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Date of meeting	**Thursday, 27th September, 2012**
Time	**7.00 pm**
Venue	**Committee Room 1. Civic Offices, Merrial Street, Newcastle-under-Lyme, Staffs ST5 2AG**
Contact	Julia Cleary 01782 742227

Audit and Risk Committee

AGENDA

PART 1– OPEN AGENDA

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

‘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.

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AUDIT AND RISK COMMITTEE

Tuesday 24 July 2012

Present:- Councillor P Waring – in the Chair

Councillors Jones, Mrs Peers and Turner

Also in attendance: David Jenkins – District Auditor

1. **APOLOGIES**

Apologies were received from Councillors Miss Baker and Loades.

2. **DECLARATIONS OF INTEREST**

There were none.

3. **MINUTES OF PREVIOUS MEETING**

Resolved:- That the minutes of the meeting of this Committee held on 16 April 2012 be approved as a correct record.

4. **HEALTH AND SAFETY ANNUAL REPORT**

Consideration was given to a report outlining issues and trends regarding health and safety at the Council. It also gave an outline of changing legislation and HSE Guidance.

The Committee was reminded of the requirement for the Council to comply with all relevant Health and Safety legislation and that the failure to adopt best practice health and safety standards could result in wastage of Council resources and the provision of an inefficient service.

It was indicated that the majority of health and safety training courses for staff were carried out in-house by the Corporate Health and Safety Officer with the cost being met from the Corporate Training Budget.

Members agreed that staff had an important part to play in ensuring that the Council complied with the relevant legislation and should be reminded of this at every opportunity.

Resolved:- That the Health and Safety Annual Report for the previous April 2011 to March 2012 be noted.

5. **CORPORATE RISK MANAGEMENT**

A report was submitted seeking approval of the Council's updated Risk Management Policy and Strategy. The Committee had previously resolved in 2011 to allow for changes in the way that the Council recognised and rated risks and it was indicated that the review was in line with recommendations made by the Association of Local Authority Risk Management and the Council's governance arrangements.

Resolved:- (a) That the updated Risk Management Policy Statement and Strategy as submitted be approved together with the minor changes made in such documents.

(b) That the officers submit a report to a subsequent meeting outlining progress made on embedding risk management into the Council's procedures.

6. **AUDIT AND RISK COMMITTEE - REVISED TERMS OF REFERENCE**

The Committee considered a report recommending adoption of revised terms of reference that were considered to strengthen governance of the Council's committees.

Resolved:- That the revised Terms of Reference for the Audit and Risk Committee be approved.

7. **AUDIT AND RISK COMMITTEE - WORK PLAN 2012/13**

The Committee was asked to approve a Work Plan for the 2012/13 municipal year as set out in the appendix to the officer's report. The Work Plan had been prepared to be flexible in order that previously unforeseen issues could be slotted in if necessary.

Concern was expressed that the date of the meeting of the committee scheduled fro 17 December may need to be brought forward and it was agreed that the officers should investigate this.

Resolved:- (a) That the Committee Work Plan for 2012/13 be approved taking into account that it may be necessary to bring forward the date of the December meeting.

(b) That any change of date to the December meeting be agreed with the chairman of this committee and notified to Members.

8. **QUARTERLY REPORT - ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JANUARY TO 31 MARCH 2012**

Consideration was given to a report on outstanding high risk fundamental recommendations and providing Members with assurance opinion on internal contracts over Council Services.

High risk recommendations were explained as those where action was considered imperative to ensure that the authority was not exposed to high risks with such action being needed within 1 month of the recommendation being agreed with the Managers.

It was indicated that in the fourth quarter there were seven high risk recommendations due for review, five of which had previously had one target date change and, as such, been reported separately to the Chair and Vice Chair of the Committee. Two recommendations were at their first review date with no further action being required at this time.

A copy of the Assurance Summary for March 2012 was appended to the officer's report.

Resolved:- That the actions taken by the officers be noted and that the levels of assurance be noted.

9. **INTERNAL AUDIT SECTION ANNUAL REPORT 2011/12**

Consideration was given to the Annual Report of the Internal Audit Section for the 2011/12 financial year. The report provided information about the programme of work undertaken by Internal Audit during the above year, which had been extracted from the Internal Audit time monitoring system.

The Audit Plan for the year had been approved on 31 January 2011 and accounted for 491 audit days.

A good level of productivity had been maintained at 83% against a target of 74% and completed 92% of the Audit Plan.

The percentage of Internal Audit recommendations implemented by the officers had increased to 88% against a target of 95%.

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

Resolved:- That the Internal Audit Section Annual Report 2011/12 be received.

10. **REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT**

The Committee considered a report that summarised assessment carried out by the Audit Manager on the effectiveness of the system of Internal Audit for 2011/12.

The review had involved updating the previous years self assessment (2010/11) and the formulation of a revised action plan for work to be completed during the forthcoming financial year.

The results of the self assessment review, a summary of the evidence and details of progress made against the action plan for 2011/12 were appended to the officer's report.

The review showed that the system of internal audit was operating effectively and could be relied on when considering the Annual Governance Statement for 2011/12.

It was indicated that the CIPFA Code of Practice for Internal Audit was currently in the process of being reviewed and updated by that organisation and that the new guidance, which had also been aligned with the Institute of Internal Auditors Code of Practice, would be issued for consultation during July 2012 with a view to the document being published in December 2012. Requirement to comply with the new code would be in place from April 2013.

Resolved:- That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2011/12 and the action plan be agreed.

11. **REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE**

Consideration was given to a report summarising the results of an assessment carried out on the effectiveness of the Audit Committee during 2011/12.

The self assessment showed the Audit Committee to be effective and could be relied upon when considering the Annual Governance Statement for 2011/12.

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

12. **CHANGES TO EXTERNAL AUDIT ARRANGEMENTS**

Consideration was given to a report advising on changes to external audit arrangements that were expected to commence on 1 September 2012.

It was explained that subject to the enactment of the new legislation audit of the Council would transfer from the Audit Commission to a private sector auditor, Grant Thornton (UK) LLP, the successful bidder for the West Midlands area, including the Borough Council.

The Audit Commission would remain in place until April 2015 to oversee the contracts and other statutory functions but would 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 would take over from April 2015 to manage the final two years of the outsourced local audit contracts.

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

Audit Commission staff currently employed by the Commission would transfer to the new audit firms on 31 October 2012. The current District Auditors within the area had been appointed as ‘Engagement Leads’ for Grant Thornton’s Midlands Audit Practice. It was likely that, in the beginning at least, the Council would be dealing with largely the same audit teams as now exist, although this may 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 would take up some of your officer’s 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 did not, therefore, give rise to any particular concerns.

The Midlands Audit Practice was based in Birmingham. It was not clear whether there would 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.

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.

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

These arrangements were an interim measure. The new contacts would 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 would appoint their auditors themselves, following a procurement process, including an independent audit panel to advise on the appointment.

Resolved:- That the information be noted.

13. **DRAFT STATEMENT OF ACCOUNTS 2011/12**

The Committee received a report regarding the submission of the draft Statement of Accounts 2011/12 for scrutiny and approval by the Audit and Risk Committee and the approval of the financing of capital expenditure incurred during 2011/12.

The report highlighted the key issues that were contained in the accounts including a commentary on the General Fund outturn, the Collection Fund and the Balance Sheet and noted the position regarding the Council's reserves.

The Statement of Accounts was still in draft form and subject to external audit. Upon completion of the audit any comments would be incorporated and the statement reinstated to the committee for approval.

The budget for the General Fund for 2011/12, originally set in February 2011, 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, worse than the original estimate. This sum had been transferred from the Budget Support Fund to cover the adverse variance.

Members were also advised that of the £2.5 million plus £9192 interest occurred from the money invested with the Heritable Bank some £1,702,904 had been repaid to the Council up to 31 March 2012 plus a further payment of £95,809 in April and £71,500 in July 2012.

Resolved:- (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 to the officer's report, be approved.

P WARING
Chair

CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD April to June 2012

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

Portfolio: **Customer Services and Transformation**

Ward(s) affected: **All**

Purpose of the Report

To provide an update to Members of the progress made by the Council in enhancing and embedding risk management for the period April to June 2012, including progress made in managing the identified corporate risks.

Recommendations

The Committee is asked to:-

(a) Scrutinise the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers where applicable.

(b) Note the new risks that have been identified between April to June 2012.

(c) Identify, as appropriate, risk profiles to be scrutinised in more detail as part of your responsibility at the next meeting.

(d) Note the horizon scanning risks listed to bear in mind when making decisions on reports submitted to committees and the effect it may have on the future of the council.

Reasons

The risk management process previously adopted by the council has been reviewed to incorporate changes in the way the council works and to provide continuity and streamlined reporting of risks to the necessary stages so that it becomes further embedded at each level of the authority. This will further develop the identification of key risks that potentially threaten the delivery of the corporate priorities. The new strategy will provide a formal and proportionate framework to manage these identified risks and thus reduce the council's exposure.

To assist the council in its corporate ambition of being an excellent council by helping deliver effective corporate governance, this proactive approach also helps demonstrate good risk management in terms of evidencing that effective risk management is further embedded with the corporate business processes.

1. **Background**

1.1 The council monitors and manages all its risks through the various risk profiles contained within GRACE (Governance Risk and Control Environment) – the Council's software for recording and managing risk.

The Council currently reviews its High Red 9 risks at least monthly and its Medium Amber risks at least quarterly.

The last review of these risks was reported to your Committee in April 2012.

Risk owners are challenged by the Risk Champions in respect of controls, further actions, ratings and emerging risks and challenge reasons for inclusion or non-inclusion and amendment of these.

