft Statement is being reported to you now, for information, together with a commentary on the main points of interest in the accounts. It should be noted that it is not intended that this meeting should be the forum for the formal scrutiny of the accounts, although if members wish to raise any queries these will, of course, be responded to. The intention is rather to report on the 2011/12 outturn and year end financial position and any ongoing financial implications arising there from.

1.5 Elsewhere on your agenda the Annual Governance Statement is being submitted to you for approval. Whilst the Accounts and Audit Regulations 2011 do not require this to be included in the Statement of Accounts, they require it to be published, so it is intended to include it in the published Statement of Accounts, as in previous years.

1.6 It is also required that the financing of capital expenditure incurred in the year be approved. Accordingly, Appendix B sets out the expenditure for 2011/12 and the ways in which it has been financed.

2. **The General Fund Budget**

2.1 The General Fund is the main account of the Council and relates to all of those services which are funded by the Council Tax, Redistributed Business Rates and Formula Grant from the Government.

2.2 The budget for the General Fund for 2011/12 was originally set in February 2011 and amounted to a net total of £15,428,700. The eventual outturn for the year was an adverse variance against this figure, of £162,808.

3. **The General Fund Outturn**

3.1 As mentioned above, the out-turn in respect of the General Fund Revenue Account was £162,808 worse than the original estimate. It was known in advance that 2011/12 would once again be a difficult year for all local authorities financially, owing to the continuation of the economic recession which would particularly have an impact on some income sources, which was indeed the case. A number of areas of income, largely ones that are sensitive to the state of the local and national economy, were particularly affected as shown in the following table:

	Budget	**Outturn**	**Variance**
	£000s	£000s	£000s
Local Land Charges	394	154	240
Commercial Properties Rents	322	104	218
Planning Applications Fees	431	292	139
Car Parking Income	1,214	1072	142
Markets Stalls Income	263	190	73

Provision for Income Loss	(200)	-	(200)
Total	2,424	1812	612

Several of these areas were additionally affected by particular circumstances relating to 2011/12. Some Lancaster Buildings units remain unlet, following the completion of the refurbishment works, now completed, and the continuation of the extensive repair works at the Midway car park into the early part of 2011/12 will have had an effect on income.

Part of the shortfall in relation to income has been covered by the provision included in the budget for income loss of £200,000 (included in the table above). Otherwise the adverse variances have been met largely by favourable variances on other budget heads, summarised in the table below.

Item	**Saving or additional income**
	£000s
Employee Expenses, e.g. vacant posts	133
Litter Enforcement fines - additional income	22
Additional Grants and Contributions	73
Emergency Planning Costs	21
Watercourses expenditure	45
Homelessness expenditure	54
Community Recreation Service	36
Planning Appeals provision contribution not required	25
Equipment Repairs Fund contributions not required	22
Members Allowances	22
Elections	21
Total	474

The outturn reflects the monitoring statements provided to members throughout the year.

3.2 An amount of £162,808 has been transferred from the Budget Support Fund to cover the negative variance.

3.3 As can be seen in Note 22 to the Accounts, the balance on the Budget Support Fund now stands at £0.624m, a reduction of £0.469m from the 1 April 2011 balance. This movement comprises:

- £0.368m transferred from the Fund to support the 2011/12 budget, in accordance with the budget setting resolution of February 2011;
- £0.163m transferred from the Fund to make good the negative variance;
- net transfers of £0.062m into the Fund in respect of budget underspendings carried forward from one year to another.

3.4 £179,000 is to be used from the Budget Support Fund to support the 2012/13 Budget which was approved on 22 February 2012.

3.5 Experience to date in the current year is that income continues to be depressed and that the levels allowed for in the 2012/13 budget may not be achieved. Until the country emerges from the recession this is likely to be an ongoing situation. The regular budget monitoring reports provided by the Cabinet Portfolio Holder for Resources and Efficiency will keep Members updated as the year proceeds.

3.6 The Council's investment with Heritable Bank, of £2,500,000, together with interest due up to that date of £9,192, was frozen in 2008/09 as a result of the bank being placed into administration. Following this the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a recommendation to councils with such frozen investments that they should make provision for the amount deemed to be at risk, based on a possible timetable, spanning four years, for repayment of a specified proportion of the investment (originally 80%, later revised to 85%). Applying this calculation gave an amount of £795,202 in respect of the Council's investment, including notional interest payable on the frozen funds over the period. Provision for this amount was made in the 2008/09 accounts, by way of an impairment charge. Since then a total of £1,702,904 has been repaid to the Council up to 31 March 2012 plus a further £95,089 in April 2012. The actual experience of repayments and the predictions of the amount that will be repaid made by the bank's administrator have been more favourable than the original assumptions made in the CIPFA recommended method for calculating the impairment amount. Consequently, the recommended method has been revised several times, enabling the amount of impairment charged to be reduced, resulting in a credit to the revenue account. There was only a small change to be made in respect of the revised calculation as at 31 March 2012.

3.7 The Statement of Accounts includes (at Note 43) the accounts of the North Staffordshire Building Control Partnership, the vehicle through which this Council delivers the Building Control service. Overall the Partnership made a small surplus of £11,585 in respect of fee earning activities, which is in line with the requirement contained in the Building Control Regulations that a break-even position should be achieved over a number of years.

4. <u>The General Fund as shown in the Statement of Accounts</u>

4.1 The transactions of the General Fund are shown in the Statement of Accounts in the Comprehensive Income and Expenditure Statement (CI&ES) and the Movement in Reserves Statement. Further detail of the reserves movements is given in notes 7, 8 and 23. In effect, the CI&ES contains all of the expenditure and income of the General Fund whilst the Movement in Reserves Statement shows the transfers from reserves which have taken place to arrive at the final balance for the year. The Movement in Reserves Statement also shows, at its foot, the final year-end balances on the different classes of reserve. As can be seen, the General Fund Balance has changed from its opening balance of £1.750m to £1.400m at 31 March 2012. The reduction in the minimum balance was approved by Full Council on 22 February 2012. It represents the minimum balance required, calculated by means of a risk based assessment, to safeguard against foreseeable variations in relation to the General Fund Revenue Budget.

4.2 The CI&ES shows a deficit of £12.616m for the year. At first sight this may seem strange but it should be remembered that this is the balance before transfers to and from reserves are taken into account, via the Movement in Reserves Statement. All of this balance has been reversed out by net transfers to reserves as shown in the Movement in Reserves Statement. These transfers are either to meet the cost of expenditure contained in the Cost of Services, to meet the deficit of £0.163m or to reverse out various charges representing proper accounting practice which have been made, as required by the CIPFA Accounting Code of Practice, but which are to be removed from the final total as such charges are, by law, not to be met by Council Tax Payers. Examples of these are various capital charges (such as in relation to depreciation of assets or where an asset has been revalued downwards) and pensions fund transactions. There are a number of notes set out beneath the CI&ES, which explain, in relation to some items contained in the account, why their amounts differ significantly from 2010/11 to 2011/12.

4.3 In addition the CI&ES includes the surplus or deficit on revaluation of fixed assets and actuarial gains or losses on pensions assets and liabilities. Both of these items are subject to significant volatility, as can be seen from the pensions amount changing from a negative value of £9.610m in 2010/11 to a positive value of £7.711m in 2011/12. This is largely due to the Pensions Fund actuary adjusting his calculations to take account of changes to pension increases announced in the Chancellor's budget statement, which resulted in a large negative amount being credited, as a one-off item, to the General Fund Revenue Account in 2010/11. All of the balance of £12.616m has been reversed out by net transfers from reserves as shown in the Movement in Reserves Statement.

4.4 Notes 9, 10 and 11 provide a breakdown of the Other Operating Expenditure, Financing and Investment Income and Expenditure and Taxation and Non-specific Grant Income, respectively, which appear in the bottom half of the CI&ES.

5. **The Collection Fund**

5.1 The Collection Fund is a separate account which contains the financial details which refer to the collection of Council Tax, Business Rates and the former Community Charge. The purpose of this account is to illustrate how much of the above income has been collected and to see how this compares to the amounts of the levies that have been made for the Borough Council, the County Council, the Police Authority and the Fire Authority.

5.2 This is a somewhat technical account but the key issue is to see if the account is in surplus or deficit and to what extent. In collecting income the Borough Council has to make an assessment of how much will ultimately be collected. The Collection Fund had an accumulated deficit of £0.259m as at 31 March 2012. This will be recovered from the precepting authorities (Newcastle BC, Staffs CC, Police Auth, Fire Auth) and will be used in calculating how much Council Tax will be levied in 2013/14.

5.3 As can be seen the Fund achieved a deficit of £0.386m for the year, compared to a surplus of £0.414m in 2010/11. This was mainly due to changes to the discount regime introduced in 2011/12, affecting the amounts payable by taxpayers, a number of retrospective adjustments being made to the amounts due to be paid by taxpayers, some temporary reduction in recovery activity as a consequence of the bedding in of the new revenues ICT system and a small increase in the amount set aside for possible bad debts.

6. **The Balance Sheet**

6.1 The main features of the Balance Sheet are as follows:

- There are Net Tangible Fixed Assets of £62.015m which consist of Plant, Property and Equipment, Investment Properties, Heritage Assets and Assets Held for Sale. Notes 12, 13 and 14 to the Statement of Accounts show an analysis of the first three classes of asset, together with a summary of movements during 2011/12. The main reasons for the increase in the fixed assets balance compared to the 31 March 2011 value are the construction of the Jubilee 2 project and the acquisition of the Ryecroft site. The assets held for sale at 31 March 2011 have now been disposed of, the main item being the "Blue Planet" site at Ravensdale.

- Investments (long and short term) amounted to £10.996m and have reduced by £7.577m compared to 31 March 2011. In particular, this reflects the use of capital receipts to finance projects in the capital programme (£6.543m). Owing to the current situation in the financial markets, the emphasis is now on short term investments as a means of reducing the risk of exposure to default by organisations with whom money has been placed, so all of the Council's current investments are short term (£10.851m). The amount of £0.145m shown in the Balance Sheet as long term relates to an element of the Heritable Bank investment which, according to the CIPFA Accounting Code has to be classified as long term.

- The amount owed to the Council by its short term debtors (after a deduction for the estimated amount which might be at risk of non-payment) is £6.975m. Further analysis of this amount is shown in Note 18 to the Statement of Accounts. Short Term Debtors have decreased by £2.448m compared with 31 March 2011. The main reason for this decrease is that in 2010/11 the Council overpaid the Department of Communities and Local Government in respect of the National Non Domestic Rates Pool resulting in an amount due from the department of £3.104m at 31 March 2011, included in debtors, whereas in 2011/12 the department was underpaid, resulting in an amount owing to them at 31 March 2012 of £2.741m, which is included in the short term creditors balance. This happens because payments are made based on an estimate made before the year commences with the final amount due determined after the year end from data in the accounts and the NNDR collection system. The amount underpaid will be paid to the department in 2011/12. Offsetting this, other local authority debtors, largely comprising the precepting authorities' share of the Collection Fund deficit and related balances, increased by £1.361m whilst sundry debtors (comprising many individual accounts) reduced by £0.545m.

- The balance shown as a Long Term Debtor of £2.190m relates to the balance owing to the Council in respect of properties let on finance lease terms (£1.582m), the outstanding loan to Kidsgrove Town Council in respect of works to the Victoria Hall Kidsgrove (£0.203m) and outstanding mortgages (£0.405m). The balance in relation to property leases arises because some of the council's leases are classified as finance leases rather than operating leases. This requires the amount remaining to be paid over the lease term to be shown in this way. The finance lease element has reduced by £0.147m reflecting payments made in 2011/12, whilst the mortgages balance has increased by £0.395m from £0.010m, as a result of the transfer to the Council of the loan portfolio formerly administered by the Kickstart partnership in respect of loans made to home owners in the Borough to enable improvement works to take place.

- The amount the Council owes to its creditors is £8.843m. Further analysis of this amount is shown in Note 21 to the Statement of Accounts. Creditors have reduced by £2.075m compared to 31 March 2011. Amounts owing to central government were little changed, the additional amount owing in relation to the NNDR Pool contribution, referred to earlier in relation to short term debtors, being offset by a decrease of a similar value in the amount owing to the Department of Work and Pensions in respect of housing benefits subsidy overpaid. However, an amount owing to Advantage West Midlands at 31 March 2011 in respect of repayment of grant was paid to them in 2011/12, thereby reducing the creditors balance. Additionally, the amounts owing to sundry creditors for supplies of goods and services and miscellaneous year end accruals reduced by £1.317m.

- Cash at bank and held by collectors, cashiers and as petty cash floats has changed from an in hand position of £0.774m at 31 March 2011 to £0.354m at 31 March 2012. This is mainly as a result of a reduction in the actual year end cash at bank balance of £0.437m, reflecting differing cash flow positions at the respective year-ends.

- The Liability relating to Defined Benefit Pension Schemes increased from £46.698m to £54.591m. This increase is mirrored by an increase in the Pensions Reserve balance. The change mainly arises from the impact of the use of a reduced discount rate to be applied to the value of the Fund's liabilities, taking account of future financial assumptions made by the Fund actuary, coupled with poorer than expected asset returns over the year. These amounts are required to be included in the Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy. Further details relating to the Pension Fund are contained in Note 39 to the Accounts.

7. **Reserves**

7.1 The Council has usable reserves totalling £16.342m. Note 23 to the Accounts shows a full analysis of all these reserves. The main items, with their balances at 31 March 2012, are:

- Capital Receipts Reserve (£2.420m)
- Capital Grants Unapplied (£1.321m)
- Budget Support Fund (£0.624m)
- Contingency Reserve Fund (£0.108m)
- Insurance Fund (£0.240m)
- New Initiatives Fund (£0.125m)
- ICT Development Fund (£0.732m)
- Renewal and Repairs Fund (£0.043m)
- RENEW Reserve (£0.132m)
- Equipment Replacement Fund (£0.229m)
- Standards Fund (£0.95m)
- New Homes Bonus Reserve (£0.264m)

7.2 Generally the level of reserves has reduced compared with their opening balances at the beginning of 2011/12.

7.3 The Capital Receipts Reserve is fully committed to financing the current capital programme, whilst the majority of the balance on the Capital Grants Unapplied Reserve is either already committed to finance current schemes or is earmarked for future schemes. The ICT Development Fund is also committed to finance new or replacement ICT software and hardware. The LSVT Capital Fund and the Special Projects (Economic Development) Fund (with a combined opening balance £3.052m) have been fully used during 2011/12 to finance capital expenditure incurred during the year.

7.4 The balance of the Contingency Reserve remains above its agreed minimum level of £0.100m.

7.5 The Budget Support Fund and General Fund Balance are discussed at paragraphs 3.2 to 3.4 above and 4.1, respectively.

7.6 The levels of reserves will be considered as part of the budget preparation process for 2013/14. Some may require "topping up", either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs and Insurance Funds need to be reviewed to ensure that they are adequate.

7.7 Unusable Reserves total £9.517m These were established as a result of the need to enable various accounting transactions and are not available for use to meet expenditure, either revenue or capital.

8. **List of Appendices**

Appendix A - Statement of Accounts 2011/12 (Draft)
Appendix B - Financing of Capital Expenditure

STATEMENT OF ACCOUNTS 2011/12

NEWCASTLE UNDER LYME BOROUGH COUNCIL

Contents

Foreword

By the Executive Director - Resources and Support Services

a) Introduction

Welcome to Newcastle-under-Lyme Borough Council's Statement of Accounts for the financial year 2011/12. It sets out a summary of the money that the Council received and what it has been spent on and highlights specific issues regarding its financial position at 31 March 2012.

b) Regulations Governing the Production of the Statement of Accounts and changes arising from the adoption of International Financial Reporting Standards

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2011 and the requirements of the 2011/12 "Code of Practice on Local Authority Accounting" published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

This is the second year of producing the Statement of Accounts in the format required to comply with International Financial Reporting Standards (IFRS). Following on from this, CIPFA have introduced, via the Code, a new requirement in respect of Heritage Assets, such as museum exhibits, archaeological remains, etc, which have to be identified and shown separately in the Balance Sheet. This has resulted in a need to restate the comparative figures for previous years in certain parts of the accounts affected by the change. This means that some figures and the Statements and Notes which contain them are not directly comparable to those shown in the published 2010/11 Statement of Accounts. Note 44 sets out the main areas where restatements have been made, summarising the nature of the changes and the ways in which the financial data has been amended.

Under the provisions of Section 15/16 of the Audit Commission Act 1998 and the Accounts and Audit Regulations 2011, the accounts were made available for inspection between 3 July and 31 July 2012, as advertised in the local press.

The accounts were approved by the Audit and Risk Committee on 26 September 2012 in accordance with paragraphs 8 (3) of the Accounts and Audit Regulations 2011. The signature of the Committee Chair (who presided over the meeting) is included at the conclusion of this foreword in line with the above regulations as evidence of approval of the 2011/12 Statement of Accounts.

c) General Accounting Policies

The accounting policies adopted by the Council comply with the relevant recommended accounting practices unless indicated otherwise and are explained in note 1 to the Accounts. The Council's expenditure has been analysed in the Comprehensive Income and Expenditure Statement according to the standard classification recommended by CIPFA. In addition, the analysis of capital expenditure follows CIPFA's recommendations showing non-current and intangible assets separately. These recommended practices, classifications and recommendations are all designed to meet IFRS requirements. There have been no changes in accounting policies other than those arising from the adoption of the new requirement in respect of Heritage Assets.

There has been no change in the Council's statutory functions during the year, apart from the transfer of responsibility for the administration of the concessionary fares scheme, which has passed to Staffordshire County Council. Most of the cost of this was met from government grant, either directly credited to the service or included within formula grant, so there is no significant effect upon the Council's net revenue expenditure.

d) Statement of Accounts

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of a local authority are both technical and complex. This foreword explains the statements and sections in this document, and provides a summary of the Council's financial performance for 2011/12 and its financial prospects for future years.

The Borough Council's Accounts for the year 2011/12 are set out in the following pages and consist of the following:

Page	Statement	Purpose
12	Statement of Responsibilities	Setting out the Council and Executive Director – Resources and Support Services responsibilities in relation to financial administration and accounting.
13	Movement in Reserves Statement	Showing movements in reserves split between usable and unusable reserves. The Statement also reconciles the outturn on the Comprehensive Income and Expenditure Statement to the General Fund Balance established by the relevant statutory provisions that specify the net expenditure the Council needs to take into account when setting local taxes.
Error! Bookmark not defined.Error! Bookmark not defined.	Comprehensive Income and Expenditure Statement	Showing the net cost for the year of all the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
16	Balance Sheet	Which sets out the financial position of the Council on the 31 March 2012. It provides details of the Council's balances and reserves and current assets employed in Council operations together with summarised information on the fixed assets held.
18	Cash Flow Statement	Summarising the total cash movement of the Council's transactions.
19	Notes to the Accounts	To provide explanation and analysis of items contained in the above accounting statements. Note 1 sets out the accounting policies which have been employed in compiling the Council's accounts.
68	Collection Fund	Reflecting the statutory requirement for the authority to maintain a separate account providing details of receipts of Council Tax and Business Rates and the associated payments to precepting authorities and to the National Non-Domestic Rate (NNDR) Pool.
71	Audit Opinion	The External Auditor's opinion on the Accounts.

e) Accountability / Financial Reporting

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of the process of accountability, the Borough Council is required to produce a Statement of Accounts, in order to inform stakeholders that it has properly accounted for all the public money received and spent, and that the financial standing of the Council is on a secure basis.

The Statement of Accounts concentrates on clear and accurate reporting of the financial position of the Council in relation to a particular year. It does not, however, aim to fulfil the role of an annual report of a company. This would duplicate much of the work published in other documents produced by the Council, in particular, the Corporate Plan and the Annual Report.

f) Economic Downturn and Public Expenditure Reductions

The current recession affecting the British economy continues to have an adverse effect upon the Council's finances, in common with other local authorities. In particular it has impacted upon the amount of income received from land charges and planning fees together with reduced rental income from commercial properties and income from car parks. The scale, length and depth of the recession are difficult to accurately predict. The impact is being closely monitored and evaluated in order to assess the financial risk to the Council's finances.

g) General Fund Revenue Budget Outturn

The outturn position in relation to the General Fund Revenue Budget was an adverse variance of £162,808, i.e the net budget was £15.429m and the outturn was £15.592m.

This was in line with budget monitoring predictions of a final outturn close to the original budget for the year. The difficult operational conditions arising from the factors outlined in the previous paragraph meant that 2011/12 would be a challenging year financially for the Council. Members and officers have continued, therefore, to operate within an environment of tight budget management to, wherever possible, mitigate any adverse impact.

h) Financial Summary 2011/12

The financial activities of the Council can be categorised as either Revenue or Capital. Revenue spending represents the costs of consuming supplies and providing services delivered by the Council in its day to day business during the year. Capital spending relates to items which will provide benefit to the Borough over a number of years.

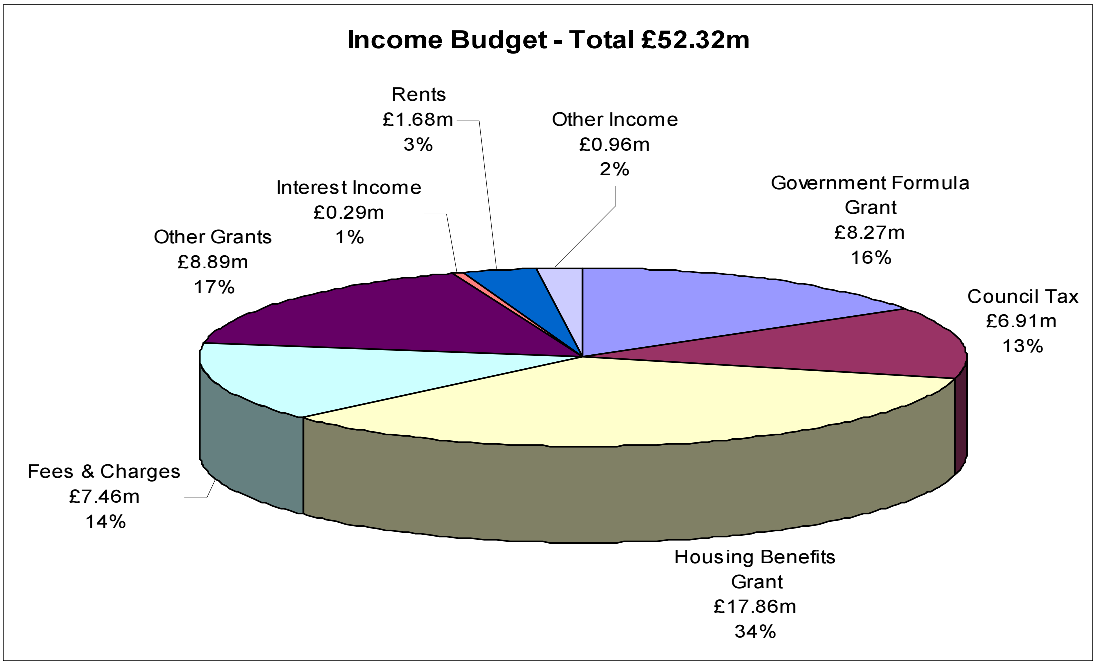
Revenue Expenditure

Where does the money come from?

Local authorities receive income from the Government in the form of grants, from households in the form of Council Tax and from consumers in respect of fees and charges. Each year the Government works out the amount of local government spending it is prepared to support through grant. Each local authority is allocated what is known as Formula Grant, which comprises revenue support grant and redistributed business rates income. In determining formula grant allocation, the Government takes into account the relative needs of different authorities, including population, deprivation levels, number of commuters, visitors to an area etc. In 2011/12, the Borough Council received a formula grant allocation of £8.286m. In addition the Council received an amount of £0.173m in respect of Council Tax Freeze Grant because it held the Council Tax levies for 2011/12 at the same levels as in 2010/11.

Local residents pay Council Tax. This is a property based charge and the amount payable depends on the value band that the property is placed into by the Valuation Office. Owners of businesses and properties pay the National Non-Domestic Rate (NNDR) set by Central Government, again based on values set by the Valuation Office. These "business rates" are collected by the Borough Council and paid over to the Government, who then redistribute the national pool to each local authority as part of their total formula grant income.

The gross income to pay for its services which was included in the Borough Council's Revenue Budget for 2011/12 was £52.32m, made up as follows:



What we planned to spend

The Council set an original Net Revenue Budget for 2011/12 of £15.429m on 23 February 2011.

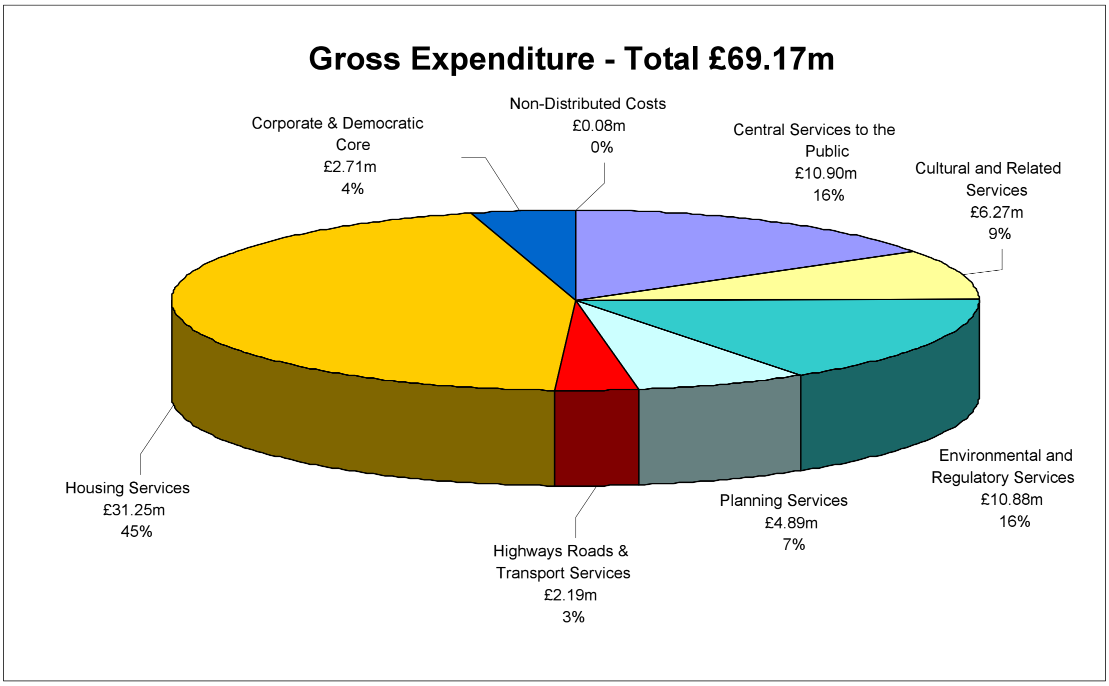
What we actually spent

Actual net expenditure was £15.592m. As mentioned earlier, this represents an adverse variance compared to the original budget of some £163,000.

This amount has been transferred from the Budget Support Fund. The balance on the Fund, as at 31 March 2012 is £0.624m, as against its balance at 1 April 2011, which was £1.093m. In addition to the transfer from the Fund of £163,000 some £0.062m was transferred to it to meet 2011/12 commitments carried forward. £0.368m of the Fund was also used, to provide general support for the budget in accordance with the approved budget for 2011/12.

How the money was spent

The Comprehensive Income and Expenditure Statement (page **Error! Bookmark not defined.Error! Bookmark not defined.**) summarises the resources that have been generated and consumed in providing services and managing the Council during 2011/12. It shows that Gross Expenditure for the year was £69.17m across defined service areas prescribed by CIPFA to facilitate comparison between councils.



Actual Gross Expenditure is higher than the budgeted income for a number of reasons, chiefly additional charges to the revenue account required by capital accounting rules and additional expenditure relating to rent allowances (which are compensated for by additional transfers from reserves or additional housing benefits grant income). It is also not possible to make a strict comparison between the two figures as the income total shown in the earlier chart is after allowing for transfers to or from reserves whilst the Gross Expenditure total includes expenditure which is to be met from reserves.

Capital Expenditure

Capital expenditure includes expenditure such as the acquisition, construction, repair and maintenance of fixed assets. Notes 12, 13, 15 and 35 to the accounts show the Council's capital spending for 2011/12 together with the means by which it has been financed.

As capital spending contributes to the Council's aims and objectives over more than one year, the Council plans and budgets for expenditure by means of a "rolling" programme. This programme was last updated in February 2012.

There are a number of sources of funds which may be available to finance the Council's capital expenditure. In 2011/12 and previous years the major source of finance has been unapplied capital receipts. These have arisen from sales of land, property and the sale of its housing stock a number of years ago.

Another significant source of funding is contributions from external parties towards the cost of capital projects. Such contributions may be made by developers as part of planning agreements, by various statutory and non-statutory bodies towards projects which promote the aims with which those bodies are concerned, by grant-aiding bodies, such as the National Lottery Fund, and by government departments where national policy dictates that local authorities should be assisted, by the payment of grant, to carry out desirable projects.

Some of the funds which the Council holds in reserves may be used to finance capital expenditure. Specific reserves which can be used for this purpose are the New Initiatives, and ICT Development Funds. During 2011/12, the Special Projects (Economic Development) and LSVT Capital Reserves were fully utilised to meet capital expenditure, leaving no remaining balance at 31 March 2012. In addition the Contingency Reserve may be used to meet capital costs. The balances on the Council's reserves are shown in note 23 (page 44) to the accounts. A small amount of capital expenditure may be financed directly from the General Fund Revenue Account.

Borrowing is another means that can be used to finance capital expenditure. This is not presently employed by the Council and it currently has no long term debt. Whether it is employed in the future will depend upon its cost relative to other means of capital financing and the availability (or lack of it) of other sources of capital financing.

Short term loans, of less than 365 days, are however, an important means of stabilising the Council's bank balance and such loans are taken, at commercial rates via the money market, as and when necessary, according to the cash flow situation pertaining at any particular time. In addition, the Council has an overdraft facility arranged with its bankers which can be used to cover any unexpected shortfalls of income.

i) Financial Prospects

Revenue

The Council is committed to achieving excellence in its service delivery, as evidenced by its service reviews and transformation programmes. Integral to this ambition is the need to effectively target its financial resources in line with its stated aims and objectives against the background of an unprecedented economic situation referred to earlier. The Council's Medium Term Financial Strategy (MTFS) - which forecasts future years' budgets taking into account the national and local financial situation together with the Council's priorities - identified shortfalls for each year from 2012/13 to 2016/17.

The original forecast shortfall for 2012/13 was £2.6m. On 22 February 2012 the Council set a balanced budget without any increase in council tax. This was mainly due to efficiency savings of £2.1m. The majority of these were identified through a review of the Council's services focussing on particular areas where it was felt savings could be achieved.

The government's desire to achieve significant reductions in public expenditure will inevitably impact upon the Council's own finances. 2011/12 saw a significant reduction in central government support by way of the formula grant which will be repeated in 2012/13 (a reduction of just under £1.0m from the 2011/12 level). Indications for the following two years are for further reductions to be made in the amount of central government support to be paid to the Council. Whilst these may not be to the same extent as those suffered in 2011/12 and 2012/13, the result is likely to be that grant will be reduced by at least some £0.35m in both 2013/14 and 2014/15.

In addition the changes contained in the Local Government Finance Bill in relation to business rates retention and council tax support (replacement of national benefits scheme by local schemes, coupled with around a 10% cut in grant to meet the cost of payments) create uncertainty with regard to the preparation of the 2013/14 budget because the full details, and hence the implications for the budget, will not become available or clear until later in this calendar year.

Work has taken place, and continues, to meet the challenge posed by the consequential need for budget reductions, in particular continuing to review services to identify savings, and seeking to identify additional sources of income. The Council has also instituted a Transformation Programme to effect improvements to working practices and to make optimum use of new technology, which should have a beneficial effect on its budgets through reducing overall costs.