Projects are managed to a high level in relation to risk and are reviewed in accordance with the risk management strategy – monthly.

2. **Issues**

2.1 **Strategic, Operational, Project and Partnership Risk Registers (Appendices)**

The Council regularly reviews and refreshes its risk registers in accordance with the risk management strategy. This is co-ordinated by the Strategic Risk Champion who works closely with the Directors, Operational Risk Champions and the Risk Owners.

The risk map below shows the descriptions of the ratings, for ease of use.

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

After the review of the risks had taken place, the following risks have been reduced – through good risk management by your officers, and by the re-rating process.

- ICT systems failure – this was mainly regarding Kidsgrove Town Hall – the room concerned has been protected from fire, and all staff that are normally sited there have been trained in the use of the extinguisher system, should the need arise.

Appendix A now highlights the Council's most significant risks, with the risks that fall into the top line of the ratings only, being reported.

2.2 **Horizon Scanning**

At the last meeting it was requested that a list of legislative developments be provided, either upcoming or current.

Below is a selected list of prospective legislation currently going through Parliament that could have an impact on the council. The list is not exhaustive, but represents a selection of the major pieces of proposed legislation currently under debate prior to Royal Assent

An outline of the proposed changes in each of these Bills and the potential impact on the Borough Council was discussed previously at the Committee and updates will be provided at the meeting.

- **Health and Social Care Bill 2011**
- **Localism Bill 2011**
- **Police Reform and Social Responsibility 2011**
- **Motor Insurance Regulation Bill 2011**
- **Local Government Finance Bill 2012**
- **Legal Aid Sentencing and Punishment of Offenders Act 2012**
- **Mesothelioma "Scheme of Last Resort" – impact of a new scheme on insurance premiums and the effect on ways that claims are made**

Members are asked to nominate any further areas of legislation they might wish to consider at a future meeting and to consider whether they wish to receive further information on the Bills listed here.

2.3 Issues raised at the last meeting

Councillor Jones asked how embedded risk was at the council.

At Newcastle Borough Council, risk is part of the everyday responsibilities for officers. As such, it forms part of the induction process to new employees, where it informs staff of their responsibility to ensure that all corporate priorities and service objectives are met during their term of employment with us.

The Risk Management Policy and Strategy documents are updated annually, and this year the policy has been signed by the Chief Executive and Leader of the Council, adding certification that risk is an important part of the council's operation.

GRACE is the preferred system that is used to hold all the current risks within the council, whether as strategic, operational, project or partnership risks, with the historical ability to house "archived" or "closed" risk profiles, that can be used to inform new profiles as developed. The system is available for anybody to have on their desktop, and any person can view any profile, however, confidential risks are limited to authorised personnel only. The system is designed to be open and transparent.

Many officers throughout the council have also obtained qualification in Prince2, which incorporates risk management as part of its process. Throughout any project where Prince2 methodology is used, the risks are recorded in this format so as not to duplicate work and to ensure best use of officer time.

The Chair and Vice-Chair of the Audit & Risk Committee have recently attended a risk management course on Essentials of Enterprise Risk Management, and previous training has been attended by other members of the committee. As the risk landscape is constantly changing and is so varied, training needs are reviewed accordingly, and courses that are deemed relevant are investigated to see if they would benefit your officers and members respectively. Previously training was done using the council's old risk management policy and strategy, but the document is available on the council's intranet, and members may recall that you have your own hard copy from the meeting back in July 2012.

Your Business Improvement Officer (Risk & Insurance) has obtained qualifications at certificate level for risk, through the Institute for Risk Management and the Chartered Institute of Insurance, along with the Registered Risk Practitioner status for ALARM, which is gained through attendance at meetings, seminars and learning forums and gaining CPD points each year.

The management of risk is undertaken by the respective officers responsible for the risk profile, and then follows through on the review and communication process as outlined in the strategy, reporting to the necessary committees and officer groups. The challenge of the risks is then further strengthened by these meetings, and members can then feel confident that their officers are controlling risks for major projects, strategic risks and operational ones.

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 (England) Regulations 2011, state that:

"The relevant body ***is*** *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 arrangements for the management of risk"*

5. **Equality Impact Assessment**

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

6. **Financial and Resource Implications**

6.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.

7. **List of Appendices**

Appendix A – Risk and Action Plan

8. **Background Papers**

None

(red)	High 9 risks
(orange)	Medium 7 & 8 risks
(light green)	Risks to be deleted from next 1/4 profile
(yellow)	Risk reduced from last 1/4 profile
(grey)	New risks

	Risks and Action Plan **Risk Identified**	**Profile**	**Action Required to Address Risk** in order to reduce the risk	**Target Date** for action completion	**Risk Category** Strategic, Operational, Project	**Current position / progress** as at 06/01/2012	**Status** as at Dec 11	**Status** as at Mar 12	**Current Rating** as at June 12
1	Reputational damage	Chief Executive	NONE		Strategic	Although this is identified as a risk, reputation damage is normally a consequence of other risks that have occurred. There are numerous controls in place in this profile, however if this did occur, the impact and likelihood of it happening has resulted in the High Red 9 rating	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9
2	Potential Claims growth	Chief Executive	Revise operating procedures to ensure they are more robust to defend claims whilst taking into account financial limitations	Dec-12	Strategic	Reviews taking place with officers of the ways of working and reporting incidents/accidents and keeping records, to enable SMART ways of working to be developed if possible, and to enable indentification of high risk areas where controls can be added to help with protecting the council	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9

	Appendix X Risks and Action Plan **Risk Identified**	**Profile**	**Action Required to Address Risk** in order to reduce the risk	**Target Date** for action completion	**Risk Category** Strategic, Operational, Project	**Current position / progress** as at 06/01/2012	**Status** as at Dec 11	**Status** as at Mar 12	**Current Rating** as at June 12
3	Overall budget realisation fails	Resource & Support Services	NONE - this risk is outside of the council's control		Strategic	Numerous controls in place to deal with this internally such as monthly budget reports, MTFS continually reviewed, contingency fund available, realistic inceases included in base figures	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9
4	Breach of Data Protection Action	Resource & Support Services	A further training of the government protected marking scheme is be to rolled out across the council following the recent mandatory information security briefings to all staff	Mar-13	Strategic	This risk is currently being controlled - various training sessions have taken place with all staff, guidelines are available, data protection and information security training has taken place, however the overall impact and likelihood ratings have remained high.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9
5	ICT system failure	ICT services	Undertake works to complete a few minor issues, then the area to be made fire retardant	Feb-12	Operational	Minor works such as leaking radiators are outstanding. The fire retardant issues for the area are in hand with the property section to place orders and complete these works	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 2 Medium 6

	Appendix X Risks and Action Plan **Risk Identified**	**Profile**	**Action Required to Address Risk** in order to reduce the risk	**Target Date** for action completion	**Risk Category** Strategic, Operational, Project	**Current position / progress** as at 06/01/2012	**Status** as at Dec 11	**Status** as at Mar 12	**Current Rating** as at June 12
6	Increase in Fees and Charges does not result in higher income levels	Balances / Contingency Reserve 2012/13	NONE		Project	The control measures in place currently secure this risk as it is, however if any issues arise it is monitored as part of the financial system	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8
7	Fall in interest rates reduces income to the Council	Balances / Contingency Reserve 2012/13	NONE		Project	This risk is somewhat out of the control of the council	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8
8	Abuse of email facility	Fraud Awareness	The updated online fraud and corruption data package now contains an elearning training module on misue of time and resources on email and internet facilities. Roll out then needs to be done to all staff	Mar-13	Operational	The control measures in place currently secure this risk as it is. The rating is low impact, high likelihood but the mailmeter reports sent to Heads of Service allow the corrective measures when required, to be implemented in line with the disciplinary procedures of the council.	I = 1 L = 3 Medium 7	I = 1 L = 3 Medium 7	I = 1 L = 3 Medium 7
9	Failure to achieve service cost savings in 2012/13 and 2013/14	Recycling Strategy	NONE		Project		I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8
10	Possible receipt of malicious package at the Civic Offices	Customer Services	NONE		Operational	The post opening procedures are kept up to date, however the risk is a low impact, high likelihood	I = 1 L = 3 Medium 7	I = 1 L = 3 Medium 7	I = 1 L = 3 Medium 7

	Appendix X Risks and Action Plan **Risk Identified**	**Profile**	**Action Required to Address Risk** in order to reduce the risk	**Target Date** for action completion	**Risk Category** Strategic, Operational, Project	**Current position / progress** as at 06/01/2012	**Status** as at Dec 11	**Status** as at Mar 12	**Current Rating** as at June 12
11	Failure of Keele Golf Course to continue trading under current contractor	Regeneration & Development	To clarify the potential contingency arrangements for operating the course on an in-house or interim management arrangement in the event that the current tenant becomes insolvent or divests himself of the responsibility.	Dec-12	Strategic	Continuous monitoring and contact with the current contractor takes place on a monthly basis to establish the situation is in a manageable place for both the council and the contractor	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8

DOLMANS FOCUS ON

INCREASE IN DAMAGES AFTER 1 APRIL 2013

Simmons v Castle [2012]

Readers will be aware that one of the proposals of the Jackson Report (which has been publicised heavily since its publication) was that General Damages should rise by 10% to partly compensate Claimants for having to pay Conditional Fee Agreement (CFA) success fees themselves from any award of damages.

The Legal Aid Sentencing and Punishment of Offenders Act 2012 (LASPO) abolishes recoverability of success fees from a date to be determined by regulations. The Government has since made it clear that the said date will be 1 April 2013 and that the provision will apply only to CFAs signed on or after this date.