Capital

The capital programme approved on 22 February 2012 provided for total capital spending of £18.480m over two financial years.

The Council will have sufficient available resources to finance this programme in the form of unapplied capital receipts, reserves, contributions and grants. However, following completion of the existing programme sources of capital funding held by the Council itself will be at extremely low levels. Specific reserves earmarked for meeting capital expenditure, i.e. the Special Projects (Economic Development) Fund and the LSVT Capital Fund have been exhausted, whilst the remaining balance on the ICT Development Fund is earmarked for funding ICT system replacement and enhancement rather than general capital investment. Resources will, therefore, be insufficient to support a future programme of capital investment of any significant size.

There will, however, be a continuing need for some capital investment to maintain service continuity, particularly in replacement plant and equipment and to maintain operational buildings in a fit state. If this need is to be satisfied, it will be necessary to look to generate capital receipts from sales of assets or to make use of Prudential (affordable) borrowing. For some projects it may be possible to obtain some grant income or contributions from partner organisations but in the current economic climate such opportunities may be limited.

The Council has recognised the need to continually monitor and review its capital programme and resources. The "Capital Programme Review Group" which meets every month sets the overall Capital Strategy within the context of the Medium Term Financial Strategy; to ensure that projects are delivered against priorities and support service improvements; to monitor the programme on a month by month basis and to ensure value for money is achieved ie outcomes are fit for purpose and investment is targeted to maximise the needs and outcomes for local people.

Reserves

The Council holds a number of reserves which have been established either to meet specific categories of expenditure or are of a general nature. These reserves are listed in note 23 (page 44) to the accounts. Some of the reserves may be used to finance both capital and revenue expenditure. The levels of reserves are kept under review to determine their adequacy to meet the Council's spending commitments and future plans. Overall, reserves balances are reducing and a review of their adequacy will be an important consideration when preparing the 2013/14 budget.

The results of past surpluses on the Revenue Account are held as a Fund Balance which can be used to contribute when required to a particular year's revenue account. The required level is determined by reference to a risk assessment of factors which might adversely impact upon a year's revenue budget on a "worst case" basis. The current level, as at 31 March 2012 is £1.4m. In addition the Budget Support Fund is available for supporting future years' revenue budgets.

Partnerships

The Council participates in a number of partnerships. Its contributions towards the partnerships with which it is involved may be "in kind", for example the provision of staff and services, or consist of meeting expenses or making contributions towards costs incurred by other partners or their associates.

j) Asset Impairment

The Council had to impair the value of the assets held in relation to its deposit in the Heritable Bank at the end of the 2008/09 financial year. An impairment is a reduction in the value of an asset below its carrying amount in the balance sheet. In doing this the Council followed the guidelines issued by CIPFA's Local Authority Accounting Panel on how to account for the deposit that is considered to be at risk, i.e. to assume that 88% of the deposit, plus interest accrued to the date the bank went into liquidation, would be repaid. As at 31 March 2012 just over 68% of the amount deposited has been repaid and a further £95,089 (representing a little under 4%) has so far been received in 2012/13.

k) Assets and Liabilities Acquired

The Council has acquired the Ryecroft development site in order to promote the regeneration of Newcastle town centre in a joint venture with Staffordshire County Council, sharing the costs and receipts from the venture, 25% of which are attributable to this Council, 75% to the County Council.

Additionally, the loan book of the "Kickstart" partnership, worth around £0.4m, relating to loans made to home owners in the Borough to enable improvement works to take place, has been transferred to the Council.

l) Pensions Scheme Liability

The Liability relating to Defined Benefit Pension Schemes increased from £46.698m to £54.951m. This increase is mirrored by an increase in the Pensions Reserve balance. These amounts are required to be included in the Borough Council's accounts as a result of the application of International Accounting Standard19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy.

m) Audit of the Accounts

The Borough Council's appointed auditors, the Audit Commission, currently undertake the annual audit of the accounts. Their contact details are:

Tony Corcoran

District Auditor, Audit Commission

Opus House

Priestley Court

Stafford Technology Park

Beaconside

Stafford

ST18 0LQ

n) Further Information

Further information about the Accounts is available from:

Kelvin Turner

Executive Director - Resources and Support Services

Civic Offices

Merrial Street

Newcastle,

Staffs ST5 2AG

A Summary Financial Statement for 2011/12 is also available, being included in the Council's Annual Report which can be accessed via the Council's website: www.newcastle-staffs.gov.uk.

o) Comments

If you have any comments about the way that the information is presented in this Statement of Accounts, or about possible alternative ways of making the information available, we would be pleased to receive them, at the above address.

Kelvin Turner

Executive Director - Resources and Support Services

p) Approval of Statement of Accounts

The Accounts and Audit Regulations 2011 require the Statement of Accounts to be considered by and approved by a Council Committee or the Full Council and for the Statement to be signed at the meeting by the person presiding. This statement has been approved by the Audit and Risk Committee and this is evidenced by the signature of that Committee's Chair, who presided over the meeting, which is shown below.

The Statement of Accounts was approved at a meeting of the Audit and Risk Committee on 26 September 2012

Signed: (Chair of the Audit and Risk Committee) Dated

Statement of Responsibilities

The Authority's Responsibilities

The Authority 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 authority, that officer is the Executive Director - Resources and Support Services;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the Statement of Accounts.

The Executive Director - Resources and Support Services' Responsibilities

- The Executive Director (Resources and Support Services) is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain is required to present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2012.

In preparing this statement of accounts, the Executive Director (Resources and Support Services) has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

The Executive Director - Resources and Support Services has also:

- Kept proper accounting records which were up-to-date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Executive Director - Resources and Support Services Certificate

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Borough Council as at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Kelvin Turner

Executive Director - Resources and Support Services

Date:

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 other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2010 Brought Forward	(1,750)	(9,185)	(11,512)	(1,710)	(24,157)	11,566	(12,591)
Movement in Reserves during	-	-	-	-	-	-	-
Surplus or (Deficit) on Provision of Services	(5,446)	-	-	-	(5,446)	-	(5,446)
Other Comprehensive Income & Expenditure	-	-	-	-	-	(12,168)	(12,168)
Total Comprehensive Income & Expenditure	**(5,446)**	**-**	**-**	**-**	**(5,446)**	**(12,168)**	**(17,614)**
Adjustments between accounting basis and funding basis (Note 7)	7,530		5,527	(225)	12,832	(12,832)	-
Net Increase/Decrease before transfers to Earmarked Reserves	2,084	-	5,527	(225)	7,386	(25,000)	(17,614)
Transfers to/from Earmarked Reserves (Note 8)	(2,084)	2,513	-	-	429	(429)	-
Increase/Decrease in Year	**-**	**2,513**	**5,527**	**(225)**	**7,815**	**(25,429)**	**(17,614)**
Balance at 31 March 2011 Carried Forward	(1,750)	(6,672)	(5,985)	(1,935)	(16,342)	(13,863)	(30,205)

The Statement has been restated to take account of changes in relation to Heritage Assets. See Note 44 for details.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2011 Brought Forward	(1,750)	(6,672)	(5,985)	(1,935)	(16,342)	(13,863)	(30,205)
Movement in Reserves during	7,036	-	-	-	7,036	-	7,036
Surplus or (Deficit) on Provision of Services	-	-	-	-	-	-	-
Other Comprehensive Income & Expenditure	-	-	-	-	-	5,580	5,580
Total Comprehensive Income & Expenditure	**7,036**	**-**	**-**	**-**	**7,036**	**5,580**	**12,616**
Adjustments between accounting basis and funding basis (Note 7)	(6,259)		3,565	614	(2,080)	2,080	-
Net Increase/Decrease before transfers to Earmarked Reserves	777	-	3,565	614	4,956	7,660	12,616
Transfers to/from Earmarked Reserves (Note 8)	(427)	3,741			3,314	(3,314)	-
Increase/Decrease in Year	**350**	**3,741**	**3,565**	**614**	**8,270**	**4,346**	**12,616**
Balance at 31 March 2012 Carried Forward	(1,400)	(2,931)	(2,420)	(1,321)	(8,072)	(9,517)	(17,589)

Comprehensive Income and Expenditure Statement

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

2010/11				2011/12		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
11,174	9,674	1,500	Central Services to the Public	10,899	9,518	1,381
7,730	1,183	6,547	Cultural and Related Services	6,273	1,306	4,967
11,574	3,578	7,996	Environmental and Regulatory Services	10,883	3,783	7,100
3,465	678	2,787	Planning Services	4,892	690	4,202
4,295	1,565	2,730	Highways & Transport Services	2,190	1,286	904
30,895	28,058	2,837	Housing Services	31,247	29,726	1,521
2,531	14	2,517	Corporate & Democratic Core	2,708	34	2,674
58	-	58	Non-Distributed Costs	83	25	58
(13,420)	-	(13,420)	Past Service Gains - change from RPI to CPI for pensions increases			-
58,302	**44,750**	**13,552**	**Cost of Services**	**69,175**	**46,368**	**22,807**
1,479	1,638	(160)	Other Operating Expenditure (Note 9)	1,607	1,317	290
7,827	7,268	559	Financing & Investment Income & Expenditure (Note 10)	5,233	1,587	3,646
-	19,397	(19,397)	Taxation and non-specific Grant Income (Note 11)	-	19,707	(19,707)
		(5,446)	**(Surplus) or Deficit on Provision of Services**			**7,036**
		(2,552)	(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets			(2,131)
		(5)	(Surplus) or Deficit on Revaluation of Heritage Assets			-
		(9,610)	Actuarial Gains/Losses on Pensions Assets/Liabilities			7,711
		(12,167)	**Other Comprehensive Income & Expenditure**			**5,580**
		(17,613)	**Total Comprehensive Income & Expenditure**			**12,616**

Notes

1. The 2010/11 actuals have been restated by the inclusion of an additional line to take account of changes relating to Heritage Assets. See Note 44 for details.
2. The Cost of Services for 2010/11 includes a one-off item of £13.420m relating to the changes to pension increases introduced by the Chancellor in his 2011 budget statement. This was reversed out of the accounts via the Movement in Reserves Statement.
3. Expenditure on Cultural and Related Services has reduced in 2011/12 compared to 2010/11 largely as a result of a reduction in impairment charges of some £1.1m. These charges are reversed out of the accounts via the Movement in Reserves Statement.
4. Planning Services expenditure has increased in 2011/12 largely owing to the inclusion of deferred charges of £2.07m relating to the repayment of grant relating to the Ravensdale redevelopment, following related land sales. These charges are reversed out of the accounts via the Movement in Reserves Statement.
5. Net expenditure in respect of Highways and Transport Services has reduced in 2011/12 owing to the transfer of responsibilty for administration of the Concessionary Fares scheme to Staffs County Council.
6. Net expenditure in respect of Housing Services has reduced in 2011/12 owing to reductions in expenditure previously funded by Regional Housing Grant, which has now ceased. This expenditure and associated income was reversed out of the accounts via the Movement in Reserves Statement, being classed as Revenue Expenditure Funded from Capital under Statute.

Balance Sheet

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

Additional balances as at 1 April 2010 are shown and some 31 March 2011 balances have been restated to take account of changes relating to Heritage Assets. See Note 44 for details.

Balance Sheet

01/04/2010	31/03/2011			31/03/2012	
£000	£000			£000	£000
		Property, Plant & Equipment	12		
23,800	26,227	Land & Buildings		32,026	
1,082	1,053	Infrastructure		1,024	
6,594	6,568	Vehicles, Plant, & Equipment		5,800	
4,715	6,100	Community Assets		6,496	
36,191	39,948				45,346
13,534	13,053	Investment Property	13		15,220
1,553	1,558	Heritage Assets	14		1,449
79	187	Intangible Assets	15		172
4,000	4,100	Assets Held for Sale			-
676	336	Long Term Investments	16		145
2,120	1,971	Long Term Debtors			2,190
58,153	**61,153**	**Long Term Assets**			**64,522**
24,051	18,237	Short Term Investments	16		10,851
45	36	Inventories	17		28
10,507	9,423	Short Term Debtors (Net of Bad Debt Provisions)	18		6,975
356	774	Cash and Cash Equivalents	19		354
34,959	**28,470**	**Current Assets**			**18,208**
(9,132)	(10,918)	Short Term Creditors	21		(8,843)
(54)	(65)	Short Term Borrowing	16		(56)
(376)	(237)	Deposits			(193)
-	-	Bank Overdrafts			-
(9,562)	**(11,220)**	**Current Liabilities**			**(9,092)**
(514)	(317)	Provisions	22		(300)
	-	Other Long Term Liabilities			-
(68,703)	(46,698)	Net Pensions Liability		(54,951)	
(1,023)	(1,009)	Deferred Liabilities		(626)	
(69,726)	(47,707)				(55,577)
(719)	(174)	Capital Grants Receipts in Advance	33		(172)
(70,959)	**(48,198)**	**Long Term Liabilities**			**(56,049)**
12,591	**30,205**	**Net Assets**			**17,589**
		Usable Reserves	23		
1,750	1,750	General Fund Balance		1,400	
9,185	6,672	Other Usable Reserves		2,931	
11,512	5,985	Capital Receipts Reserve		2,420	
1,710	1,935	Capital Grants Unapplied Account		1,321	
24,157	16,342	Total Usable Reserves			8,072
		Unusable Reserves	24		
7,529	10,087	Revaluation Reserve		12,218	
47,949	48,864	Capital Adjustment Account		50,427	
1,871	1,753	Deferred Capital Receipts Reserve		2,002	
(68,703)	(46,698)	Pensions Reserve		(54,951)	
(3)	49	Collection Fund Adjustment Account		1	
(209)	(192)	Accumulated Absences Account		(180)	
(11,566)	13,863	Total Unusable Reserves			9,517
12,591	**30,205**	**Total Reserves**			**17,589**

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.

2010/11 £000		2011/12 £000	Note
(5,446)	Net (Surplus) or Deficit on the Provision of Services	7,036	
(527)	Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash movements	(2,701)	20
1,920	Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	2,616	20
(4,053)	Net Cash Flows from Operating Activities	6,951	25
(597)	Investing Activities	(2,126)	26
4,232	Financing Activities	(4,405)	27
(418)	Net Increase or Decrease in Cash and Cash Equivalents	420	
(356)	Cash and Cash Equivalents at the beginning of the Reporting Period	(774)	
(774)	**Cash and Cash Equivalents at the end of the Reporting Period**	**(354)**	19

Notes to the Accounts

1. Accounting Policies

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Best Value Accounting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS).

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.

ii. 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:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with the Council's own bank which are 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.

iv. 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. See note 5 for details of any exceptional items.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, 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.

vi. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These are therefore reversed out by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

vii. 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 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 other 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.

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 (unless they chose to opt out) are members of the Local Government Pensions Scheme, administered by Staffordshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

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

- The liabilities of the Staffordshire 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;

- Liabilities are discounted to their value at current prices, using a discount rate of 4.8%. IAS19 states that the discount rate used to place a value on the liabilities should be “determined by reference to market yields at the end of the reporting period on high quality corporate bonds”. The recommended discount rate was previously the iBoxx Sterling Corporates AA Over 15 Years index at the IAS19 valuation date with the removal of recently re-rated bonds from the index. However, it has been acknowledged that the constituents of the iBoxx 15 year index have terms that are somewhat shorter than those for the pension liabilities of a typical employer in the LGPS (which is estimated to be around 20 years). The revised approach, applicable from 31 March 2012, involves using a single average gilt yield which gives the same present value as the gilt curve applied to the cash flows of a typical LGPS employer with a duration of around 20 years, plus the median “credit spread” applying to AA corporate bonds within the iBoxx Over 15 Years Index. Therefore the recommended discount rate is no longer equivalent to the iBoxx Index yield at the accounting date. The new approach to the discount rate, together with falling bond yields has resulted in increasing the value of liabilities and having a negative impact on the Balance Sheet;
- The assets of Staffordshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price;
  - Unquoted securities – professional estimate;
  - Unitised securities – current bid price;
  - Property – market value.
- The change in the net pensions liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
  - Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
  - Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve;
  - Contributions paid to the Staffordshire 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 benefits 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 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.

viii. Events After the Balance Sheet Date

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

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

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

ix. Financial Instruments

Financial Instruments are defined as: any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments are: Liabilities - trade payables, borrowings, financial guarantees; Assets - bank deposits, trade receivables, investments; derivatives, such as forward investment deals.

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 the borrowings that the Council has, 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.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Short Term Investments

Short term investments include:

- Deposits with financial institutions repayable without penalty on notice of not more than 24 hours (except for such deposits held in the Council's own bank accounts);
- Investments that mature in less than twelve months from the date of acquisition.

Available-for-Sale Assets

The only available-for-sale assets are a small amount of government stock. Interest payments are fixed in amount, therefore, 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. Available for sale assets are maintained in the Balance Sheet at fair value. Values are based on the market price

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Instruments Entered Into Before 1 April 2006

The Council has entered into a financial guarantee that is not required to be accounted for as a financial instrument. This guarantee is reflected in the Statement of Accounts to the extent that a contingent liability note (note 40) is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

x. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. 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;
- The grants or contributions will be received.

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

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

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

Area Based Grant and Formula Grant (Revenue Support Grant and Redistributed Business Rates) are general grants allocated by central government directly to local authorities as additional revenue funding and are non-ringfenced. They are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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.

xiii. Heritage Assets

The Council's Heritage Assets are either held in its Museum or consist of outdoor structures of various kinds. All of these assets are tangible. The Museum's collection of heritage assets are described in note 14 to the accounts. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. Heritage assets are accounted for as follows.

Museum Collection

These items are reported in the Balance Sheet at insurance valuation, which is based on market values as assessed by an external valuer in October 2006. These valuations are updated where necessary by the museum curator in respect of significant items and changes. New items are added at cost, if purchased and at valuation, if donated, where they are significant. It is considered that obtaining a complete revaluation each year for all items would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. No depreciation is charged since the items in the collection are deemed to have indeterminate lives.

Outdoor Structures

There is no reliable cost or valuation information available to enable these items to be valued. Consequently, they are not recognised on the Balance Sheet.

General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment (see note 'xviii'). Heritage assets may occasionally be disposed of which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note 'xviii').

xiv. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

xv. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated, however their values are considered each year according to market conditions at the year-end (i.e. if any properties or classes of properties, following consideration are thought likely to be subject to a valuation change, they are revalued). In any case every property is revalued once every five years according to a rolling programme of revaluations. 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.

xvi. 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.

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;
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment. 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);
- 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.

Regulations were issued when IFRS was implemented that permit amounts receivable under leases (if they were in existence on or before 31 March 2010) that changed from operating leases to finance leases as a result of changes to proper practices to be treated as if the status of the lease had not changed. This means that amounts receivable under operating leases that became finance leases on transition to IFRS can continue to be credited to the General Fund balance as revenue income. Such leases will be accounted for in accordance with the current provisions of the Code, with any adjustments to the General Fund balance being made by way of an adjusting transaction with the Capital Adjustment Account in the Movement of Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are 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.

xvii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2011/12 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and costs relating to long-term unused assets arising from reduced activity, the loss of a function or area of work.

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

xviii. Property, Plant and Equipment

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. No de minimis level, below which expenditure is not capitalised, applies. 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;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- 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. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for 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.

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.

Revaluation gains or losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. They are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account

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

Impairment

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

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

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

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

Impairment losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account

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 certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer;
- Vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer;
- Infrastructure - straight-line allocation over estimated life of asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is not permitted by statutory arrangements to have an impact on the General Fund Balance. It is therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted 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 previous 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.

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. These are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

xix. Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in note 40 to the accounts.

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but are disclosed in note 41 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xx. Reserves

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

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

xxi. 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 (less any grant or contribution received towards it) 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.

xxii. 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.

2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in accounting policy in relation to the treatment of transferred financial assets, which will need to be adopted fully by the Council in the 2012/13 financial statements. This has come about as a result of the Code adopting amendments made to International Financial Reporting Standard 7 (IFRS 7), paragraphs 42B to 42H.

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Authority, in this case in respect of transferred financial assets. As is set out above, full adoption of the standard will be required for the 2012/13 financial statements. However, the Council is required to make disclosure of the estimated effect of the new standard in these (2011/12) financial statements. The amended IFRS 7 requires that where financial assets are transferred, disclosure shall be made in the financial statements of a number of items, chiefly: the nature of the assets transferred, details of any liability or risk arising from any continuing involvement with the assets, the carrying value and fair value of the assets, the costs of repurchasing the assets, gains or losses recognised at the date of transfer, income and expenses recognised from any continuing involvement with the assets.

Financial assets are defined in the Code as: any asset that is cash; an equity instrument of another entity; a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Council; a contract that will or may be settled in the Council's own equity instruments (not applicable as the Council does not issue equity instruments). Investments made by the Council are an example of a financial asset.

It is not likely that the adoption of this Standard will have a material impact on the Council's financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 1, 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:

- Identifying whether leases of assets are operating or finance leases;
- Whether contractual arrangements have the substance of a lease;
- Whether land and buildings owned by the Council are investment properties;
- Whether the Council's exposure to possible losses is to be accounted for as a provision or a contingent liability.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The significant items in the Council's Balance Sheet at 31 March 2012 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

- The recoverable amounts in relation to debtors;
- Principal actuarial assumptions used at the balance sheet date in respect of the defined benefit pension scheme;
- Fair values for property plant and equipment that are not based on recently observed market prices;
- Fair values for financial assets that are not based on recently observed market prices.

5. Material Items of Income and Expense

Where items are not disclosed on the face of the Comprehensive Income and Expenditure Statement, the Accounting Code of Practice requires the nature and amount of material items to be set out in a note.

A development site has been acquired in Newcastle town centre, jointly with Staffordshire County Council. The cost of acquisition, including stamp duty was £3.75m. This has been met in the proportions of 75% Staffordshire County Council (£2.81m) and 25% by the Borough Council (£0.94m). The Borough Council has financed its share of the purchase price from the Capital Receipts Reserve and has included the value of its 25% interest in the site in its balance sheet as at 31 March 2012. Expenses of holding the site until disposal are to be met in the same proportions.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director - Resources and Support Services on 30 June 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2011/12

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account: Reversal of Items debited or credited to the Comprehensive Income & Expenditure Statement:				
Charges for the Depreciation and Impairment of Non-Current Assets	(5,757)			5,757
Revaluation Losses on Property, Plant & Equipment	(615)			615
Movements in the market value of Investment Properties	(74)			74
Amortisation of Intangible Assets	(76)			76
Capital Grants and Contributions applied	3,649			(3,649)
Revenue Expenditure Funded from Capital under Statute	(2,447)			2,447
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	(4,290)			4,290
Capital element of Finance Leases where Council is the lessor	(86)			86
Finance lease adjustments	903			(903)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	161			(161)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement	22		(22)	
Application of Grants to capital financing transferred to the Capital Adjustment Account			281	(281)
Grants and contributions brought forward reclassified as revenue income	(355)		355	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	2,948	(2,948)		
Use of the Capital Receipts Reserve to finance new capital expenditure		6,543		(6,543)
Contribution from the Capital Receipts Reserve to finance the payments to the government capital receipts pool	(1)	1		
Transfer from Deferred Capital receipts Reserve upon receipt of cash		(2)		2
Principal Repayments re Long Term Debtor (Loan)		(29)		29
Adjustments primarily involving the Deferred Capital Receipts Reserve				
Establishment of deferred capital receipts balance in respect of the Kickstart loan portfolio transfer	397			(397)
Finance lease adjustments	(60)			60
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(542)			542
Adjustments primarily involving the Collection Fund Adjustment Account:				
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	(48)			48
Adjustments primarily involving the Accumulated Absences 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	12			(12)
Total Adjustments	**(6,259)**	**3,565**	**614**	**2,080**

2010/11

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of Items debited or credited to the Comprehensive Income & Expenditure Statement:				
Charges for the Depreciation and Impairment of Non-Current Assets	(5,313)			5,313
Revaluation Losses on Property, Plant & Equipment	(198)			198
Movements in the market value of Investment Properties	721			(721)
Amortisation of Intangible Assets	(63)			63
Capital Grants and Contributions applied	687			(687)
Revenue Expenditure Funded from Capital under Statute	(1,634)			1,634
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	(1,123)			1,123
Value of Donated Assets	100			(100)
Capital element of Finance Leases where Council is the lessor	(117)			117
Non Depreciated element of asset disposals	(39)			39
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment	125			(125)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement	484		(484)	
Application of Grants to capital financing transferred to the Capital Adjustment Account			121	(121)
Grant brought forward transferred to Revenue (re REFCUS)	(139)		139	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	1,575	(1,575)		
Use of the Capital Receipts Reserve to finance new capital expenditure		7,129		(7,129)
Contribution from the Capital Receipts Reserve to finance the payments to the government capital receipts pool	(1)	1		
Principal Repayments re Long Term Debtor (Loan)		(29)		29
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	12,395			(12,395)
Adjustments primarily involving the Collection Fund Adjustment Account:				
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	53			(53)
Adjustments primarily involving the Accumulated Absences 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	17			(17)
Total Adjustments	**7,530**	**5,526**	**(224)**	**(12,832)**

8. Transfers to/from Earmarked Reserves

Amounts are set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and amounts are posted back from earmarked reserves to meet General Fund revenue expenditure. The table below shows these transfers.

	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Net Movement 2011/12 £000
Contingency Reserve Fund	(86)	80	(6)
Budget Support Fund	(575)	106	(469)
Conservation and Heritage Fund	(10)	14	4
ICT Development Fund	(58)	35	(23)
Equipment Replacement Fund	(13)	85	73
Insurance Fund	(903)	805	(98)
Museum Purchases Fund	(4)	2	(2)
Maintenance Contributions	(110)	83	(27)
Mayors Charities Reserve	(15)	14	(1)
New Initiatives Fund	(76)	-	(76)
RENEW Reserve	(10)	-	(10)
Renewals & Repairs Fund	(498)	445	(53)
Deposit Guarantee Scheme Reserve	(1)	4	3
Planning Delivery Grant Reserve	(122)		(122)
LSVT Capital Fund	-	117	117
New Homes Bonus Reserve	-	264	264
Total	**(2,481)**	**2,054**	**(427)**

Details of all transfers to/from reserves, both usable and unusable, are shown in notes 23 and 24, together with a note of the nature and purpose of each reserve.

9. Other Operating Expenditure

2010/11 £000		2011/12 £000
351	Parish Precepts	335
1	Payments to the government Housing Capital Receipts Pool	1
(89)	Gains/Losses on the disposal of Non-Current Assets	1,423
(423)	Capital income not arising from asset sales	(1,469)
(160)	**Total**	**290**

10. Financing and Investment Income and Expenditure

2010/11 £000		2011/12 £000
66	Interest Payable and similar charges	58
1,834	Pensions Interest Cost and Expected Return on Pensions Assets	1,411
(607)	Interest Receivable and similar income	(484)
(734)	Income and Expenditure in relation to Investment Properties and changes in their fair value	2,661
559	**Total**	**3,646**

11. Taxation and Non Specific Grant Income

2010/11 £000		2011/12 £000
(7,191)	Council Tax income	(7,275)
(9,674)	Non Domestic Rates - Grant from central government	(6,329)
(1,499)	Non-Ringfenced Government Grants	(2,432)
(1,033)	Capital Grants and Contributions	(3,671)
(19,397)	**Total**	**(19,707)**

12. Property, Plant and Equipment

Movements on Balances

Movements in 2011/12	Land & Buildings	Infrastructure assets	Vehicles, Plant, Furniture & Equipment	Community Assets	Total Property , Plant & Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2011	27,964	1,340	11,704	6,465	47,473
Additions	6,477	-	531	585	7,593
Deletions	-	-	-	-	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	2,171	-	-	-	2,171
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,101)	-	(34)	(67)	(2,202)
Derecognition - Disposals	(2)	-	(149)	-	(151)
Derecognition - Other	-	-	-	-	-
Transfers to Investment Properties	(944)	-	-	-	(944)
Other Movements in Cost or Valuation	-	-	(53)	-	(53)
At 31 March 2012	**33,565**	**1,340**	**11,999**	**6,983**	**53,887**
Accumulated Depreciation & Impairment					
At 1 April 2011	(1,737)	(287)	(5,136)	(365)	(7,525)
Depreciation Charge	(449)	(29)	(1,211)	(122)	(1,811)
Depreciation written-out to the Revaluation reserve	-	-	-	-	-
Depreciation written-out to the surplus/deficit on the Provision of Services	-	-	-	-	-
Impairment losses/reversals recognised in the Revaluation Reserve	-	-	-	-	-
Impairment losses/reversals recognised in the surplus/deficit on the Provision of Services	-	-	-	-	-
Derecognition - Disposals	-	-	148	-	148
Derecognition - Other	650	-	-	-	650
Other movements in Depreciation/Impairment	(3)	-	-	-	(3)
At 31 March 2012	**(1,539)**	**(316)**	**(6,199)**	**(487)**	**(8,541)**
Net Book Value					
As at 31 March 2011	26,227	1,053	6,568	6,100	39,948
As at 31 March 2012	32,026	1,024	5,800	6,496	45,346

Movements in 2010/11	Land & Buildings	Infrastructure assets	Vehicles, Plant, Furniture & Equipment	Community Assets	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2010	25,308	1,340	12,289	4,964	43,901
Additions	4,802	33	1,345	559	6,739
Deletions					-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	1,142			1,135	2,277
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,288)	(33)	(238)	(151)	(3,710)
Derecognition - Disposals			(1,692)		(1,692)
Derecognition - Other					-
Assets reclassified (to)/from Held for Sale					-
Other Movements in Cost or Valuation				(42)	(42)
At 31 March 2011	**27,964**	**1,340**	**11,704**	**6,465**	**47,473**
Accumulated Depreciation & Impairment					
At 1 April 2010	(1,508)	(258)	(5,695)	(249)	(7,710)
Depreciation Charge	(470)	(29)	(1,094)	(116)	(1,709)
Depreciation written-out to the Revaluation reserve					-
Depreciation written-out to the surplus/deficit on the Provision of Services					-
Impairment losses/reversals recognised in the Revaluation Reserve					-
Impairment losses/reversals recognised in the surplus/deficit on the Provision of Services					-
Derecognition - Disposals			1,653		1,653
Derecognition - Other	241				241
Other movements in Depreciation/Impairment					-
At 31 March 2011	**(1,737)**	**(287)**	**(5,136)**	**(365)**	**(7,525)**
Net Book Value					
As at 31 March 2010	23,800	1,082	6,594	4,715	36,191
As at 31 March 2011	26,227	1,053	6,568	6,100	39,948

Note: The opening balance at 1 April 2010 relating to Cost or Valuation in respect of Community Assets has been restated to reflect the transfer of assets to the new category of Heritage Assets. See note 44 for further details.

Depreciation

Depreciation is applied on a straight line basis. No depreciation is applied to land. Where an asset includes land, the value of this element is excluded before applying depreciation. A 10% residual value is assumed in most cases which is deducted from the depreciable amount before applying depreciation.

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

- Other Land and Buildings - 60 years, unless the valuation basis is depreciated replacement cost, where individual lives apply to each asset concerned;
- Vehicles, Plant, Furniture & Equipment - 5 years for most items, 15 years for wheeled bins;
- Infrastructure - no specific life. Depreciation is based on a historical composite calculation;
- Community Assets - 20 years.

Capital Commitments

At 31 March 2012, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £0.984m. Similar commitments at 31 March 2011 were £5.596m. The major commitments are:

- Jubilee 2 Project - £0.144m;
- The Wammy Improvements - £0.206m;
- Midway Car Park Repairs - £0.034m;
- Beasley Place Housing Scheme - £0.300m;
- Collins and Aikman Project - £0.300m.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years. All valuations were carried out internally. 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, and equipment are based on historic cost.