Where a CFA is entered into before 1 April 2013, the success fee will still be recoverable, even if the case ends after 1 April 2013.

It was unclear, however, until the recent case of *Simmons v Castle [2012] EWCA Civ 1039*, as to how the suggested 10% increase in General Damages would be effected.

Implementing the 10% Increase

In *Simmons,* Lord Judge (the Lord Chief Justice), sitting in the Court of Appeal, declared that *"with effect from 1 April 2013, the proper level of General Damages for (i) pain, suffering and loss of amenity in respect of personal injury, (ii) nuisance, (iii) defamation and (iv) all other torts which cause suffering, inconvenience or distress to individuals, will be 10% higher than previously"*.

Not only has the Court of Appeal widened the matters to which the 10% increase will apply, but has decided that the increase will apply to all cases where Judgment is given after 1 April 2013, whether or not the matter is being conducted under a CFA and irrespective as to when that Agreement was signed.

Taking into account the combined effects of LASPO and the decision in *Simmons,* success fees in relation to CFAs pre-dating 1 April 2013 will remain recoverable and there will be a 10% increase in damages in those cases, providing Claimants with something of a 'windfall' in such matters.

Effects on Part 36 Offers

Unfortunately, the Judgment in *Simmons* does not deal with the potential problems associated with Part 36 Offers, thereby intensifying the problems already foreseen between Part 36 Offers and 'Qualified One-Way Costs Shifting', which was commented upon by Peter Bennett in his recent article:

Qualified One-Way Costs Shifting – Its Interaction with Part 36 of the CPR from April 2013' (Dolmans Insurance Bulletin – July 2012).

DOLMANS FOCUS ON

The decision in *Simmons* highlights even more potential conflict between the 'new regime' and Part 36 of the Civil Procedure Rules (CPR).

For example, if a Claimant offers, at current rates, £10,000.00, and a Defendant offers £9,500.00, but the Trial Judge in the case, sitting from 1 April 2013, awards £9,200.00, up-rated by 10% to £10,120.00, has the Claimant beaten the Defendant's offer? The Claimant will, no doubt, argue that the Defendant should have increased its Part 36 Offer by 10%. However, if the Claimant accepted such an offer before 1 April 2013, the Defendant would have effectively overpaid the Claimant by 10%.

The situation is not made any simpler by the fact that the 10% increase will apply to General Damages, not Special Damages, and Part 36 Offers have historically encompassed both General Damages and Special Damages. It is inevitable, therefore, that the Courts will be required to dissect such Part 36 Offers before being in a position to consider the costs consequences of the same.

The ministerial statement issued in July 2012, reported in Peter Bennett's article referred to above, includes reference to the introduction of a 10% uplift in damages, where a Claimant equals or beats its own Part 36 Offer. This uplift is wholly separate from the 10% uplift in General Damages, as discussed above, and adds another dimension to the Part 36 situation, which is already far from simple.

Simplicity and Clarity? – Not Quite!

In *Simmons*, Lord Judge stated that *"early notice was being given to enable all parties engaged in or contemplating litigation to be aware of the impending change and prepare accordingly"*. Although it is, of course, useful for everyone to be aware of such changes from an early stage, it would be equally useful to have some clarity of accompanying issues, such as Part 36 Offers, at the same time.

Unfortunately, despite Lord Judge's comments that the decision *"has the great merits of ….. providing simplicity and clarity"*, it is evident that this is unlikely to be the case and that there will be extensive satellite litigation, surrounding the costs consequences of Part 36 Offers for example, after 1 April 2013.

Tom Danter
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Dolmans Solicitors

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or visit our website at **www.dolmans.co.uk**

MESOTHELIOMA "SCHEME OF LAST RESORT" LAUNCHED FOR NEWLY DIAGNOSED CASES

One of the perennial difficulties (for both Claimants and Defendants) in mesothelioma litigation is the situation where there are a number of employers during the course of the Claimant's employment history, some of which may have the lion's share of exposure, but have long since ceased trading and their insurers cannot be traced. Very often this leaves one employer as "last man standing" and following the statutory dis-application [1] of the case of *Barker v Corus* [2], this Defendant is required to meet the entire cost of the claim.

Theoretically, this Defendant can then recoup those costs from other employers (or their insurers), albeit this is very much more often a hope than an actual result. The situation of untraced Defendants and/or their insurers causes, therefore, injustice to both parties, most obviously in situations where a mesothelioma victim is unable to identify a single extant former employer against whom a claim for damages can be made.

Arguably, this has led to claims against employers (who still exist) upon the basis of very minimal or tenuous exposure histories.

For a number of years, there have been calls for "a scheme of last resort", akin to the Motor Insurers' Bureau scheme in respect of untraced/uninsured drivers. This scheme was first mooted by Andrew Dismore MP (via a potential private member's bill) and has been discussed on a number of occasions since that time. Following an announcement by the DWP in July 2012, this scheme has now been enacted and will receive £300 million in funding over the next 10 years [3].

[1] Via the Compensation Act 2006.

[2] Which allowed for the apportionment of mesothelioma damages relative to the culpability of the Defendant(s) consistent with the case of *Holtby v Brigham and Cowan* which, perversely, still operates in the context of other types of divisible asbestos related disease.

[3] According to the DWP press release, the insurance industry already pays £200m annually in mesothelioma claims.

DOLMANS FOCUS ON

Operation of the Scheme

As hinted at above, the scheme is intended to operate as a scheme of last resort in relation to Claimants who are unable to claim compensation for their mesothelioma from another source. The scheme is to be funded via a levy to be applied to the employer's liability insurance industry as a whole and will be run jointly between the ABI and the DWP.

The scheme will operate in relation to all new diagnoses of mesothelioma from 25 July 2012 onwards. Diagnoses prior to that date will be outside the scheme and, therefore, presumably, subject to the existing situation of seeking to claim damages from extant employers and/or their insurers.

In respect of all such new diagnoses of mesothelioma, in the event that an extant former employer and/or their insurers cannot be traced, a Claimant will be entitled to make a claim for scheme compensation via the DWP.

Motivation Behind the Scheme

The motivation behind the scheme is, obviously, to deal with the injustice of mesothelioma victims having no right of redress in circumstances where they cannot identify a successor to their former employer, a former trading employer or insurers of such an employer.

In conjunction with the ELTO insurance tracing scheme, it is felt that this scheme will ensure that mesothelioma victims will now be able to obtain appropriate compensation in all circumstances, whether via the scheme, or via the tracing of insurers via the ELTO database (which has recently been expanded).

Effects of the Scheme

From the Defendant perspective, the primary potential beneficial effect of the scheme is the discouragement of tenuous claims in relation to very brief periods of employment or questionable histories of exposure. The problem of private sector employers becoming untraceable and/or ceasing trading, has been a significant problem for the public sector as a whole. The Writer has seen a number of cases, and is currently dealing with several more, where very brief histories of exposure within the public sector are being utilised to obtain damages largely because more culpable private sector employer/s is/are no longer available for a claim.

Accordingly, the existence of this scheme might serve to reduce the numbers of such claims. What is not clear, however, is the extent to which the scheme will "run in tandem" with civil action damages, in the manner that the pneumoconiosis (Workers Compensation) Act (PWCA) scheme currently operates.

The PWCA scheme was intended, to some extent, to be a scheme of last resort and was designed to deal with situations where a culpable party could not be identified in relation to asbestos exposure. Very often, however, a PWCA claim is made at the very outset, before the situation has been clarified in terms of viable Defendants. PWCA compensation is then recoupable from the ultimate Defendant in due course.

What is not clear, therefore, is whether this scheme of last resort will give rise to similar issues of recoupment for Defendants subsequently identified in the context of the self same claim.

What the existence of this scheme might conceivably cause debate on, however, is the existing regime of the identifiable Defendant being "last man standing" in the context of a given claim. This situation has arisen because of the aforementioned statutory dis-application of *Barker* (which was on the basis that Claimants would be under compensated if Defendants were entitled to apportion damages according to their relative culpability). The existence of a scheme of last resort in this situation tends to undermine this argument, although, Parliament would need to interfere given the manner in which *Barker* was overruled. Given that scheme compensation is likely to be lower than common law damages (see below), this does seem unlikely.

The extent of compensation payable under the new scheme is equally unclear at present. Compensation payable under the PWCA scheme is fundamentally lower than common law damages and/or special damages. Accordingly, provided some kind of viable claim for common law damages can be made against an extant party, it seems to the Writer that the overwhelming likelihood is that Claimants will opt for that route, rather than the compensation scheme route.

A more interesting question, perhaps, is what will happen when a Claimant is faced with a situation of a number of culpable (but non traceable) employments and a single traceable, but arguably non-culpable employment. One could speculate that in this situation, the existence of a fund of last resort might actually discourage a claim against that Defendant/employer.

Accordingly, although the scheme has the potential to reduce the number of claims arising from low level exposure and/or short duration employment, whether in practice this has that effect is a matter of considerable speculation at present.

Conclusions

This scheme obviously represents justifiable good news for Claimants/victims. It will be perceived to level the playing field in terms of the so-called compensation lottery in the sense that Claimants will no longer be reliant upon whether their former employer is still trading in order to claim compensation. Arguably, this development, therefore, represents good news for certain Defendants, particularly those Defendants in the public sector and/or the quasi public sector (the former centralised power generation industry, for example) who are habitually named as Defendants often on the basis that other elements of the Claimant's history of employment cannot be taken forward in terms of relevant extant successors (the employers in question having ceased trading long ago).