The significant assumptions applied in estimating the fair values are:

- Whether a property asset is a specialised asset, which governs its valuation treatment;
- Whether an asset is still being used for operational purposes;
- Whether there is any impairment applicable to the asset.

Valuations over the five year rolling period were as follows:

	Land & Buildings	Vehicles, plant, Furniture & Equipment	Community Assets	Infrastructure Assets	Total
	£000	£000	£000	£000	£000
Carried at Historical Cost	9	10,090	5,777	1,340	17,216
Valued at Fair Value as at:					-
31 March 2008	187	317	-	-	504
31 March 2009	10,178	-	-	-	10,178
31 March 2010	3,439	-	17	-	3,456
31 March 2011	5,513	1,592	1,189	-	8,294
31 March 2012	14,239	-		-	14,239
Total Cost or Valuation	**33,565**	**11,999**	**6,983**	**1,340**	**53,887**

13. Investment Properties

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:

2010/11		2011/12
£000		£000
906	Rental Income from Investment Property	925
(606)	Direct Operating Expenses arising from Investment Property	(583)
300	**Net Gain/(Loss)**	**342**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year:

2010/11 £000		2011/12 £000
13,534	Balance at start of the Year	13,053
	Additions:	
-	Purchases	-
-	Construction	-
208	Subsequent Expenditure	3,792
-	Reinstatement due to expiry of finance lease	592
(1,123)	Disposals	(188)
513	Net Gains/(Losses) from Fair Value Adjustments	(2,974)
	Transfers:	
	To/(From) Property, Plant & Equipment	945
(79)	Other Changes	-
13,053	**Balance at end of the Year**	**15,220**

14. Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets held by the Council

The Council's collection of museum artefacts is reported in the Balance Sheet at insurance valuation, which is based on market values as assessed by an external valuer in October 2006. These valuations are updated where necessary by the museum curator in respect of significant items and changes. New items are added at cost, if purchased and at valuation, if donated, where they are significant. Other Heritage assets, i.e. outdoor structures, are not recognised on the Balance Sheet because there is no reliable cost or valuation information to enable them to be valued.

The following table sets out the movements in respect of heritage assets for 2011/12 and the previous year.

Movements	£000
Cost or Valuation	
At 1 April 2010	1,553
Additions	-
Disposals	-
Revaluations	5
Impairment losses/(reversals) recognised in the Revaluation Reserve	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-
At 31 March 2011	**1,558**
Cost or Valuation	
At 1 April 2011	1,558
Additions	-
Disposals	-
Revaluations	1
Impairment losses/(reversals) recognised in the Revaluation Reserve	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(110)
At 31 March 2012	**1,449**

The impairment loss relates to a Victoria Cross medal donated to the museum many years ago, which has now been found to be of doubtful authenticity.

Further Information

Museum Exhibits

The museum holds a collection of around 20,000 objects, falling into the following categories:

Subject	Description	%
Social history	Domestic and working life, childhood, civic regalia, industry, crafts in the Borough	28%
Decorative Art	Ceramics, glass, costume and textiles, furniture, furnishings	8 %
Militaria	Costume, medals, weapons, ephemera	3 %
Fine Art	Oils, watercolours, prints, drawings, sketches of local scenes, local artists	3 %
Archives	Documents, ephemera, prints, negatives, lantern slides, cine film, video, audio tapes connected to the local area	55 %
Archaeology	Local excavated finds, chance finds	2 %
Numismatics	A collection of local coinage/tokens, bank notes, commemorative medals	1 %

In addition, the civic regalia and mayoral robes are kept in a secure location to be used on ceremonial occasions. Details of the policy for the acquisition, preservation, management and disposal of the Council's heritage assets are contained in two documents, the Acquisition and Disposal Policy 2009-2014 and the Collection Management Plan 2010-12.

Outdoor Structures

This category of heritage assets comprises of the Queen Victoria Statue and Sergeant Fred Kite Memorial, Queens Gardens; Fountains, Nelson Place; Castle Motte, Queen Elizabeth Park; Silverdale Cemetery Gazebo; Ice House, Chesterton Memorial Park; Mining Memorials at Bateswood and Silverdale; Lyme Valley Canal Basin.

Change in Accounting Policy

Showing Heritage Assets separately in the Balance Sheet is a change in accounting policies required by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. This is explained in note 44, which sets out the effect of the restatements required to the previously published accounts.

15. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Internally generated software is not included in intangible assets. There are no other types of asset classified as Intangible Assets. All software is assigned a finite useful life of 5 years, based on an assessment of the period that the software is expected to be of use to the Council.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £75k charged to revenue in 2011/12 was charged to the ICT Services cost centres and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading. The movement on Intangible Asset balances during the year is as follows:

2010/11 £000		2011/12 £000
	Balance at start of Year:	
1,276	Gross Carrying Amounts	1,446
1,197	Accumulated Amortisation	1,260
79	Net Carrying Amount at start of Year	186
170	Additions	61
	Disposals	
(63)	Amortisation for the period	(75)
-	Other Changes	
186	Net Carrying Amount at end of the Year	172
	Comprising:	
1,446	Gross Carrying Amounts	1,508
(1,260)	Accumulated Amortisation	(1,336)
186		**172**

16. Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2011 Long Term £000	31 March 2011 Current £000		31 March 2012 Long Term £000	31 March 2012 Current £000
		Investments		
336	18,237	Loans and Receivables	145	10,851
336	18,237	**Total Investments**	145	10,851
	9,665	**Debtors ***		7,583
	65	**Borrowings**		56
	10,918	**Creditors**		8,842
	774	**Cash and Cash Equivalents**		354

* Debtors includes Long Term Debtors of £608k (31/03/12), £242k (31/03/11).

Income, Expense, Gains and Losses:

2010/11 Financial Liabilities measured at Amortised Cost £000	2010/11 Financial assets: Loans & Receivables £000	2010/11 Financial Assets: Available for Sale £000	2010/11 Total £000		2011/12 Financial Liabilities measured at Amortised Cost £000	2011/12 Financial assets: Loans & Receivables £000	2011/12 Financial Assets: Available for Sale £000	2011/12 Total £000
1	-	-	1	Interest Expense included in Surplus or Deficit on the Provision of Services	1			1
1	-	-	1	Total expense in Surplus or deficit on the Provision of Services	1	-	-	1
-	(262)	-	(262)	Interest Income	-	(155)		(155)
-	(62)	-	(62)	Interest Income Accrued on Impaired Financial Assets	-	(36)		(36)
-	(324)	-	(324)	Total income in Surplus or deficit on the Provision of Services	-	(191)	-	(191)
1	(324)	-	(323)	Net Gain (Loss) for the Year	1	(191)	-	(190)

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- The impairment relating to the deposit with Heritable Bank is recognised;
- No early repayment is recognised;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

31 March 2011 Carrying Amount £000	31 March 2011 Fair Value £000		31 March 2012 Carrying Amount £000	31 March 2012 Fair Value £000
		Liabilities		
65	65	Financial Liabilities	56	56
10,918	10,918	Creditors	8,842	8,842
		Assets		
18,573	18,573	Loans and Receivables	10,996	10,996
9,665	9,665	Debtors *	7,583	7,583
774	774	Cash and Cash Equivalents	354	354

* Debtors includes Long Term Debtors of £608k (31/03/12), £242k (31/03/11).

17. Inventories

2010/11 Fuel	2010/11 ICT Consumables	2010/11 Total		2011/12 Fuel	2011/12 ICT Consumables	2011/12 Total
£000	£000	£000		£000	£000	£000
27	18	45	**Balance Outstanding at start of Year**	32	4	36
397	34	431	Purchases	482	5	487
(379)	(36)	(415)	Recognised as an expense in the Year	(484)	(3)	(487)
(13)	(12)	(25)	Written-off Balances	(6)	(2)	(8)
32	**4**	**36**	**Balance Outstanding at Year end**	**24**	**4**	**28**

18. Debtors

31 March 2011 £000		31 March 2012 £000
3,527	Central Government Bodies	224
1,230	Other Local Authorities	2,591
3	NHS Bodies	43
-	Public Corporations and Trading Funds	-
4,662	Other Entities and Individuals	4,117
9,423	**Total**	**6,975**

19. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2011 £000		31 March 2012 £000
97	Cash held by the Council	119
677	Bank Current Accounts	236
774	**Total**	**354**

20. Cash Flow statement - Analysis of Adjustments

Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash movements

2010/11 £000		2011/12 £000
(2,748)	(Increase)/Decrease In Creditors	3,671
140	Decrease in Deposits	43
(5,157)	Increase/(Decrease) in Debtors	128
(9)	Increase/(Decrease) in Stocks	(8)
197	Decrease in Provisions	17
(5,313)	Charges for the Depreciation and Impairment of Non-Current Assets	(5,757)
(198)	Revaluation Losses on Property, Plant & Equipment	(615)
721	Movements in the market value of Investment Properties	(75)
(63)	Amortisation of Intangible Assets	(76)
100	Value of Donated Assets	-
687	Capital Grants and Contributions applied	3,649
(117)	Capital element of Finance Leases where Council is the lessor	(86)
-	Finance Lease Adjustments	843
(39)	Non Depreciated element of asset disposals	-
12,395	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(542)
(1,123)	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	(4,290)
-	Establishment of deferred capital receipts balance in respect of the Kickstart loan portfolio transfer	397
(527)		**(2,701)**

Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities

2010/11 £000		2011/12 £000
484	Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement	22
(139)	Grant brought forward transferred to Revenue (re REFCUS)	(355)
1,575	Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	2,949
1,920		**2,616**

21. Creditors

31 March 2011 £000		31 March 2012 £000
3,504	Central Government Bodies	3,790
884	Other Local Authorities	875
1	NHS Bodies	29
1,320	Public Corporations and Trading Funds	258
5,209	Other Entities and Individuals	3,892
10,918	**Total**	**8,843**

22. Provisions

	Insurance Claims Provision	Planning Appeals Provision	Employee Benefits	Total
	£000	£000	£000	£000
Balance at 1 April 2010	280	25	209	514
Additional provisions made in 2010/11	-	-	192	192
Amounts used in 2010/11	(33)	-	(209)	(242)
Unused amounts reversed in 2010/11	(127)	(20)	-	(147)
Balance at 1 April 2011	120	5	192	317
Additional provisions made in 2011/12	18	-	180	198
Amounts used in 2011/12	(18)	-	(192)	(210)
Unused amounts reversed in 2011/12	-	(5)	-	(5)
Balance at 31 March 2012	**120**	**-**	**180**	**300**

The Insurance Claims Provision has been created to meet the costs of claims which are likely to be settled but where the actual settlement date is uncertain.

The Planning Appeals Provision has been created to meet the costs of planning appeals where it is likely that a payment will have to be made but where the timing of the payment is uncertain. No outstanding items are currently known of.

The Employee Benefits Provision contains an amount equivalent to the accruals made in the Cost of Services within the Comprehensive Income and Expenditure Statement in respect of outstanding employee benefits (untaken leave, etc) at the year end.

23. Usable Reserves

Movements in the Council's usable reserves, showing the split between capital and revenue reserves, are set out below:

	Balance at 1 April 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012
	£000	£000	£000	£000	£000	£000	£000
Capital:							
Capital Receipts Reserve	11,512	(7,133)	1,606	5,985	(6,765)	3,200	2,420
LSVT Capital Fund	2,131	-	138	2,269	(2,386)	117	-
Special Projects (Economic Development) Fund	883	-	-	883	(883)	-	-
Capital Grants Unapplied	1,710	(405)	630	1,935	(4,319)	3,705	1,321
Both Revenue and Capital:							
Equipment Replacement Fund	144	(94)	107	157	(13)	85	229
Renewals & Repairs Fund	300	(649)	445	96	(498)	445	43
ICT Development Fund	1,255	(455)	-	800	(103)	35	732
New Initiatives Fund	321	(120)	-	201	(76)	-	125
Planning Delivery Grant Reserve	430	(235)	-	195	(122)	-	73
Revenue:							
General Fund Balance	1,750	-	-	1,750	(350)	-	1,400
Insurance Fund	629	(446)	155	338	(903)	805	240
Contingency Reserve Fund	540	(426)	-	114	(86)	80	108
Organisational Development Fund	153	(153)	-	-	-	-	-
Budget Support Fund	1,628	(599)	64	1,093	(575)	106	624
Conservation and Heritage Fund	44	(30)	39	53	(10)	14	57
Museum Purchases Fund	82	(5)	2	79	(4)	2	77
Maintenance Contributions	180	(55)	-	125	(110)	83	98
Mayors Charities Reserve	16	(32)	27	11	(15)	14	10
RENEW Reserve	170	(28)	-	142	(10)	-	132
Change Management Fund	163	(163)	-	-	-	-	-
Standards Fund	97	(2)	-	95	-	-	95
Deposit Guarantee Scheme Reserve	19	(2)	4	21	(1)	4	24
New Homes Bonus Reserve	-	-	-	-	-	264	264
Total	**24,157**	**(11,032)**	**3,217**	**16,342**	**(17,229)**	**8,960**	**8,072**

Note 8 sets out the movements on Usable Reserves involving transactions with the General Fund Revenue Account. The nature and purpose of these reserves is as set out below:

The Capital Receipts Reserve contains the balance of unapplied capital receipts arising from the disposal of fixed assets.

- The LSVT Capital Fund was originally established to receive the principal element of the internal leasing charges made by the ICT Leasing Fund to service revenue accounts. The Fund is available to finance capital expenditure;
- The Special Projects (Economic Development) Fund comprised monies originally provided from Revenue. Its intended purpose is to finance capital expenditure;
- The Capital Grants Unapplied Reserve contains the balance of unused grants and contributions which are available for use, i.e. they either have no conditions attached to them or any conditions have been met;
- The Equipment Replacement Fund is maintained to provide for the replacement of certain items of equipment, such as the crematorium cremators and printing equipment;
- The ICT Development Fund is to be used to meet the costs of new IT requirements;
- The New Initiatives Fund has been established to fund new initiatives, both capital and revenue, not currently provided for in the Council's budgets;

- The Planning Delivery Grant Reserve receives the grant paid to the Council. It is to be used to finance planning related activities of both a revenue and capital nature;
- The General Fund Balance exists to meet the cost of any unexpected adverse occurrences affecting the General Fund revenue budget or any of the occurrences materialising which are identified in the risk assessment relating to that budget;
- The Insurance Fund is used to meet the cost of the insurance cover required by the Council and any excesses for which the Council is liable;
- The Contingency Reserve Fund is used to finance expenditure in respect of contingencies that may arise in the future, for example redundancy payments consequent upon service reviews;
- The Renewals and Repairs Fund is maintained for the repair and maintenance of Council-owned buildings, structures and fixed plant. It is funded through a contribution from the General Fund revenue account, based on the estimated frequency and amount of future expenditure on repairs and maintenance for each building or structure, or item of fixed plant;
- The Organisational Development Fund was used to meet costs arising from the implementation of the Single Status arrangements for employees and other organisational developments;
- The Budget Support Fund has been created by crediting to it surpluses arising on the General Fund Revenue Account. It is to be used to support the revenue budget. It is also used to enable budget provision to be carried forward to future years by appropriating to it unspent balances where a commitment exists;
- The Conservation and Heritage Fund exists to provide grants to the owners of buildings of historical significance to enable them to be maintained in a state of good repair;
- The Museum Purchases Fund was established by a small bequest which has been added to by contributions from revenue account and proceeds from the sale of exhibits surplus to requirements. It is to be used to purchase exhibits for the museum and to conserve and enhance the display of existing exhibits;
- Maintenance Contributions are received from developers of housing and other schemes and are to be used to fund the maintenance of open spaces taken over from those developers;
- The Mayors Charities Reserve represents the balance on the Mayors Charities activity;
- The RENEW Reserve is to be used to meet revenue costs arising from the Council's participation in the Housing Market Renewal Pathfinder for North Staffordshire (RENEW);
- The Change Management Fund was used to support the Council's change management programme;
- The Standards Fund is used to ensure that the Council meets its responsibilities under the Ethical and other standards frameworks;
- The Deposit Guarantee Reserve has been created to hold the unspent balances relating to the Guarantee Scheme for landlord deposits in respect of homeless persons;
- The New Homes Bonus Reserve has bee created to hold unused balances in relation to New Homes Bonus grant.

24. Unusable Reserves

Movements in the Council's unusable reserves are shown below:

	Balance at 1 April 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012
	£000	£000	£000	£000	£000	£000	£000
Capital:							
Revaluation Reserve	7,529	-	2,558	10,087	(53)	2,184	12,218
Capital Adjustment Account	47,949	(9,330)	10,245	48,864	(13,803)	15,366	50,427
Deferred Capital Receipts Reserve	1,871	(118)	-	1,753	(148)	397	2,002
Revenue:						-	
Pensions Reserve	(68,703)	-	22,005	(46,698)	(8,253)	-	(54,951)
Collection Fund Adjustment Account	(3)	-	52	49	(48)	-	1
Accumulated Absences Account	(209)	(192)	209	(192)	192	(180)	(180)
Total	**(11,566)**	**(9,640)**	**35,069**	**13,863**	**(22,113)**	**17,767**	**9,517**

The balances at 1 April 2010 in relation to the Revaluation Reserve and the Capital Adjustment Account and the Revaluation Reserve's 2010/11 transactions have been restated as a result of changes relating to Heritage Assets. See Note 44 for details.

The nature and purpose of these reserves is as set out below:

The Revaluation Reserve records the accumulated gains on the fixed assets held by the Council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). It is also debited with amounts equal to the part of depreciation charges on assets that has been incurred only because the asset has been revalued. On disposal, the Revaluation Reserve balance for the asset disposed of is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the current value of fixed assets carried in the balance sheet is greater because they are carried at revalued amounts rather than depreciated historical cost. It was established with a nil balance on 1 April 2007.

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 revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation 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.

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

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.

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 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

25. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2010/11 £000		2011/12 £000
(282)	Interest Received	(262)
64	Interest Paid	59

26. Cash Flow Statement - Investing Activities

The cash flows for investing activities include the following items:

2010/11 £000		2011/12 £000
7,694	Purchase of property, plant and equipment, investment property and intangible assets	11,753
46,900	Purchase of short and long term investments	112,052
-	Other payments for investing activities	
(1,522)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(3,023)
(53,084)	Proceeds from short and long term investments	(119,627)
(585)	Other receipts from investing activities	(3,281)
(597)	**Net Cash Flows from Investing Activities**	**(2,126)**

27. Cash Flow Statement - Financing Activities

The cash flows for financing activities include the following items:

2010/11 £000		2011/12 £000
(10)	Cash receipts of short and long term borrowing	-
-	Other receipts from financing activities	(5,213)
125	Cash payments for the reduction of the outstanding liabilities relating to finance leases	161
-	Repayments of short- and long-term borrowing	8
4,117	Other payments for financing activities	639
4,232	**Net Cash Flows from Financing Activities**	**(4,405)**

28. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are based on the reports made to the Council's Executive Management Team in the form 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;
- Expenditure on some support services is budgeted for centrally and not charged to directorates.

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

Directorate Income and Expenditure 2011/12	Chief Executive	Resources & Support Services	Operational Services	Regeneration & Development	Corporate Items	Total
	£000	£000	£000	£000	£000	£000
Fees, Charges and other service income	(1,103)	-	(4,405)	(4,176)	(683)	(10,367)
Government Grants	(107)	-	-	(769)	(37,228)	(38,104)
Total Income	**(1,210)**	**-**	**(4,405)**	**(4,945)**	**(37,911)**	**(48,471)**
Employee Expenses	772	-	2,821	856	3	4,452
Other Service Expenses	1,151	-	8,517	1,977	36,831	48,476
Support Service Recharges	1,714	-	2,451	4,835	3,102	12,102
Total Expenditure	**3,637**	**-**	**13,789**	**7,668**	**39,936**	**65,030**
Net Expenditure	2,427	-	9,384	2,723	2,025	16,559

Directorate Income and Expenditure 2010/11 Comparative Figures	Chief Executive	Resources & Support Services	Operational Services	Regeneration & Development	Corporate Items	Total
	£000	£000	£000	£000	£000	£000
Fees, Charges and other service income	(1,041)		(3,921)	(4,127)	(908)	(9,997)
Government Grants	(12)		(30)	(1,519)	(35,294)	(36,855)
Total Income	**(1,053)**	**-**	**(3,951)**	**(5,646)**	**(36,202)**	**(46,852)**
Employee Expenses	565		3,218	931	27	4,741
Other Service Expenses	1,250		8,123	1,806	36,728	47,907
Support Service Recharges	2,114		2,857	5,502	3,335	13,808
Total Expenditure	**3,929**	**-**	**14,198**	**8,239**	**40,090**	**66,456**
Net Expenditure	2,876	-	10,247	2,593	3,888	19,604

All services under Resources and Support Services are recharged out to other services.

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

2010/11 £000		2011/12 £000
19,604	Net Expenditure in the Directorate Analysis	16,559
-	Net Expenditure of Services and Support Services not included in the Analysis	-
(6,352)	Amounts in the Comprehensive Income & Expenditure Statement not reported to management in the Analysis	5,933
300	Amounts included in the Analysis not included in Cost of Services in the Comprehensive Income & Expenditure Statement	315
13,552	**Cost of Services in Comprehensive Income & Expenditure Statement**	**22,807**

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

2011/12	Directorate Analysis	Services & Support services in Analysis	Amounts not reported to Management for decision making	Amounts not included in Comp Inc & Exp Acct	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges and other Service Income	(10,367)	(302)	-	-	-	(10,669)	-	(10,669)
Interest and Investment Income	-	-	-	-	-		(484)	(484)
Income from council tax	-	-	-	-	-	-	(7,275)	(7,275)
Government Grants and Contributions	(38,104)	(154)	-	-	-	(38,258)	(8,761)	(47,019)
Capital Income		-	-	-	-	-	(5,139)	(5,139)
Total Income	**(48,471)**	**(456)**	**-**	**-**	**-**	**(48,927)**	**(21,659)**	**(70,586)**
Employee Expenses	4,452	11,507	-	-	-	15,959	-	15,959
Other Service Expenses	48,476	3,582	-	-	-	52,058	-	52,058
Support Service Recharges	12,102	-	-	-	(15,760)	(3,658)	-	(3,658)
Depreciation, Amortisation and Impairment	-	1,127	8,850	-	-	9,977	-	9,977
Non-Distributed Costs	-	-	58	-	-	58	-	58
Interest payments	-	-	-	-	-	-	58	58
Precepts and Levies	-	-	-	-	-	-	335	335
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	1	1
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	1,423	1,423
Pensions Interest Cost/Return on Assets	-	-	-	-	-	-	1,411	1,411
Total Expenditure	**65,030**	**16,216**	**8,908**	**-**	**(15,760)**	**74,394**	**3,228**	**77,622**
Surplus or Deficit on the Provision of Services	**16,559**	**15,760**	**8,908**	**-**	**(15,760)**	**25,467**	**(18,431)**	**7,036**

2010/11 Comparative Figures	Directorate Analysis	Services & Support services not in Analysis	Amounts not reported to Management for decision making	Amounts not included in Comp Inc & Exp Acct	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges and other Service Income	(9,997)	(198)		942		(9,253)		(9,253)
Interest and Investment Income	-					-	(608)	(608)
Income from council tax	-					-	(7,191)	(7,191)
Government Grants and Contributions	(36,855)	(302)				(37,157)	(11,173)	(48,330)
Capital Income							(1,456)	(1,456)
Total Income	**(46,852)**	**(500)**	**-**	**942**	**-**	**(46,410)**	**(20,428)**	**(66,838)**
Employee Expenses	4,741	10,359		(3)		15,097		15,097
Other Service Expenses	47,907	2,742		(274)		50,375		50,375
Support Service Recharges	13,808			(365)	(13,536)	(93)		(93)
Depreciation, Amortisation and Impairment		935	7,010			7,945		7,945
Non-Distributed Costs			(13,361)			(13,361)		(13,361)
Interest payments						-	66	66
Precepts and Levies						-	351	351
Payments to Housing Capital Receipts Pool						-	1	1
Gain or Loss on disposal of fixed assets						-	(89)	(89)
Investment Properties (net)						-	(734)	(734)
Pensions Interest Cost/Return on Assets						-	1,834	1,834
Total Expenditure	**66,456**	**14,036**	**(6,351)**	**(642)**	**(13,536)**	**59,963**	**1,429**	**61,392**
Surplus or Deficit on the Provision of Services	**19,604**	**13,536**	**(6,351)**	**300**	**(13,536)**	**13,553**	**(18,999)**	**(5,446)**

29. Trading Operations

The expenditure and income of trading operations is incorporated into the Cost of Services included in the Comprehensive Income and Expenditure Statement. The Council's market operates as a trading operation:

2010/11		2011/12
£000		£000
(210,142)	Turnover	(191,396)
291,952	Expenditure	224,040
81,810	**(Surplus)/Deficit**	**32,644**

30. Members' Allowances

In 2011/12 a total of £315,516 was paid to members in respect of allowances and expenses (£313,834 in 2010/11).

31. Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

2011/12 Senior Officers - salary between £50,000 and £150,000 per year					
Post Holder Information	Salary	Benefits in Kind	Total exc. employer's pension contributions	Employer Pension Contributions	Total inc. employer's pension contributions
	(£)	(£)	(£)	(£)	(£)
Chief Executive *	113,874	2,750	116,624	25,849	142,474
Executive Directors:					
Regeneration & Development	83,993	2,750	86,743	20,102	106,845
Resources & Support Services	83,993	0	83,993	19,066	103,059
Operational Services	82,242	2,527	84,769	18,669	103,438
Heads of Service:					
Central Services	53,694	2,457	56,151	12,189	68,340
Leisure and Cultural Services	53,694	2,750	56,444	12,189	68,633
Assets & Regeneration	53,694	2,162	55,856	12,189	68,044
Customer & ICT Services	53,694	2,600	56,294	12,189	68,483
Operations	52,314	2,526	54,840	11,875	66,715
Business Improvement & Partnerships	50,935	2,750	53,685	0	53,685
Planning Services	50,935	0	50,935	11,518	62,453

2010/11 Senior Officers - salary between £50,000 and £150,000 per year					
Post Holder Information	Salary	Benefits in Kind	Total excluding employer's pension contributions	Employer Pension Contributions	Total including employer's pension contributions
	(£)	(£)	(£)	(£)	(£)
Chief Executive **	84,743	1,779	86,522	18,389	104,911
Executive Directors:					
Regeneration & Development	83,993	2,392	86,385	19,799	106,184
Resources & Support Services	83,993	0	83,993	18,226	102,219
Operational Services	80,491	2,457	82,948	17,466	100,414
Heads of Service:					
Central Services	52,314	2,457	54,771	11,352	66,123
Assets and Regeneration	52,314	2,457	54,771	11,352	66,123
Operations	52,314	2,320	54,634	11,352	65,986
Leisure and Cultural Services	50,935	2,457	53,392	11,053	64,445

* This includes salary of £99,736 plus Returning Officers fees for the Borough Council Elections.

** This includes salary of £73,140 plus Returning Officers fees for the General/Borough Council Elections regarding the previous Chief Executive (01/04/10-24/09/10) and the current Chief Executive (01/01/11-31/03/11).

4 other Council employees received more than £50,000 remuneration during 2011/12 (excluding employer's pension contributions) compared to 3 in 2010/11.

32. External Audit Costs

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

2010/11 £000		2011/12 £000
125	Services in accordance with Section 5 of the Audit Commission Act 1998	111
28	Fees for Grant Certification under Section 28 of the Audit Commission Act 1998	24
153		**135**

33. Grant Income

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

2010/11 £000		2011/12 £000
	Credited to Taxation and Non Specific Grant Income	
400	Regional Housing Grant	-
-	Contribution from West Midlands IEP	22
117	Advantage West Midlands (AWM) contribution	-
500	North Staffordshire Primary Care Trust contribution	-
-	Lottery Fund contribution	425
100	Planning Obligations Contributions (Section 106 contributions)	318
-	Staffordshire County Council contribution	2,896
45	Newcastle-under-Lyme College contribution	-
(139)	REFCUS grants transfer adjustment	-
10	Other Contributions	11
1,033	**Total**	**3,671**
	Credited to Services	
25,631	Housing Subsidy - Rent Allowance	27,882
849	Housing Subsidy - Housing Benefit Administration Grant	889
106	Housing Subsidy - Housing Benefit Verification Framework Grant	-
8,500	Council Tax Benefit Grant	8,490
1,405	Revenue Support Grant	1,956
9,674	National Non-Domestic Rates Grant	6,329
508	Disabled Facilities Grant	586
-	Planning Delivery Grant	-
864	Regional Housing Grant	-
-	Council Tax Freeze Grant	173
365	Concessionary Travel Initial Grant	-
36	Regional Choice Fund Grant	-
94	Area Based Grant	-
24	Free Swimming Grant	-
71	Homelessness Directorate Grant	13
-	Safer Communities Grant	88
26	Contaminated Land Grant	-
37	Waste and Resources Action Programme Grant	26
52	Local Public Service Agreement Grants (via Staffs County Council)	30
40	Waste Infrastructure Grant (via Staffs County Council)	23
-	Mortgage Repossession Fund	62
-	New Homes Bonus Scheme	264
-	Local Services Support Grant	127
48	Other Grants	82
90	Contributions towards Community Safety Service (e.g from Police, Fire Service, Staffs County Council)	138
34	Future Jobs Fund Contribution	35
-	Contribution to Disabled Facility Grants	53
11	Town Centre Contributions	47
35	Other Contributions	144
48,500	**Total**	**47,437**

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

31 March 2011 £000		31 March 2012 £000
	Capital Grants Receipts in Advance	
38	Free Swimming Grant	38
24	Safer Communities Grant	24
5	Other Grants	5
100	Planning Obligations Contributions (Section 106 contributions)	100
7	Other Contributions	5
174	**Total**	**172**

34. Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 28 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in note 33.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances and expenses paid in 2011/12 is shown in note 30. During 2011/12, transactions with Aspire Housing totalled £18,383,523 (net). 4 members sit on the board of this organisation. Contracts were entered into in full compliance with the council's standing orders. In addition, the Council paid grants totalling £218,274 to voluntary organisations in which 16 members had positions on the governing body. In addition transactions with the Victoria Theatre totalled £96,650 (net) where 1 member sits on its Board and transactions with the Staffordshire Fire Authority totalled £56,739 (net) where 1 member sits on its Board. Details of such transactions are recorded in the Register of Members' Interest, open to public inspection at the Council's Civic Offices during office hours.

Officers

During 2011/12 no related party transactions occurred involving officers of the Council.

35. Capital Expenditure and Capital Financing

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

2010/11 £000		2011/12 £000
129	*Opening Capital Financing Requirement*	115
	Capital Investment	
6,464	Property, Plant and equipment	7,503
209	Investment Properties	3,792
170	Intangible Assets	61
3,081	Revenue Expenditure Funded from Capital under Statute	3,455
	Sources of Finance	
(7,129)	Capital Receipts	(6,543)
(2,255)	Government Grants and Other Contributions	(4,939)
(429)	Sums set aside from revenue	(3,314)
(125)	Minimum Revenue Provision	(161)
115	*Closing Capital Financing Requirement*	(31)
	Explanation of Movements in Year	
111	Assets acquired under Finance Leases	15
(125)	Minimum Revenue Provision	(161)
(14)	*Increase/(Decrease) in Capital Financing Requirement*	(146)

36. Leases

Council as Lessee

Finance Leases

The Council has acquired a number of items of vehicles and 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:

31 March 2011 £000		31 March 2012 £000
616	Vehicles, Plant, Furniture and Equipment	609
616		**609**

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

31 March 2011 £000		31 March 2012 £000
	Finance Lease Liabilities (net present value of minimum lease payments):	
144	Current	166
596	Non-current	436
177	Finance Costs payable in future years	117
917	**Minimum Lease Payments**	**719**

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

31 March 2011 Minimum Lease Payments £000	31 March 2011 Finance Lease Liabilities £000		31 March 2012 Minimum Lease Payments £000	31 March 2012 Finance Lease Liabilities £000
144	58	Not later than one year	166	46
596	119	Later than one year and not later than five years	436	71
-	-	Later than five years	-	-
740	**177**		**602**	**117**

Operating Leases

The Council has acquired a number of items of vehicles and equipment by entering into operating leases, with typical lives of 4 years. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2011 £000		31 March 2012 £000
37	Not later than one year	40
35	Later than one year and not later than five years	29
-	Later than five years	-
72		**69**

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

2010/11 £000		2011/12 £000
44	Minimum Lease Payments	40
44		**40**

Council as Lessor

Finance Leases

The Council has leased out 13 properties on a finance lease basis, with terms remaining from 12 to 125 years.