However, whether the scheme actually represents good news for such Defendant organisations is a matter of some speculation. The extent of compensation under the scheme is likely to be lower than common law damages and will, therefore, provide a disincentive to Claimants to claim under the scheme unless, genuinely, they have no option. However, the existence of such an option is likely to be evidentially dependent as much as anything else (ie - the Defendants' ability to provide evidence as to culpable exposure becomes even more important).

Given the findings of the Higher Courts in relation to any possible de minimis threshold in relation to asbestos exposure giving rise to mesothelioma (notably the *Sienkiewicz* and *Willmore* cases), the extent of exposure required to obtain damages remains very low (consistent, in fairness, with the potential aetiology of the condition). Accordingly, again, whether this actually represents good news for Defendants is a matter of some speculation.

The other point to make is that any scheme reliant upon a levy upon the insurance industry will have to be paid for, to some extent, from current premiums.

Peter Bennett
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INTERNAL AUDIT PROGRESS REPORT – Quarter 1 2012/13

Submitted by: **Audit Manager**

Portfolio **Finance and Budget Management**

Ward(s) affected **All**

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1 April to 30 June 2012. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendation

That Members consider any issues that they may wish to raise with Cabinet and, or Executive Directors.

Reasons

The role of Internal Audit is key to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

1 **Background**

1.1 The Internal Audit Plan for 2012/13 allows for 534 days of audit work.

1.2 This is the first progress report of the current financial year presented to the Committee and the areas that it will cover are as follows:

- Actual against planned performance for the first quarter, demonstrating progress against the plan.
- Details of audit reviews completed and final reports issued.
- Consultancy and non audit work, including corporate work.

1.3 The delivery of an audit plan does not normally show 25% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 10% in the first quarter. Achievement of the 10% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 25% of the plan is not normally achieved due to slippage of the previous years plan, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

2. **Issues**

2.1 **Performance Indicators**

The indicators reported below relate to the end of the first quarter (June 2012).

2.2 **Number of Recommendations Implemented**

At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified.

Up to the end of June 2012, 348 recommendations had been made of which 279 have been implemented, 80%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 80% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

2.3 **Percentage of clients who are satisfied or very satisfied with the service provided**

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2012/13 is 85%.

Two satisfaction surveys were returned during the first quarter, the average for these was 99%.

Progress made against the plan.

This is measured using three indicators:

- **Audit staff utilisation rate:** This indicator demonstrates whether staffing resources are being used to complete non audit duties. Audit duties are chargeable to clients and can include audit reviews, special investigations, consultancy and contributing to corporate initiatives in terms of providing controls advice. Non audit and therefore non productive time covers aspects such as administration, training and leave. The target for productive time is 74%

  Productivity at the end of quarter 1 is 72%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 7% of the planned audits had been completed by the end of quarter 1.

- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 7% of the operational audit plan had also been completed against an expectation of 10%. This figure is lower than anticipated at this stage due to resource issues, in that a member of the audit team has been seconded into the Finance Department to cover a period of maternity leave and whilst approval was granted to cover this position there was a delay in the replacement commencing work which has resulted in a slightly lower percentage of the plan being completed at this stage in the financial year.

2.4 **Audit reviews completed and final reports issued between 1 April and 30 June 2012**

On completion of the audit reviews an opinion can be given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Well Controlled	Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (vfm)
Adequately controlled	There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
Less than adequately controlled	Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
Poorly controlled	Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since 1 April 2012. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	**AUDIT OPINION**	**Risk Category**
Chief Executives		
Land Charges	Well controlled	B
Operational Services		
Jubilee 2	No opinion – interim report	A
Waste Disposal Contract	Well Controlled	A
Audley Burial Ground	Well Controlled	A
Regeneration and Development		
Regeneration & Development Administration	Adequately Controlled	B
Corporate Reviews		
Corporate Governance	No opinion given – work completed as part of the Annual Governance Statement	A

Risk categories relate to the risk to the Council achieving its objectives if the area under review is not performing and identify the frequency of the audit. An ‘A’ risk area requires a review of its key controls on an annual basis or as the need for an audit arises for example, in the case of contracts coming to an end final account audits are required and completed. A ‘B’ risk area is reviewed twice during a three year programme and a ‘C’ risk every three years.

‘Risk’ can be defined as the chance, or probability, of one or more of the Council’s objectives not being met. It refers both to unwanted outcomes that may arise, and to the potential failure to reach desired outcomes. Management compliance with agreed action plans will ensure that risks are addressed.

2.6 **Consultancy and non audit projects**

During quarter 1 the Audit Manager has been involved in various projects which have included the following:

- An assessment of the Council’s Corporate Governance arrangements was completed which culminated in the production of the Annual Governance Statement which was presented to the Audit & Risk Committee on 24 July 2012 for approval alongside the Statement of Accounts. This process involved a number of separate pieces of work being co-ordinated and then an assessment undertaken of the overall governance arrangements for the Council, which resulted in the final statement being produced.
- In addition a total of 12 audit days have been spent undertaking special projects at the request of other Directorates.

3. **Options Considered**

3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.

3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

4. **Proposal**

4.1 In agreeing to audit reports, management acknowledge the issues raised and risks identified from the review and therefore accept the recommendations that have been made.

5. **Reasons for Preferred Solution**

5.1 By implementing the recommendations, the exposure to risk is minimised and achievement of the Council’s objectives maximised. The completion of the audit reviews provide evidence on which assurance of the Council’s systems and internal controls can be provided.

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

6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.

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 best value facilities.

7. **Legal and Statutory Implications**

7.1 The Accounts and Audit Regulations 2011 require the Council to ‘maintain an adequate and effective system of internal control in accordance with the 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 implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed. This in turn will reduce the risk of financial losses.

9.2 The service is currently on target to be provided within budget.

10. **Major Risks**

10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.

10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.

10.3 If the risks identified are not addressed through the implementation of agreed recommendations, achievement of the Council's objectives will be affected.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 20121/13 (Audit and Risk Committee 30 January 2012).

13. **List of Appendices**

Appendix A - Internal Audit Plan 2012/13: Progress to the end of Quarter 1 – 2012/13.

14. **Background Papers**

Internal Audit Plan & PI's Folder
APACE files 2012/13

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Internal Audit Plan 2012/13

Progress to the end of Quarter 1 – 2012/13

Chief Executives Directorate

The following areas have been completed in quarter 1:

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Land Charges	B	Well Controlled	0	0	1	1

The main objectives of the Land Charges review were to determine whether:

- there are clear procedures on what information can be disclosed as part of a search,
- to ensure that the Land Charges Register is kept up-to-date and amendments are appropriately authorised,
- to ensure that entries in the Land Charges Register are supported by documentary evidence,
- to ensure that the correct fees have been charged,
- to ensure that the correct insurance is in place, and
- to ensure that risks have been identified for the service.

There was just one recommendation arsing from the review and that was as follows:

- The passwords on the Land Charges computer system, TLC, should be forcibly changed on a monthly basis.

Operational Services Directorate

Areas completed in Quarter 1 of the 2012/13 Audit Plan

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Jubilee 2 – Interim Report	A	No opinion given – interim review	4	11	19	34

The main issues arising from the above audits can be summarised as follows;

Jubilee Pool

The main objectives of this review were to ensure that procedures were operating in accordance with Standing Orders and Financial Regulations and that the necessary controls were in place. It was decided that given that the establishment was still relatively new from an operational perspective that an interim review would be undertaken at this stage. As a result of this review a number of procedural and process issues were identified. A number of recommendations were made as can be seen in the table above. A short timescale for the implementation of these recommendations was set and at the time of writing this report it is pleasing to report that the majority have now been actioned.

A full audit review of the establishment will be undertaken later in the year.

In accordance with Financial Regulations all final payments made against a contract need to be verified by Internal Audit before payment can be made. During quarter 1 the following final payments have been audited

Contract Name	Contractor	Value of Work	Audit Findings
Audley Burial Ground	N T Killingley	£69,147.43p	No problems identified, contract delivered within budget
Waste Disposal	Browns Recycling	Variable – schedule of rates	No problems identified, contract delivered within budget

<u>Regeneration & Development Services</u>

<u>Areas completed in Quarter 1 of the 2012/13 Audit Plan</u>

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Regeneration and Development Administration	B	Adequately Controlled	0	2	0	2

The main objectives of the Regeneration and Development Administration review were to ensure:

- that the ordering and receipt/payment of goods had been done so in accordance with the Council's Standing Orders and Financial Regulations,
- that all income has been received, recorded and banked,
- that petty cash expenditure is appropriately documented,
- that inventories are completed across the directorate,
- that controlled stationery is correctly requisitioned,
- that all fees are charged in accordance with the Council's Scale of Fees and Charges,
- that physical and ICT security is adequately implemented,
- that risks have been identified and recorded appropriately, and
- that an accurate contracts register is maintained.

There were two recommendations made as part of the review, these were as follows:

- Following the completion of all office moves, up-to-date inventories could be completed for each of the sections.

- The Admin and Performance Officer should receive training on Target 100. Risk assessments should then be completed for the section and recorded on the system accordingly.

Corporate Reviews

These are audit reviews that cut across all Service Areas, as such Audit Briefs go out to all Executive Directors, Corporate and Service Managers and reporting is done on an individual service level in order to retain confidentiality of the issues identified.

In addition work was completed in relation to **Corporate Governance** which culminated with the completion of the Annual Governance Statement for 2011/12.

Note on recommendations

Recommendations fall into one of three categories;

High (H): *action that is considered imperative to ensure that the authority is not exposed to high risks;*

Medium (M): *action that is considered necessary to avoid exposure to significant risks;*

***Low (L)**:* *action that is considered desirable and which should result in enhanced control or better value for money.*

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QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 APRIL TO 30 JUNE 2012

Submitted by: **Audit Manager**

Portfolio **Finance and Budget Management**

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 now 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 first quarter there was just one high risk recommendation due for review, this was at its first follow up date and therefore no further action is required at this stage.

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

2.3 Three Directorates are showing Limited Assurance at the end of the first quarter, whilst Regeneration and Development Services have an Assurance Opinion of Substantial. Given these results at the end of the first quarter there are no issues or concerns in relation to any outstanding recommendations within any of the Directorates.

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**

6.1 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 fundamental recommendations show a target date change; this identifies the number of times the recommendation has been referred back to Executive Management Team and to members 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 June 2012

12. **Background Papers**

Internal Audit PI and Assurances file

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APPENDIX A

Audit Recommendations
Summary of Assurance

June 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 2010/11.

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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FIGHTING FRAUD LOCALLY – THE LOCAL GOVERNMENT FRAUD STRATEGY

Submitted by: **Audit Manager**

Portfolio: **Finance and Budget Management**

Ward(s) affected: **All**

Purpose of the Report

To inform Members of the report published by the National Fraud Authority in June 2012. Fighting Fraud Locally – The Local Government Strategy is the first strategy to recognise the impact that fraud is having on the public sector

Recommendations

That the report be noted.

Reasons
The strategy reports on the key risks and pressures facing local government and identifies good practice in fighting fraud and identifies where we should be reviewing our current arrangements.

1. **Background**

1.1 Fraud has a serious impact on all parts of the economy and costs the UK around £73 billion per year. The cost of fraud to the public sector equates to £20.3 billion of which £2.2 billion relates to local government.

1.2 This £2.2billion attributable to fraud loss in local government can be broken down further and includes £900m in housing tenancy fraud, £890m in procurement fraud, £153m in payroll fraud, £131m in council tax discounts and exemptions, £46m in 'blue badge' fraud, £41m in grant fraud and £5.9m in pension fraud, all of which is public money that could be better spent delivering public services.

1.3 The fighting fraud locally approach has been developed by local government for local government and addresses the need for greater prevention and smarter enforcement. The strategic approach outlined in the strategy provides a guide to enable local authorities to be able to take a tougher response on tackling fraud.

1.4 The strategy focuses around 3 themes Acknowledge, Prevent and Pursue.

- **Acknowledge –** acknowledging and understanding fraud risks. Organisations should be able to assess and understand the risks, commit support and resource to tackling fraud and maintain a robust anti-fraud response.
- **Prevent –** preventing and detecting more fraud. Organisations should be looking to make better use of information and technology, enhance fraud controls and processes, and develop an effective anti-fraud culture.
- **Pursue –** being stronger in punishing fraud and recovering losses. Organisations should seek to prioritise fraud recovery and use of civil sanctions, develop the capability and capacity to punish fraudsters and collaborate across local authorities and with law enforcement.

The strategy also provides a range of free tools that will enable local authorities to be able to:

- estimate the level of individual fraud loss to their council and understand their fraud risk and use the info to target resources more efficiently;
- establish their resilience to fraud threats and assess themselves against a checklist for what arrangements they should have in place to tackle fraud;
- prevent fraud by having access to a good bank of tried and tested methods;
- have greater support through accessing on line technical advice and a peer review process of fraud experts;
- establish partnership arrangements more easily through using templates held in a good practice bank, and
- cost effectively create an anti fraud culture through using free fraud awareness training.

1.6 A full copy of the strategy can be made available to members upon request.

2. **Issues**

2.1 The Authority already has a set of policies and procedures in place, that help to prevent and deter fraud occurring. These polices are reviewed annually against best practice and ensure that as an organisation we proactively encourage all officers and members to raise any concerns that they may have.

2.2 There is also 'A Fraud Awareness Guide' that is made available to Managers; this guide outlines the Council's commitment to the protection of public funds and the necessity for harnessing resources in order to minimise losses arising from fraudulent conduct. The guide gives details of:

- The identification of the types of fraud.
- How fraud occurs.
- Examples of behaviour that might indicate fraud.
- Indicators of potential fraud in a system.
- Advise to management and staff re-fraud and corruption.
- Reporting of conduct that may be fraudulent.

Managers are asked to complete and review this Self Assessment checklist for their own service area on an annual basis; these completed checklists are then used to help inform the audit planning process.

2.3 The council also has an on-line training package in relation to Fraud and Corruption, this training package which has been tailored to the council's own policies and procedures is made available to all staff via the Internal Audit Section on E Voice. This package demonstrates the council's commitment to ensuring staff awareness and training in relation to fighting fraud. The training package has 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 Email and Internet Facilities. This training package is mandatory for all Executive Directors, Heads of Service, Business Managers and anyone else that a manager feels this is appropriate to. As part of the Fighting Fraud Locally strategy an on line training package is made available and work is currently in progress to update the existing training to incorporate this, once completed this will then be rolled out and made available to all staff.

2.4 Work is also in progress to review the checklist provided as part of the strategy to ensure that our current processes, policies and procedures are fit for purpose and fall in line with the strategy.

2.5 The Council has also joined the CIPFA Counter Fraud Benchmarking Club for 2012, this will enable us to benchmark with other local authorities and allow us to review and compare our policies, procedures and resources. It will also give us the opportunity to share best practice examples and learn from the experiences of others to ensure that we can continue to develop and improve our existing counter fraud strategies.

3. **Options Considered**

3.1 To review our current arrangements against this strategy ensures and demonstrates that the Council will act with integrity and responsibility in the management and spending of the Publics money.

3.2 Not to review our current procedures and policies could leave the Council open to criticism of not being committed to maintaining high standards in the avoidance and detection of fraud and corruption.

4. **Proposal**

4.1 That the report be noted.

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

5.1 The adoption of the guidance provided in the strategy helps to demonstrate that the Council is committed to ensuring the best use of resources and enable the prevention and detection of fraud and corruption at the earliest opportunity, therefore contributing to its Corporate Priority of achieving excellence

7. **Legal and Statutory Implications**

This report raises no new legal or statutory implications.

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

There are no financial or resource implications have been identified at this point in time, any issues that arise from the action plan will be brought back to a later committee.

10. **Major Risks**

A full risk assessment in respect of Fraud has been completed; fraud risks have also been incorporated into the operational risk assessments for each service area in order for these to be managed accordingly. A copy of the full risk assessment can be provided to members upon request.

11. **Key Decision Information**

None

12. **Earlier Cabinet/Committee Resolutions**

None

STATEMENT OF ACCOUNTS 2011/12 AND EXTERNAL AUDITOR'S GOVERNANCE REPORT

Submitted by: **Head of Finance**

Portfolio **Finance and Budget Management**

Ward(s) affected **All indirectly**

Purpose of the Report

To approve the statement of accounts, receive the Audit Commission's Governance Report for 2011/12 and to agree the Letter of Representation to the Auditor.

Recommendations

(a) That the Statement of Accounts 2011/12 be approved and signed by the person presiding at the meeting.

(b) That the Annual Governance Report for 2011/12 be received.

(c) That the Letter of Representation be approved for signature by the Council's Section 151 Officer.

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 and that this is approved by a Committee no later than 30 September in the year following that to which the Statement relates.

The External Auditor appointed by the Audit Commission (the District Auditor) is required, according to the International Standard on Auditing 260 (ISA 260), to report to you on matters affecting governance via a governance report.

The Letter of Representation is a formal letter from the Council to the External Auditor stating various matters which the auditor needs to have confirmed in order to gain sufficient assurance to be able to certify the Council's accounts.

1. Background

1.1 The Committee received a report on 24 July in relation to the draft Statement of Accounts and the Outturn position for 2011/12. The report explained that the 2011/12 Statement of Accounts does not have to be formally approved by a Council Committee until 30 September 2012. However, it was felt that members needed an earlier update on the position for 2011/12, which was the reason for this earlier report. The report set out information in relation to the outturn position and the main features of the Statement of Accounts, such as the balance sheet position, reserves levels and income and expenditure for the year. A copy of this report is attached at Appendix A.

1.2 The Committee now needs to formally receive the Statement of Accounts for 2011/12 for scrutiny and approval. Accordingly a copy of the Statement is appended at Appendix B for your consideration.

1.3 The External Auditor appointed by the Audit Commission (the District Auditor) is required, according to the International Standard on Auditing 260 (ISA 260), to report to you on matters affecting governance via a governance report.

1.4 The purpose of the report is primarily to allow the auditor to bring to the attention of the Committee any material mis-statements in the accounts for 2011/12, which your officers have declined to amend and any significant material mis-statements in the accounts submitted for audit which have been amended, together with any material weaknesses in internal control or areas of uncertainty. The report also contains the auditor's opinion on the Council's arrangements for achieving Value for Money.

2. **<u>Statement of Accounts 2011/12</u>**

2.1 The Statement of Accounts now submitted to you has been audited by the Council's external auditor, the Audit Commission. As a result a very small number of minor amendments have been agreed with the auditor and made to the Statement but it is substantially the same document as you considered in July. The Annual Governance Report sets out the amendments which have been made.

2.2 None of these agreed amendments change the amount of the negative variance on the General Fund Revenue Account (£162,808) reported to you in July.

2.3 There are no changes which are significant enough to alter the content of the previous report, apart from in respect of the items outlined in paragraph 2.4 below. Accordingly, the previous report attached at Appendix A should continue to be referred to for an explanation of the main features of the 2011/12 Statement.