The Council has a total gross investment in these leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the properties when the leases come to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the properties acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2011 £000		31 March 2012 £000
	Finance Lease Debtor (net present value of minimum lease payments):	
329	Current	242
15,024	Non-current	12,130
12,473	Unearned Finance Income	10,790
27,826	**Gross Investment in the Lease**	**23,162**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

31 March 2011 Minimum Lease Payments £000	31 March 2011 Finance Lease Liabilities £000		31 March 2012 Minimum Lease Payments £000	31 March 2012 Finance Lease Liabilities £000
519	189	Not later than one year	397	155
2,410	881	Later than one year and not later than five years	1,667	704
24,897	11,403	Later than five years	21,098	9,931
27,826	**12,473**		**23,162**	**10,790**

Operating Leases

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

- For the provision of community services, such as sports facilities and community centres;
- To gain income from its investment properties;
- For economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2011 £000		31 March 2012 £000
531	Not later than one year	468
1,231	Later than one year and not later than five years	984
2,140	Later than five years	1,657
3,902		**3,109**

37. Impairment Losses

During 2011/12 the Council has recognised the following impairment losses in relation to capital expenditure incurred on the enhancement of non current assets where such expenditure does not increase the value of the asset concerned. An amount equal to this is charged as an impairment loss to the service which uses the asset in the Comprehensive Income and Expenditure Statement. The total amount of such impairment losses for 2011/12 was £3.836m (2010/11 £3.603m).

38. Termination Benefits

The Council terminated the contracts of a number of employees in 2011/12, incurring liabilities of £555,723 (£651,061 in 2010/11). The termination benefits consisted of £434,338 redundancy costs together with £102,715 actuarial strain payments and £18,670 long service awards.

39. 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 Staffordshire County 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;

- Arrangements for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions Relating to Post-employment Benefits

The cost of retirement benefits is recognised 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 that is required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2010/11			2011/12	
Local Government Pension scheme	Discretionary Benefits Arrangements		Local Government Pension scheme	Discretionary Benefits Arrangements
£000	£000		£000	£000
		Comprehensive Income & Expenditure Statement		
		Cost of Services:		
2,492		Current Service Cost	2,188	
(13,348)		Past Service Costs / (Gains)	56	
21		Settlements and Curtailments	43	
	(437)	Unfunded Benefit Contributions		(477)
		Financing and Investment Income and Expenditure		
7,552		Interest cost	7,001	
(5,718)		Expected Return on Scheme Assets	(5,590)	
(9,001)	**(437)**	*Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services*	**3,698**	**(477)**
		Other Post Employment Benefit charged to the Comprehensive Income & Expenditure Statement		
9,610		Actuarial Gains and (Losses)	(7,711)	
9,610	**-**	*Total Post Employment Benefit charged to the Comprehensive Income & Expenditure Statement*	**(7,711)**	**-**
		Movement in Reserves Statement		
2,785		Reversal of Net Charges made to the Surplus or Deficit on the Provision of Services for Post Employment Benefits in accordance with the Code	7,169	
		Actual amount charged against the General Fund Balance for pensions in the year:		
3,394		Employers' Contributions payable to Scheme	**3,156**	
	(437)	Retirement Benefits payable to pensioners		**(477)**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a gain/(loss) of £(39.338m).

Assets and Liabilities in Relation to Post-employment Benefits

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

2010/11			2011/12	
Funded Liabilities: Local Government Pension scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension scheme	Unfunded Liabilities: Discretionary Benefits Arrangements
£000	£000		£000	£000
149,817	(867)	Opening Balance at 1 April	130,130	(1,304)
2,492		Current Service Cost	2,188	
7,552		Interest Cost	7,001	
771		Contributions by Scheme Participants	732	
(11,889)		Actuarial (Gains) and Losses	5,738	
(5,286)	(437)	Benefits Paid	(5,647)	(477)
(13,348)		Past Service Costs / (Gains)	56	
21		Curtailments	43	
-		Settlements	-	
130,130	**(1,304)**	**Closing Balance at 31 March**	**140,241**	**(1,781)**

Reconciliation of fair value of the scheme assets:

2010/11		2011/12
£000		£000
80,247	Opening Balance at 1 April	82,128
5,718	Expected Rate of Return	5,590
(2,279)	Actuarial Gains and (Losses)	(1,973)
2,957	Employer Contributions	2,679
771	Contributions by Scheme Participants	732
(5,286)	Benefits Paid	(5,647)
-	Settlements	-
82,128	**Closing Balance at 31 March**	**83,509**

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 £3.633m (2010/11: £6.736m).

Scheme History

	2007/08	2008/09	2009/10	2010/11	2011/12
	£000	£000	£000	£000	£000
Present Value of Liabilities:					
Local Government Pension Scheme	(94,260)	(91,548)	(141,527)	(122,343)	(131,306)
Discretionary Benefits	(6,380)	(6,025)	(7,423)	(6,483)	(7,154)
Fair Value of Assets in the Local Government Pension Scheme	76,068	57,416	80,247	82,128	83,509
Surplus/(Deficit) in the Sheme:	(24,572)	(40,157)	(68,703)	(46,698)	(54,951)
Local Government Pension Scheme	(18,192)	(34,132)	(61,280)	(40,215)	(47,797)
Discretionary Benefits	(6,380)	(6,025)	(7,423)	(6,483)	(7,154)
Total	**(24,572)**	**(40,157)**	**(68,703)**	**(46,698)**	**(54,951)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £54.951m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £17.589m. 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;
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £2.551m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2013 are £477k.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2012. The principal assumptions used by the actuary have been:

2010/11 Local Government Pension scheme	2010/11 Discretionary Benefits Arrangements		2011/12 Local Government Pension scheme	2011/12 Discretionary Benefits Arrangements
		Long Term expected rate of return on assets in the Scheme:		
7.5%		Equity Investments	6.2%	
4.9%		Bonds	3.3%	
10.1%		Other	7.9%	
		Longevity at 65 for current pensioners:		
21.2		Men	21.2	
23.4		Women	23.4	
		Longevity at 65 for future pensioners:		
23.3		Men	23.3	
25.6		Women	25.6	
2.8%	2.8%	Rate of Inflation	2.5%	2.5%
5.1%		Rate of Increase in Salaries	4.8%	
2.8%	2.8%	Rate of Increase in pensions	2.5%	2.5%
5.5%	5.5%	Rate for Discounting Scheme Liabilities	4.8%	4.8%
50%		Take-up option to convert annual pension into retirement lump sum	50%	

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

31 March 2011 %		31 March 2012 %
78	Equity Investments	78
11	Debt Instruments	12
11	Other Assets	10
100	**Closing Balance at 31 March**	**100**

History of Experience Gains and Losses

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

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
Differences between the expected and actual return on assets	(14.0)	(39.5)	25.5	(2.7)	(2.4)
Experience gains and losses on liabilities	(1.6)	0.2	(0.2)	0.3	(2.8)

40. Contingent Liabilities

(a) Municipal Mutual Insurance

In 1992/93 the council's insurers, Municipal Mutual insurance, ceased accepting new business. Under the Scheme of Arrangement that was established to ensure an orderly wind up of the company a levy could be made on the Council. The exact amount cannot be quantified at the current time.

(b) Insurance Fund

It is estimated that claims totalling circa £48,000 will arise from incidents that had occurred up to 31 March 2012 but have not yet been reported.

(c) VAT

The computations of the Council's 2010/11 and 2011/12 position in respect of exempt category Value Added Tax have yet to be agreed with Revenue and Customs. If the 5% allowance has been exceeded, up to £150,000 in VAT may become payable.

(d) Land Sales Receipts

An agreement exists with a government development agency (in the process of being disbanded) to pay to them (or their successors) all of the proceeds to be received in respect of the sale, when it occurs, of a development site for which the agency provided development funding. Some of the proceeds have already been paid over; the remaining amount may be up too around £257,000.

(e) Housing Stock Transfer Warranty

Liabilities in relation to a warranty given by the Council in respect of the transfer of its housing stock to a registered social landlord in February 2000 could arise. The amount of the potential liability cannot be quantified but could amount to several million pounds.

(f) Local Land Charges Fees

Following a change in the law relating to charging for personal searches, there may be a liability to repay up to £70,000 in fee income.

(g) Lancaster Buildings

There is a potential liability arising from the Council's obligation to repay part of a grant in respect of the refurbishment of Lancaster Buildings in the event that targets attached to the grant are not met.

41. Contingent Assets

The Council has approved the sale of a number of plots of land for industrial/commercial use. The likely total capital receipt (net of repayment of government grant received towards the laying out of the land concerned) which will accrue to the Council will be around £163,000.

42. Nature and Extent of Risks Arising from Financial Instruments

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

- 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;
- 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.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch and Moody's Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets held by the Council are as summarised below:

- Investment counterparties are assessed as to their suitability in relation to credit ratings supplied by the main ratings agencies, with the additional consideration of credit default swap data. A limit is placed on the amount which can in total be placed with individual counterparties and categories of counterparties;
- Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set where considered necessary. Credit references are obtained where contracts are entered into.

The Council's maximum exposure to credit risk in relation to its investments in banks and financial institutions of £0.131m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

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

	Amount at 31 March 2012	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2012	Estimated maximum exposure to default and uncollectability at 31 March 2012	Estimated maximum exposure at 31 March 2011
	£000	%	%	£000	£000
	A	B	C	(A X C)	
Deposits with banks & financial institutions	10,511	0%	1.25%	131	214
Heritable Bank	485	-	Impairment	301	642
Customers (trade debtors)	3,567	-	15%	535	673
				968	**1,529**

No credit limits were exceeded during the reporting period and, apart from the frozen investment with Heritable Bank, the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £3.072m of the £3.567m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31 March 2011 £000		31 March 2012 £000
549	31 to 89 days	73
210	90 to 149 days	227
3,126	Over 150 days	2,772
3,885		**3,072**

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. At present the Council has no intention of entering into any long term borrowing arrangements. The maturity analysis of financial liabilities is as follows:

31 March 2011 £000		31 March 2012 £000
17,158	Less than one year	10,851
-	Between one and two years	145
-	Between two and five years	-
1,415	More than five years	-
18,573		**10,996**

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

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments (no long term money market borrowing at present). Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- 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.

Changes in interest receivable on variable rate 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. At 31 March 2012, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest receivable on variable rate investments	185
Impact on Surplus or Deficit on the Provision of Service:	185

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 have any investment in equity shares or in joint ventures or local industry. Consequently, it is not exposed to losses arising from movements in share prices.

Foreign Exchange Risk

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

43. Building Control Account

NORTH STAFFORDSHIRE BUILDING CONTROL PARTNERSHIP 2011-2012 FINANCIAL YEAR

The Building (Local Authority Charges) Regulations 2010 require the disclosure of information regarding the setting of charges for the administration of the building control function, however, certain activities performed by the Building Control Division cannot be charged for, such as providing general advice and carrying out enforcement.
CIPFA guidance for local authority building control accounting states where local authorities enter into a formal arrangement to provide a single building control service, they should operate a single charging regime (i.e. one charging scheme and financial statement).
The statement below combines the building control accounts for Stoke and Newcastle Borough Council (The North Staffordshire Building Control Partnership) and shows the total cost of providing the service divided between chargeable and non-chargeable activities.

	2011-12		
	Newcastle & Stoke Partnership		
	Total	***Fee Earning***	***Non-chargeable***
	£'000s	£'000s	£'000s
Salaries	489	321	168
Premises	17	11	6
Transport	21	14	7
Supplies	18	11	7
Central Support	72	41	31
Structural Eng	20	20	-
Total Expenditure	**637**	**418**	**219**
Building Regulation Charges	406	406	-
Miscellaneous Income	1	1	-
Total Income	**407**	**407**	-
Surplus/ (deficit)	**(230)**	**(11)**	**(219)**

44. Heritage Assets: Change in Accounting Policy required by the Code of Practice on Local Authority Accounting in the United Kingdom.

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Council. As set out in note 1 relating to accounting policies, these are now to be carried in the balance sheet at valuation.

This means that for 2011/12 the Council is required to change its accounting policy for heritage assets and recognise them at valuation in a separate Heritage Assets category. Previously, heritage assets were either recognised as community assets (at a frozen valuation obtained for insurance purposes) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost or valuation information on the assets. The Council's accounting policies for recognition and measurement of heritage assets are set out in note 1, xiii, page 24.

In applying the new accounting policy, the Council has identified that assets that were previously held as community assets within property, plant and equipment at £0.942m should now be recognised as heritage assets and measured at £1.553m with a corresponding increase in the Revaluation Reserve. These assets relate to the Museum's collection of artefacts which was previously recognised in the community assets classification of property, plant and equipment.

Additional assets in the form of outdoor structures have been identified as heritage assets, the majority of which were not included in the Council's Asset Register in any form. The remainder had a balance in the Register, within Community Assets, (and hence in the Balance Sheet) relating to work carried out subsequent to acquisition or construction (not equating to the actual value of the asset). These balances, amounting to £0.044m have been written out of the Register and are, therefore, no longer reflected in the Balance Sheet. None of these assets are capable of being valued for inclusion in the Balance Sheet.

The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £1.553m. The element that was previously recognised in property, plant and equipment has been written down by £0.044m. The revaluation reserve has increased by £0.611m;
- The fully restated 1 April 2010 Balance Sheet is provided on page 16. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Opening Balance Sheet 1 April 2010

	As Previously Stated 1 April 2010	As Restated 1 April 2010	Restatement
	£000	£000	£000
Community Assets	5,701	4,715	(986)
Property, Plant and Equipment	37,177	36,191	(986)
Heritage Assets	-	1,553	1,553
Long Term Assets	57,586	58,153	567
Net Assets	12,024	12,591	567
Revaluation Reserve	6,918	7,529	611
Capital Adjustment Account	47,993	47,949	(44)
Total Unusable Reserves	(12,133)	11,566	567
Total Reserves	12,024	12,591	567

Comprehensive Income and Expenditure Statement

There was a change to the valuation of the museum exhibits in 2010/11 (revaluation upwards). Because of this, the Comprehensive Income and Expenditure Statement requires restatement of certain items. The details are set out in the table below:

	As Previously Stated 2010/11	As Restated 2010/11	Restatement
	£000	£000	£000
(Surplus) or Deficit on Revaluation of Heritage Assets	-	(5)	(5)
Other Comprehensive Income and Expenditure	(12,162)	(12,167)	(5)
Total Comprehensive Income and Expenditure	(17,608)	(17,613)	(5)

Movement in Reserves Statement - Unusable Reserves 2010/11

The restatement of the relevant lines of the Movement in Reserves Statement, relating to unusable reserves, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below.