2.4 A small number of changes have been made to the Statement of Accounts, following agreement with the external auditor. None of these agreed amendments change the amount of the negative variance on the General Fund Revenue Account (£162,808) reported to you in July. The effect of these changes is as follows:

(1) An item included in Heritage Assets on the basis it was owned by the Council has since been found to be a museum exhibit on loan to the Council and hence should not be included in the Heritage Assets figure in the balance sheet. This balance has been reduced by £0.02m, with a corresponding reduction being made to the balance of the Revaluation Reserve.

(2) An amount of £0.04m was found to be included in the sundry debtors total, which related to an account which would not be paid owing to the debtor concerned having gone into liquidation. Accordingly, the balance sheet has been amended by reducing the short term debtors balance by this amount and the Capital Grants Receipts in Advance Account balance, to which the income due had been credited has been reduced by the same amount. This account related to an outstanding Section 106 payment, payable by a developer, which is a charge upon the land concerned so the debt can still be collected from the present owners/occupiers, who will be billed for the amount due.

(3) The amount by which short term debtors had been impaired, representing an assessment of the amount contained within the debtors balance which may not actually be received (i.e. bad debts) was found to be overstated by £0.10m. Accordingly, the short term debtors balance has been increased by this amount and the charge to the Comprehensive Income and Expenditure Statement (CIE&S) in respect of the impairment reduced. At the same time, additional information has been received concerning the Council's exposure to the scheme of arrangement in

relation to Municipal Mutual Insurance, previously covered in the accounts by a note under "Contingent Liabilities". It was, therefore, considered prudent to set aside the amount of £0.10m by which the debtors impairment had been reduced as a provision to meet the liability. This increases the Provisions balance in the balance sheet and reinstates the amount taken out of the CIE&S in respect of debtors. Overall there is no change to the total of service costs shown in the CIE&S, only a small change in the individual service analysis making up the total.

2.5 The Council's Annual Governance Statement, which you approved at your July meeting, will be incorporated in the Statement of Accounts. Whilst the Accounts and Audit Regulations 2011 no longer require this to be included in the Statement of Accounts, they require it to be published, so it appears most appropriate to continue to include it in the published Statement of Accounts. Please note that this has not been included in the Statement appended to this report, however, in order to save paper.

2.6 The Audit Certificate to be included in the Statement will be provided after this meeting, following receipt by the auditor of the agreed and signed Letter of Representation, subject to his final satisfaction with the accounts.

3. **Annual Governance Report**

3.1 The Governance Report, which contains a copy of the proposed Letter of Representation, is attached at Appendix C. The external auditor will present the report and attend your meeting, together with your officers, to answer any questions raised by the Committee.

3.2 As stated earlier, the agreed amendments to the accounts referred to in the Governance Report do not change the amount of the negative variance (budget compared to outturn), i.e. the bottom line, in relation to the General Fund Revenue Account from that previously reported to members in July.

4. **Letter of Representation**

4.1 The Letter of Representation is a formal letter from the Council to the External Auditor stating various matters which the auditor needs to have confirmed in order to gain sufficient assurance to be able to certify the Council's accounts. It has to be approved by your Committee and then signed by the Council's Section 151 Officer.

4.2 The proposed Letter of Representation is set out at Appendix D.

5. **Equality Impact Assessment**

5.1 There are no equality issues arising from the report.

6. **Financial and Resource Implications**

6.1 The adverse variance on the General Fund Revenue Account of £162,808 has been met by a transfer from the Budget Support Fund.

7. **Previous Reports**

7.1 Report to Audit and Risk Committee 24 July 2012 "Draft Statement of Accounts 2011/12.

8. **Appendices**

Appendix A: Report to Audit and Risk Committee 24 July 2012

Appendix B: Statement of Accounts 2011/12
Appendix C: Governance Report 2011/12
Appendix D: Letter of Representation

9. **Background Papers**

Report to Audit and Risk Committee 24 July 2012 “Draft Statement of Accounts 2011/12”; Governance Report 2011/12 produced by the External Auditor appointed by the Audit Commission; Letter of Representation 2011/12.

REPORT TO THE AUDIT AND RISK COMMITTEE ON 24 JULY 2012

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 1.

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 2 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 therefrom.

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 2 sets out the expenditure for 2011/12 and the ways in which it has been financed.

2. <u>The General Fund Budget</u>

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. <u>The General Fund Outturn</u>

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	3,152	2,134	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. <u>Reserves</u>

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 1 Statement of Accounts 2011/12 (Draft) **(NOT INCLUDED IN THIS APPENDIX)**
Appendix 2 Financing of Capital Expenditure **(NOT INCLUDED IN THIS APPENDIX)**

APPENDIX B

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
11	Statement of Responsibilities	Setting out the Council and Executive Director – Resources and Support Services responsibilities in relation to financial administration and accounting.
12	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.
14	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.
15	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.
17	Cash Flow Statement	Summarising the total cash movement of the Council's transactions.
18	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.
67	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.
70	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.

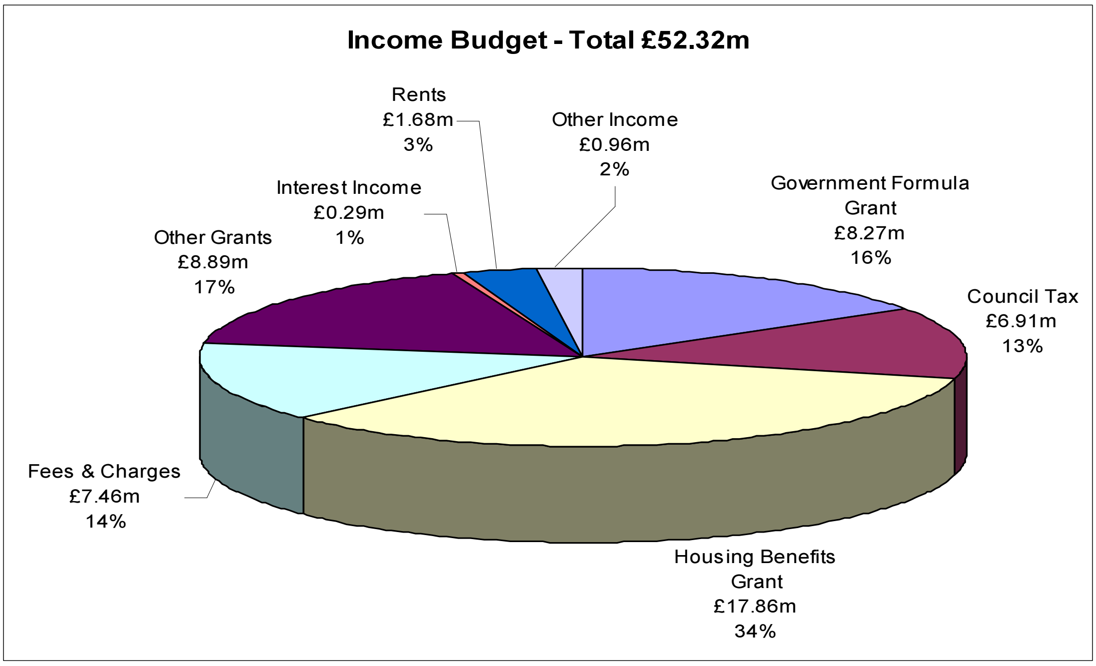
Revenue Expenditure

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.

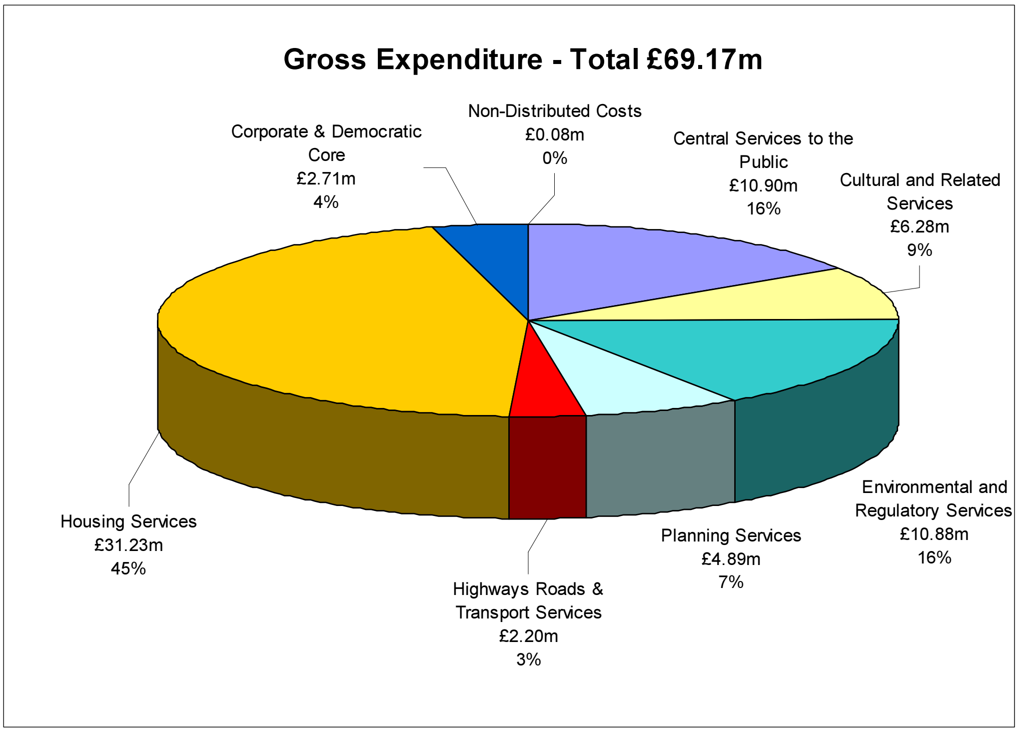
What we actually spent

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 14) 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 27 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

These financial statements replace the unaudited financial statements certified by the Executive Director - Resources and Support Services on 28 June 2012.