	As Previously Stated 2010/11	As Restated 2010/11	Restatement
	£000	£000	£000
Balance at 31 March 2010 Brought Forward	12,133	11,566	(567)
Other Comprehensive Income and Expenditure	(12,162)	(12,168)	(6)
Balance at 31 March 2011 Carried Forward	(13,290)	(13,863)	(573)

The adjustments that have been made to the Balance Sheet over the version published in the 2010/11 Statement of Accounts are shown below:

Effect on Balance Sheet 31 March 2011

	As Previously Stated 31 March 2011	As Restated 31 March 2011	Restatement
	£000	£000	£000
Community Assets	7,085	6,100	(985)
Property, Plant and Equipment	40,933	39,948	(985)
Heritage Assets	-	1,558	1,558
Long Term Assets	60,580	61,153	573
Net Assets	29,632	30,205	573
Revaluation Reserve	9,470	10,087	617
Capital Adjustment Account	48,908	48,864	(44)
Total Unusable Reserves	13,290	13,863	573
Total Reserves	29,632	30,205	573

The effect of the change in accounting policy in 2010/11 has been that heritage assets are recognised at £1.558m on the Balance Sheet resulting in an increase to the Revaluation Reserve of £0.617m and property, plant and equipment being restated by the amount of heritage assets previously recognised at cost in community assets (a sub-classification of property, plant and equipment) of £0.985m.

45. Trusts and Other Similar Funds

The following statement summarises the balances and movements during the year of the various Funds for which the Council acts as Sole Trustee (indicated by *) or otherwise assumes a supervisory role. Balances relating to these Funds are not included in the Consolidated Balance Sheet and their transactions are not included in the Consolidated Revenue Account.

	Balance at 1 April 2011	Expenditure	Income	Balance at 31 March 2012
	£000	£000	£000	£000
Newcastle Almshouses Trust (Accom. For Poor Widows)	11	23	12	-
Sports Advisory Council (Advice/Assistance to Sport)	7	20	23	10
Museum Purchase Fund (Maintenance and Purchase of Museum Exhibits)	6	-	-	6
United Charities - Eliza Hinds Charity (grave upkeep)	3	-	-	3
United Charities - Relief in Need Charity (Christmas gifts for elderly)	28	2	1	27
United Charities - Relief in Sickness Charity (Christmas gifts for elderly)	66	5	3	63
Barracks Trust (management of Barracks and charitable disbursements)	613	660	47	-
	734	**710**	**86**	**109**

The United Charities financial year ends at 30 September each year. The balances brought forward in relation to these charities are, in fact, those at 30 September 2010 and the carried forward balances are those for 30 September 2011.

The balance relating to the Barracks Trust was transferred to the trustees of the Barracks Trust for management on 31 March 2012. The Barracks Trust is responsible for the administration of these funds from that date.

Collection Fund

2010/11 £000				2011/12 £000
	Expenditure			
7,154	Precepts and Demands	- Borough Council	7,246	
39,480		- County Council	40,186	
6,816		- Police Authority	6,938	
2,596		- Fire Authority	2,642	
56,046				57,012
	Business Ratepayers			
26,840	- Contribution to National Pool		31,902	
142	- Cost of Collection		143	
26,982				32,045
730	Provision for Bad Debts			466
	Contribution towards Previous Years Surplus/(Deficit)			
(15)	- Re Council Tax		387	
-	- Re Community Charge		-	387
83,743	**Total Expenditure**			**89,910**
	Income			
27,553	Business Ratepayers		32,392	
48,145	Council Taxpayers		48,783	
75,698				81,175
	Transfers from General Fund			
8,459	- Council Tax Benefit		8,349	
-	- Discretionary NNDR Relief		-	
8,459				8,349
-	Transfer from/(to) Bad Debts Provision			
84,157	**Total Income**			**89,524**
414	**Surplus/(Deficit) For The Year**			**(386)**
	Collection Fund Balance			
(288)	Balance at Beginning of Year			127
414	Surplus/(Deficit) for the Year			(386)
126	**Balance at end of Year**			**(259)**

NOTES

1. Business Rates

The Council collects business rates in its area on behalf of the Government based on non-domestic rateable values multiplied by a uniform business rate. The rate is specified by the Government and in 2011/12 was 43.3p, with a reduction for "small businesses" to 42.6p on application (41.4p in 2010/11 - "small business" reduction, 40.7p). The Council is responsible for collecting rates due from the ratepayers in its area and the total amount collected, less certain reliefs and deductions is paid into the NNDR Pool. The Council then receives a share of the pool on the basis of a fixed amount per head of population.

	2010/11 £	2011/12 £
Non Domestic Rateable Value at year-end	81,549,826	84,575,612

Valuations have increased as a result of the five-yearly revaluation which took effect in 2010/11. At the same time the uniform business rate was reduced. The government has introduced a Business Rates Deferral Scheme, which permits ratepayers to defer payment of part of the amount due. No adjustment has, however, been made to the debtors balance in respect of the deferred amount as the 2010 Code of Accounting Practice indicates that the full amount should be recorded.

2. Council Tax

Council Tax Income is derived from charges raised according to the value of residential properties which have been classified into eight valuation bands for this purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Staffordshire County Council, Staffordshire Police Authority, Staffordshire Fire Authority and the Borough Council for the forthcoming year and dividing this by the council tax base. The average Band D tax in 2011/12 of £1,450.99 compared with £1,450.99 in 2010/11. Multiplication of this amount by the proportions set out below gives the amount due for a property in each band:

Band A	6/9
Band B	7/9
Band C	8/9
Band D	9/9
Band E	11/9
Band F	13/9
Band G	15/9
Band H	18/9

The Council Tax Base for 2011/12 was derived as follows:

Band and Value Range	Number of Dwellings	After Discounts & Exemptions	Ratio to Band D	Band D Equivalents
Band A (Up to £40,000)	23,721	20,065	6/9	13,369
Band B (£40,001 - £52,000)	9,844	8,823	7/9	6,862
Band C (£52,001 - £ 68,000)	10,684	9,675	8/9	8,600
Band D (£68,001 - £88,000)	4,361	4,012	9/9	4,012
Band E (£88,001 - £120,000)	2,598	2,388	11/9	2,919
Band F (£120,001 - £160,000)	1,697	1,581	13/9	2,284
Band G (£160,001 - £320,000)	892	821	15/9	1,368
Band H (Over £320,000)	45	21	18/9	42
				39,456
Less adjustment for collection rates (1%)				(395)
Borough Council Tax Base				**39,061**

Council Tax Base Analysed over Parished and Unparished areas of the Borough	Equivalent Band D Dwellings
Newcastle	39,061
Kidsgrove	7,252
Audley	2,687
Loggerheads	1,966
Balterley, Betley & Wrinehill	587
Chapel & Hill Chorlton	195
Keele	339
Madeley	1,530
Maer	252
Silverdale	1,411
Whitmore	811
Total Council Tax Base	**56,091**

3. Precepts

The following authorities made demands (precepts) on the Collection Fund:

2010/11 £000		2011/12 £000
7,154	Newcastle Borough Council	7,246
39,480	Staffordshire County Council	40,186
6,816	Staffordshire Police Authority	6,938
2,596	Staffordshire Fire Authority	2,642
56,046		**57,012**

4. Write-Offs

During the year the following amounts were written-off to the relevant Bad Debts Provisions in respect of irrecoverable debt:

- Council Tax: £60,397 (£40,292 2010/11);
- NNDR: £313,601 (£265,729 2010/11).

Audit Certificate

Glossary of Terms

To assist readers of the Statement of Accounts to understand its contents the following definitions are provided of terms used in the text.

Accounting Policies
Accounting policies are the principles, bases, conventions, rules and practices applied by the Council 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.

Accruals
The concept that items of income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

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 and losses);
- The actuarial assumptions have changed.

Amortisation
An annual charge to a revenue account to reduce the value of an asset to zero over a period of years.

Assets Register
A register of the Council's fixed assets which records their essential details, including their description and location, valuation, basis of valuation, life and service chargeable for their use.

Balance Sheet
This shows a summary of the overall financial position of the Council at the end of the financial year.

Capital Expenditure
Expenditure on the acquisition of fixed assets or expenditure, which adds to and does not merely maintain existing assets.

Capital Grants Receipts in Advance Account
An account which holds the balances of capital grants received where conditions apply and have not been satisfied meaning that the grants are not yet available for use to finance expenditure.

Capital Grants Unapplied Account
A usable reserve holding the balances of capital grants received or due to the Council at the year end where conditions do not apply to those grants or conditions have been satisfied meaning that the grant is available for use to finance expenditure.

Capital Receipts
Income received from the sale of capital assets which may be used to finance new capital expenditure.

CIPFA
The Chartered Institute of Public Finance and Accountancy (CIPFA) is one of the leading accountancy bodies in the United Kingdom and specialises in public services.

Collection Fund
A fund accounting for Council Tax and Non-Domestic Rates received by the Council and the payments which are made from the fund including precepts to other authorities, the Council's own demand and payments to the NNDR pool.

Community Assets
Assets which the Council 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 historic buildings.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

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 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;
- 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.

Current Service Cost
The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.

Creditors
Amounts owed by the Council for goods and services, where payments have not been made at the end of the financial year.

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 termination of employees' services earlier than expected, for example as a result of discontinuing a segment of the business and 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 only for reduced benefits.

Debtors
Amounts owed to the Council for goods and services, where the income has not been received at the end of the financial year.

Deferred Liabilities
These are liabilities which by arrangement are payable beyond the next year at some point in the future or are paid off by an annual sum over a period of time, specifically for this Council amounts outstanding in respect of finance leases.

Defined Benefit Pension 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).

Depreciation
The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time 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 are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or The Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Expected Rate of Return on Pension Assets
For a funded defined benefit pension 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.

Experience Gains and Losses
See Actuarial Gains and Losses

Financial Reporting Standards (FRSs)
Statements prepared by the Accounting Standards Committee. Many of the Financial Reporting Standards (FRSs) and the earlier Statements of Standard Accounting Practice (SSAPs) apply to local authorities and any departure from these must be disclosed in the published accounts.

Financial Instrument
A Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments are: Liabilities - trade payables, borrowings, financial guarantees; Assets - bank deposits, trade receivables, investments; Derivatives - forward investment deals.

Financial Year
Period of time to which a Statement of Accounts relates. The financial year of the Council runs from 1 April to 31 March.

Fixed Assets
Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.
The classes of fixed assets required to be included in the accounting statements are:
Operational assets

- Other land and buildings (excluding Council Dwellings);
- Vehicles, plant, furniture and equipment;
- Infrastructure assets;
- Community assets.

Non operational assets

- Investment Properties;
- Assets Held for Sale.

Assets under construction are not shown separately. They are included in the balance relating to the category of operational asset where they will be included when completed.

General Fund Revenue Account
This account records the expenditure and income incurred by the Council in operating its services during the year. It does not record any capital expenditure or income but does include the costs associated with capital expenditure in the form of capital financing costs (mostly related to interest, capital charges for the use of assets by services and depreciation charges).

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfer of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Heritage Assets
Tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities which are held and maintained primarily for their contribution to knowledge and culture.

Historical Cost
Actual cost of acquiring or constructing an asset.

Impairment
A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Infrastructure Assets
Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure are highways and sewers.

Interest Cost
For a defined benefit pension scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Insurance Value
The value placed upon an asset for insurance purposes.

Intangible Assets
Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the Council through custody or legal rights. Specifically purchased software licenses are included in this category of asset.

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 comprise 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;
- Finished goods.

Investments
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria should be qualified as current assets.

Investment Properties
Interest in land and/or buildings:

- In respect of which construction work and development have been completed;
- Which is held for its investment potential, any rental income being negotiated at arm's length; and
- Which do not support the service or strategic objectives of the Council.

Leasing
Method of financing the provision of capital assets which does not provide for the title to the asset to pass to the authority. In return for the use of the asset the Council pays rental charges over a specified period of time. There are two basic types of leasing arrangement:

- Finance leases which transfer the risks and rewards of ownership of an asset to the lessee (the Council) and such assets are included within the fixed assets in the Balance Sheet;
- Operating leases where the ownership of the asset remains with the lessor and annual rental is charged direct to the revenue account.

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 are traded in an active market. Council tax and National Non Domestic Rates receipts under or overpaid to the major precepting authorities and the Department of Communities and Local Government, respectively, are also included in the Management of Liquid Resources section of the Cash Flow Statement.

Long Term Debtors
Comprises amounts which are owed to the Council which are not investments and which are not expected to be realised within the next financial year. The main items included in this heading are outstanding loans from the Council to other bodies and outstanding amounts in respect of finance leases of Council properties to other bodies.

Material Items
An item is material if its omission, non-disclosure or misstatement could be expected to lead to a distortion of the view given by the financial statements.

National Non-Domestic Rate (NNDR)
Amounts payable to local authorities from non-domestic properties. The rate poundage is set nationally and amounts collected by local authorities are pooled, via the NNDR Pool, and then redistributed by the Government to local authorities based on the local resident population.

Non-Distributed Costs
Overheads from which no user now benefits and which are not apportioned to services.

Past Service Cost
For a defined benefit pension 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.

Precept
Demands made upon the Collection Fund by other authorities (Staffordshire County Council, Police and Fire Authorities and Parish Councils) for the services that they provide.

Prior Period Adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring conditions or adjustments of accounting estimates made in prior years.

Provisions
Amounts set aside to meet liabilities or losses which are likely to be incurred but where the amount remains uncertain.

Realisable Value
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.

Related Parties
Two or more parties are related when at any time during the financial period:

- One party has direct or indirect control over 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 the 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.

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 same household, has a controlling interest.

Related Party Transaction
A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Reserves
Reserves fall into two different categories:

- Usable Reserves representing sums set aside to meet future expenditure for specific purposes and which the Council is able to utilise to provide services.
- Unusable Reserves which the Council is not able to utilise to provide services. This category of reserves includes reserves which hold unrealisable gains and losses, such as the Revaluation Reserve and reserves which are adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards, for example the Capital Adjustment Account.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employers decision to terminate an employee’s employment before the normal

retirement date or (ii) 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.

Revenue Expenditure
Expenditure on the day-to-day running of the Council, including employee costs, running expenses and capital financing costs.

Revenue Expenditure Funded from Capital under Statute

Expenditure which does not result in the creation of a fixed asset and which is classified as capital for funding purposes but is chargeable to the Income and Expenditure Account (I&E Account) as revenue expenditure. Any grants or contributions towards such expenditure are also chargeable to the I&E Account. An appropriation is made to the I&E Account from the Capital Adjustment Account of the amount of expenditure financed from capital resources. Such expenditure was formerly referred to as deferred charges.

Revenue Support Grant (RSG)
Grant paid to local authorities by Central Government to help finance its general expenditure.

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

Settlement
An irrevocable 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 irrevocable 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
Period over which the local authority will derive benefits from the use of a fixed asset.

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Capital Expenditure Financing 2011/12

	Capital Expenditure	"Ex Deferred Charges"	Total
	£	£	£
Capital Expenditure			
Expenditure during 2011/12	11,341,536	3,454,450	14,795,986
Total to be Financed	11,341,536	3,454,450	14,795,986
Financing of Expenditure			
Capital Receipts	4,096,450	2,446,637	6,543,087
Government Grant -			
Housing Subsidies	-	585,849	585,849
Regional Housing Board Grant	-	314,635	314,635
Regional Choice Fund	-	14,135	14,135
Contributions from Other Bodies	3,930,826	93,194	4,024,020
Council's Reserves -			
ICT Development Fund	44,882	-	44,882
Special Projects (Economic Development) Fund	2,386,048	-	2,386,048
LSVT Capital Fund	883,330	-	883,330
Total Financing	11,341,536	3,454,450	14,795,986

Notes:

- Expenditure in respect of projects which would formerly have been classified as deferred charges is included in the above table, although it is no longer capital expenditure according to the current CIPFA Accounting Code of Practice, which now classifies such items as “revenue expenditure met from capital by statute”. This is mostly housing renewal type expenditure, for example on renovation grants, disabled facilities grants, etc., where there is no creation of an asset, and is currently included in the Council’s capital programme.
- An amount of £2,070,000, relating to the repayment of grant is included in the “Ex Deferred Charges” expenditure and a corresponding £2,070,000 is included in financing from capital receipts in the same column. This relates to land at Ravensdale where infrastructure costs were funded by Advantage West Midlands (AWM) on the basis that the grant would be repaid once the land had been sold, which has now happened. Accounting rules dictate that the grant repayment must be treated as capital expenditure and financed from the receipts arising from the land disposal.

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