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)	11,586	(12,571)
Movement in Reserves during 2010/11	-	-	-	-	-	-	-
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		5,526	(224)	12,832	(12,832)	-
Net Increase/Decrease before transfers to Earmarked Reserves	2,084	-	5,526	(224)	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**	**5,526**	**(224)**	**7,815**	**(25,429)**	**(17,614)**
Balance at 31 March 2011 Carried Forward	(1,750)	(6,672)	(5,986)	(1,934)	(16,342)	(13,843)	(30,185)

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)	(5,986)	(1,934)	(16,342)	(13,843)	(30,185)
Movement in Reserves during 2011/12	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)		3,566	613	(2,080)	2,080	-
Net Increase/Decrease before transfers to Earmarked Reserves	777	-	3,566	613	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**	**3,566**	**613**	**8,270**	**4,346**	**12,616**
Balance at 31 March 2012 Carried Forward	(1,400)	(2,931)	(2,420)	(1,321)	(8,072)	(9,497)	(17,569)

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	6,281	1,306	4,975
11,574	3,578	7,996	Environmental and Regulatory Services	10,886	3,783	7,103
3,465	678	2,787	Planning Services	4,892	690	4,202
2,369	1,200	1,169	Highways & Transport Services	2,199	1,286	913
30,895	28,058	2,837	Housing Services	31,227	29,726	1,501
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	-	-	-
1,926	365	1,561	Concessionary Fares Scheme	-	-	-
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 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.
6. Concessionary Fares Scheme responsibility passed to Staffordshire County Council from 1 April 2011.

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 £000	31/03/2011 £000		Note	31/03/2012 £000	31/03/2012 £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
1,533	1,538	Heritage Assets	14		1,429
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
58,133	**61,133**	**Long Term Assets**			**64,502**
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		7,035
356	774	Cash and Cash Equivalents	19		354
34,959	**28,470**	**Current Assets**			**18,268**
(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		(400)
	-	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		(132)
(70,959)	**(48,198)**	**Long Term Liabilities**			**(56,109)**
12,571	**30,185**	**Net Assets**			**17,569**
		Usable Reserves	23		
1,750	1,750	General Fund Balance		1,400	
9,185	6,672	Other Usable Reserves		2,931	
11,512	5,986	Capital Receipts Reserve		2,420	
1,710	1,934	Capital Grants Unapplied Account		1,321	
24,157	16,342	Total Usable Reserves			8,072
		Unusable Reserves	24		
7,509	10,067	Revaluation Reserve		12,198	
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)	
(11,586)	13,843	Total Unusable Reserves			9,497
12,571	**30,185**	**Total Reserves**			**17,569**

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			280	(280)
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		(1)		1
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)**	**3,566**	**613**	**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	72
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	27,963	1,340	11,705	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	(1)	-	(150)	-	(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	26,226	1,053	6,569	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	1,339	12,290	4,965	43,902
Additions	4,802	34	1,345	559	6,740
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	(3,289)	(33)	(238)	(152)	(3,712)
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	**27,963**	**1,340**	**11,705**	**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	1,081	6,595	4,716	36,192
As at 31 March 2011	26,226	1,053	6,569	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	1,533
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	**1,538**
Cost or Valuation	
At 1 April 2011	1,538
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	**1,429**

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 ***		7,643
	65	**Borrowings**		56
	10,918	**Creditors**		8,843
	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	8,843	8,843
		Assets		
18,573	18,573	Loans and Receivables	10,996	10,996
9,665	9,665	Debtors *	7,643	7,643
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 £000	2010/11 ICT Consumables £000	2010/11 Total £000		2011/12 Fuel £000	2011/12 ICT Consumables £000	2011/12 Total £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	4,177
9,423	**Total**	**7,035**

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	118
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 Inventories	(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	3,891
10,918	**Total**	**8,843**

22. Provisions

	Insurance Claims Provision	Planning Appeals Provision	Employee Benefits	MMI Provision	Total
	£000	£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	100	298
Amounts used in 2011/12	(18)	-	(192)	-	(210)
Unused amounts reversed in 2011/12	-	(5)	-	-	(5)
Balance at 31 March 2012	**120**	**-**	**180**	**100**	**400**

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.

The MMI Provision has been created to provide for possible clawback (levy) of sums paid out by the administrator of Municipal Mutual Insurance (MMI), in the event of MMI (being assessed as “insolvent”.

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	11,513	(7,133)	1,606	5,986	(6,765)	3,200	2,421
LSVT Capital Fund	2,131	-	138	2,269	(2,386)	117	-
Special Projects (Economic Development) Fund	883	-	-	883	(883)	-	-
Capital Grants Unapplied	1,709	(405)	630	1,934	(4,319)	3,705	1,320
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)**	**8,959**	**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	7,509	-	2,558	10,067	(53)	2,184	12,198
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	**(11,586)**	**(9,640)**	**35,069**	**13,843**	**(22,113)**	**17,767**	**9,497**

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	142,473
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	68,045
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**	**3,672**
	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)	60
7	Other Contributions	5
174	**Total**	**132**

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 Local Government Pension scheme	2010/11 Discretionary Benefits Arrangements		2011/12 Local Government Pension scheme	2011/12 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):

Funded Liabilities: Local Government Pension scheme 2010/11	Unfunded Liabilities: Discretionary Benefits Arrangements 2010/11		Funded Liabilities: Local Government Pension scheme 2011/12	Unfunded Liabilities: Discretionary Benefits Arrangements 2011/12
£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, although the maximum is £741,000. An amount of £100,000 has been set aside as a provision for these costs, so the maximum contingent liability is £641,000.

(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
				967	**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 23.

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 £1.533m 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 £1.533m. The element that was previously recognised in property, plant and equipment has been written down by £0.044m. The revaluation reserve has increased by £0.591m;
- The fully restated 1 April 2010 Balance Sheet is provided on page 15. 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	-	1,533	1,533
Long Term Assets	57,586	58,133	547
Net Assets	12,024	12,571	547
Revaluation Reserve	6,918	7,509	591
Capital Adjustment Account	47,993	47,949	(44)
Total Unusable Reserves	(12,133)	11,546	547
Total Reserves	12,024	12,571	547

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	-	1,538	1,538
Long Term Assets	60,580	61,133	553
Net Assets	29,632	30,185	553
Revaluation Reserve	9,470	10,067	597
Capital Adjustment Account	48,908	48,864	(44)
Total Unusable Reserves	13,290	13,843	553
Total Reserves	29,632	30,185	553

The effect of the change in accounting policy in 2010/11 has been that heritage assets are recognised at £1.538m on the Balance Sheet resulting in an increase to the Revaluation Reserve of £0.597m 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	64
Barracks Trust (management of Barracks and charitable disbursements)	613	660	47	-
	734	**710**	**86**	**110**

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.

Annual governance report

Newcastle-under-Lyme Borough Council

Audit 2011/12

Contents

Key messages

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

Financial statements

I have completed my audit of the Newcastle under Lyme Borough Council's Statement of Accounts for the year ended 31 March 2012. I can confirm that I will be issuing an audit report including an unqualified opinion on the financial statements.

This has been another good year for the finance team. The Executive Director (Resources and Support Services), Head of Finance and team have built on their understanding of the requirements of International Financial Reporting Standards (IRFS) and produced a compliant set of accounts.

During this time there were uncertainties about your future funding arising from the Comprehensive Spending Review and the continued pressure in delivering savings and preparing your accounts with two key staff on maternity leave. In my view, your team has performed well, dealing with these challenges while preparing your financial statements to a high standard and preserving good quality working papers. The finance team have been helpful in working to address any matters raised and I can report the amendments to the accounts have not led to a change in the amount funded by Council Tax Payers through the precept.

There have been no material amendments to the primary statements. I identified some non-material audit adjustments, management have agreed to amend all the errors identified as part of the audit. I have three matters to bring to your attention.

- The grant income figure of £0.172m in note 33 includes £0.04m Section 106 income from Hassell Ltd. The company went into liquidation several years ago without the debt being collected. The balance and corresponding debtor have now been removed from the accounts.
- During our audit an emerging issue has lead to general updated guidance about Municipal Mutual Insurance (MMI). MMI was the predominant insurer of public sector bodies before ceasing its underwriting operations in September 1992 having suffered substantial losses. Although MMI directors are committed to run-off with full payments of agreed claims, the company's liabilities have increased in recent years. The situation worsened on 28 March 2012 following a judgement by the Supreme Court on the 'mesothelioma trigger litigation'. The case was about whether the insurer had a liability to meet a claim based on the date of exposure to asbestos or based on the date of becoming ill. Before 2006, the MMI (and the insurance industry generally) indemnified claims based on the date of exposure. From 2006 MMI changed its approach to indemnifying

claims based on the date of becoming ill. The Supreme Court ruling essentially reinstated the pre-2006 approach meaning payment of some claims previously rejected by MMI. Most of MMI's public sector members elected to participate in the 'Scheme of Arrangements', effectively becoming 'Scheme Creditors'. This means they may have to pay back part of all claims for which they have received settlements since 1993 if the Scheme of Arrangements is triggered. As at 31 March 2012 the Scheme of Arrangements had not been triggered, however, many commentators believe that it will be triggered within the next 12 months. If the Scheme is triggered, the MMI's financial statements for the year ended 30 June 2011 suggest a 10 per cent claw-back of claims. However, we understand that MMI continues to receive a material number of new claims which could lead to a claw-back of up to 25 per cent. Your total exposure under the 'Scheme of Arrangements' currently stands at £0.741m and your officers have now provided for £0.1m, roughly 13.5 per cent, of your maximum liability. You have also expanded on the information in your Contingent Liability note.

Value for money (VFM)

I have completed my audit of the Newcastle under Lyme Borough Council's Value for Money arrangements for the year ended 31 March 2012.

I will issue an unqualified conclusion stating the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Before I give my opinion and conclusion

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

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

I ask the Audit and Risk Committee to:

- take note of the adjustments to the financial statements included in this report;
- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 3).

Financial statements

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

Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected misstatements

There are no uncorrected misstatements.

Corrected misstatements

I am no longer required to report non-material corrected misstatements, except where reporting is relevant to your role. The two matters I wish to bring to your attention are as follows.

- The grant income figure of £0.172m in note 33 includes £0.04m Section 106 income from Hassell Ltd. The company went into liquidation several years ago without the debt being collected. The balance and corresponding debtor have now been removed from the accounts.
- During our audit an emerging issue has lead to general updated guidance about Municipal Mutual Insurance (MMI). MMI was the predominant insurer of public sector bodies before ceasing its underwriting operations in September 1992 having suffered substantial losses. Although MMI directors are committed to run-off with full payments of agreed claims, the company's liabilities have increased in recent years. The situation worsened on 28 March 2012 following a judgement by the Supreme Court on the 'mesothelioma trigger litigation'. The case was about whether the insurer had a liability to meet a claim based on the date of exposure to asbestos or based on the date of becoming ill. Before 2006, the MMI (and the insurance industry generally) indemnified claims based on the date of exposure. From 2006 MMI changed its approach to indemnifying claims based on the date of becoming ill. The Supreme Court ruling essentially reinstated the pre-2006 approach meaning payment of some claims previously rejected by MMI. Most of MMI's public sector members elected to participate in the 'Scheme of Arrangements', effectively

becoming ‘Scheme Creditors’. This means they may have to pay back part of all claims for which they have received settlements since 1993 if the Scheme of Arrangements is triggered. As at 31 March 2012 the Scheme of Arrangements had not been triggered, however, many commentators believe that it will be triggered within the next 12 months. If the Scheme is triggered, the MMI’s financial statements for the year ended 30 June 2011 suggest a 10 per cent claw-back of claims. However, we understand that MMI continues to receive a material number of new claims which could lead to a claw-back of up to 25 per cent. Your total exposure under the ‘Scheme of Arrangements’ currently stands at £0.741m and your officers have now provided for £0.1m, roughly 13.5 per cent, of your maximum liability. You have also expanded on the information in your Contingent Liability note.

Significant risks and my findings

I reported to you in my Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
New Leisure Centre – The Council has successfully completed construction of Jubilee 2, a replacement sports and leisure centre for the Jubilee baths. Jubilee 2 formally opened on 7 January 2012 on schedule. The risks relate to the disclosure of this new asset in the financial statements.	I have carried out specific audit procedures reviewing the accounting entries made. I am satisfied the value of the Authority's assets is fairly stated and you have correctly disclosed payments to the contractor.
Heritage Assets – The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. As this is the first year of adoption, there is a risk that the Council may not yet have identified and accounted for all the heritage assets it holds. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Newcastle Under Lyme, this is likely to include the exhibits in your museum and other miscellaneous items such as civic regalia.	I have carried out specific audit procedures reviewing the accounting entries made. I am satisfied the value of the Authority's assets is fairly stated but identified one asset, valued at £0.02m, that was on loan to the Authority and should not have been included in the asset valuation.

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Risk	Finding
Investment with Icelandic Banks – The Council had an investment of £2.5m with a United Kingdom regulated subsidiary of an Icelandic Bank at the time of the collapse. There is a risk that as guidance is received, if this is not processed correctly, the financial statements could be misstated.	Latest reports confirm that over £1.869m has been re-paid and indicate that approximately £2.2m of the investment will be returned over the next few years. The Council has sufficient reserves to cope with the anticipated loss and has made appropriate allowances within its Medium Term Financial Strategy.

Significant weaknesses in internal control

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

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

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

A key payroll systems control is to ensure that the establishment list is reviewed by the Heads of Service who confirm the list is accurate and complete, the agreed return is returned to the payroll manager who collates the results. This review was not completed in a timely fashion for 2011/12.

Recommendation
R1 Ensure the establishment list reviewed by Heads of Service and collated by the payroll manager in a timely fashion.

Other matters

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

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

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	A comprehensive savings programme has been in progress during 2010/11, with detailed work being undertaken to achieve break even for 2011/12 to 2014/15. There is a risk that anticipated savings are not realised or that shortfalls in income occur.	The Council's budget has set out a clear plan to deliver the necessary savings plans. I have therefore reviewed your medium term financial strategy within the context of the impact of the comprehensive spending review and your decision to have frozen Council Tax in 2011/12 and 2012/13. I found your financial planning assumptions to be reasonable and reported financial data to be used effectively in monitoring financial performance. The ongoing savings programme across all areas of the Council required savings of £2.1m to be made during 2011/12. This target has been achieved, but you need to achieve a further £2m of savings for 2012/13.

Criteria	Risk	Findings
		Income sources have held up less well this year. Reports for the year show shortfalls in the following areas: ■ commercial rent income £0.395m; ■ land charges search fees and development control £0.245m; ■ planning application fees £0.129m, ■ car parking income £0.190m; and ■ market income £0.07m. Additional savings made during 2011/12 meant that your deficit for the year was held to £0.162m. Although you had set aside £0.2m for shortfalls in income, so far declines in income have been significantly greater than anticipated and income levels have not recovered. As part of preparatory work for the 2013/14 budget, you are considering increasing your set aside to £0.4m. During the two years 2010/11 and 2011/12, your budget support fund has reduced from £1.6m to £0.624m and it is likely that if the economic situation does not improve, much of this and other usable reserves will have been used during 2012/13. In my view, you have demonstrated that the Council, from members, through Cabinet and the management team to those delivering services, has been proactive in responding to challenges. You need to ensure that you are able to achieve a balanced outturn before exhausting your reserves.

Criteria	Risk	Findings
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	During the period, there is the risk that service performance may be adversely affected while savings are made.	You are prioritising resources within tighter budgets and set out the vision, approach and detailed plans to reduce costs in line with corporate objectives. You have identified potential efficiencies by undertaking service reviews and have a clear and effective approach to reviewing services. The Council has revamped and improved its corporate plan for 2011/12. It contains, among other things, a sharper single vision and takes account of current environmental issues as well as political issues such as the Big Society. The plan puts more emphasis on accountability by members, with individual portfolio holders with responsibility for an area being named. The Corporate Plan contains a much reduced number of performance indicators and Business Plans require a more focused, simplified approach to setting outcome indicators and targets. You have been managing the use of the Civic Offices as part of your accommodation strategy and the spare capacity is now housing other public services.

Fees

I reported my planned audit fee in the Audit Plan.

I will complete the audit within the planned fee.

Table 3: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	120,726	120,726
Non-audit work	0	0
Total	**120,726**	**120,726**

The Audit Commission has paid a rebate of £9,658 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £111,068.

Appendix 1 – Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEWCASTLE UNDER LYME BOROUGH COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Newcastle-under-Lyme Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

Respective responsibilities of the Executive Director (Resources and Support Services) and auditor

As explained more fully in the Statement of the Executive Director (Resources and Support Services) Responsibilities, the Executive Director (Resources and Support Services) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

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

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Newcastle-under-Lyme Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Tony Corcoran

Officer of the Audit Commission

1st Floor,
No.1 Friarsgate
1011 Stratford Road,
Shirley
Solihull,
West Midlands,
B90 4BN

26 September 2012

Appendix 2 – Draft letter of management representation

Newcastle under Lyme Borough Council – Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of the Newcastle under Lyme Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 3012.

Compliance with the statutory authorities

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

Supporting records

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

Irregularities

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

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

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

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

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

Accounting estimates including fair values

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

I confirm:

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

Related party transactions

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

Subsequent events

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

Signed on behalf of Newcastle under Lyme Borough Council

I confirm that the this letter has been discussed and agreed by the Audit and Risk Committee on 26 September 2012

Signed

Kelvin Turner

Executive Director (Resources and Support Services)

26 September 2012

Appendix 3 – Glossary

Annual Audit Letter

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

Annual Governance Report

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

Annual Governance Statement

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

Audit of the accounts

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

Audited body

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

Auditing Practices Board (APB)

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

Auditing standards

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

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

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

Commission (the)

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

Ethical Standards

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

Financial statements

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

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

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

Materiality

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

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

Significance

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

Those charged with governance

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

Whole of Government Accounts

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

Appendix 4 – Action plan

Recommendations	
Recommendation 1	
Ensure the establishment list reviewed by Heads of Service and collated by the payroll manager in a timely fashion.	
Responsibility	
Priority	
Date	
Comments	

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

Design and production by the Audit Commission Publishing Team.

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

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

www.audit-commission.gov.uk

September 2012

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To: Tony Corcoran
Appointed Auditor
1st Floor,
No.1 Friarsgate 1011 Stratford Road,
Shirley Solihull,
West Midlands,
B90 4BN

Newcastle under Lyme Borough Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of the Newcastle under Lyme Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 3012.

Compliance with the statutory authorities

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

Supporting records

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

Irregularities

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

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

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

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

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

Accounting estimates including fair values

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

I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;

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

Related party transactions

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

Subsequent events

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

Signed on behalf of Newcastle under Lyme Borough Council

I confirm that the this letter has been discussed and agreed by the Audit and Risk Committee on 27 September 2012

Signed

Kelvin Turner

Executive Director (Resources and Support Services)

27 September 2012