Public Document Pack

Date of meeting	**Monday, 15 July 2013**
Time	**7.00 pm**
Venue	**Training Room 1 - Civic Offices, Merrial Street, Newcastle-under-Lyme, Staffordshire, ST5 2AG**
Contact	**Nick Lamper 01782 742227**

Audit and Risk Committee

AGENDA

PART 1 – OPEN AGENDA

Members: Councillors Waring (Chair), Loades (Vice-Chair), Mrs Peers, Turner, Mrs Cornes, Hambleton and Mrs Shenton

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

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

AUDIT AND RISK COMMITTEE

7.00 pm, Monday, 15 April 2013

Present:-	Councillor Paul Waring – in the Chair
Councillors	Jones, Mrs Peers, Stringer and Turner
In attendance:	Kelvin Turner (Executive Director, Resources and Support Services), Mark Bailey (Head of Business Improvement and Partnerships), Paul Clisby (Head of Central Services), Liz Dodd (Audit Manager) and Nick Lamper (Senior Member Services Officer)

1. **APOLOGIES**

Apologies for absence were submitted on behalf of Councillor David Loades and Phil Butters, the independent member.

2. **MINUTES OF LAST MEETING**

Resolved: That the minutes of the meeting held on 18 February 2013 be approved as a correct record and signed by the chair.

3. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

4. **CORPORATE RISK MANAGEMENT REPORT: JANUARY - MARCH 2013**

A report was submitted providing an update on progress in enhancing and embedding risk management for the period January to March 2013, including progress in managing the identified corporate risks.

Mark Bailey, Head of Business Improvement and Partnerships, answered members' questions and provided further information on individual risks.

It was also reported that a list of upcoming Bills and Acts of Parliament potentially affecting the council would be provided at the next meeting of the committee.

Resolved: That the progress made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers, and the new risks identified between January and March 2013, be noted.

5. **REVIEW OF THE COUNCIL'S ANTI-FRAUD AND ANTI-CORRUPTION FRAMEWORK**

A report was submitted as part of the annual review of the above policies. There had been no new legislative changes since the last review and therefore the policies remained unchanged.

A number of initiatives were in hand, including an upcoming Fraud Awareness Week and a range of staff training delivered both through the e-learning tool and also face-to-face. Measures to prevent and address fraud would also feature in the forthcoming Annual Governance Statement.

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

6. **ANTI-MONEY LAUNDERING POLICY**

A report was submitted on the annual review of the Anti-Money Laundering Policy, which underpinned the council's commitment to creating an anti-fraud culture, and maintaining high ethical standards in its administration of public funds.

It was reported that the major change was the lowering of the limit for cash transactions from £5,000 to £2,000.

Only cash transactions fell within the scope of the policy, but a range of other measures were in place to safeguard transactions by credit and debit card as well as in relation to contracts and leases.

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

7. **AUDIT COMMISSION REPORT - PROTECTING THE PUBLIC PURSE 2012**

A report was submitted summarising the Audit Commission publication 'Protecting the Public Purse 2012'. Published in November 2012, this had been the fourth report of its type produced by the Audit Commission since September 2009 in relation to the key fraud risks and pressures facing local authorities and identifying good practice in fighting fraud. It was reported that the only significant change in comparison to the previous report was in the area of emerging fraud risks.

The publication included a checklist to be used by local authorities to review and assess their current arrangements. This checklist had been completed and an action plan drawn up of the steps now required to reinforce the arrangements already in place. A copy of the checklist was submitted for the committee's consideration.

The council made good use of a number of resources and forums in addressing fraud, including the gathering of intelligence and sharing of information and best practice. These included the Fraud Forum within the online Technical Information Service of the Chartered Institute of Public Finance and Accountancy, the National Fraud Initiative and National Fraud Authority, and the Staffordshire Chief Auditors Group.

Resolved: That the initiatives in place and the work being undertaken in response to the publication be noted.

8. **CODE OF CORPORATE GOVERNANCE**

A report was submitted along with the council's Code of Corporate Governance.

Under the Accounts and Audit Regulations 2011, the authority was required to produce an Annual Governance Statement, which emphasised the importance of ensuring that it had in place sound governance arrangements and transparent decision making processes.

Alongside this requirement, the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives had together produced a framework for developing and maintaining a local Code of Corporate Governance. The framework was based upon six core principles and its adoption enabled the council to demonstrate that it had reviewed its governance arrangements in line with best practice as well as ensuring that the Code of Corporate Governance was regularly reviewed and remained effective.

The Code of Corporate Governance had been reviewed for the year 2012/13 and, as there had been no updates to the CIPFA/SOLACE framework, no amendments had been made at this time. The code in its present form remained effective in demonstrating that the council was committed to delivering good governance in all aspects of its business.

Resolved:

(1) That the requirements of the Code of Corporate Governance be noted; and

(2) That a covering letter signed by the Chair and Vice-Chair of the Audit and Risk Committee be sent to all members reminding them that a copy of the Code of Corporate Governance was available in the members' area of the council's intranet.

9. **REGULATION OF INVESTIGATORY POWERS ACT 2000 - REVISED POLICY DOCUMENT**

A report was submitted informing the committee of the council's revised policy on use of the Regulation of Investigatory Powers Act 2000 (RIPA). The purpose of the policy and its associated procedures was to ensure compliance with the requirements of RIPA and the Protection of Freedoms Act 2012 following legislative changes which had come into force on 1 November 2012.

Prior to 1 November, it had been possible for a senior officer in an authority to authorise surveillance where necessary 'for the purpose of preventing or detecting crime or preventing disorder'. The element of 'preventing disorder' had now been removed and additionally the grant of authorisation had been made subject to conditions.

In summary, directed surveillance covered by RIPA would not now be authorised unless it was for the purpose of preventing or detecting a criminal offence punishable by a maximum of at least six months imprisonment, or it was one of a number of licensing or similar offences preventing the sale of tobacco or alcohol to children.

Furthermore, from 1 November 2012 local authorities had been required to obtain judicial approval prior to using covert techniques. Local authority authorisations and notices under RIPA would only be given effect once an order had been granted (in the case of England and Wales) by a Justice of the Peace. The government had considered that the benefit of introducing this approval mechanism would ensure that local authority authorisations were subject to independent judicial scrutiny and ensure that local authorities did not use the techniques in trivial cases.

In the light of the changes in legislation, a new policy document had been drawn up and was submitted for the committee's consideration. Training sessions on the new legislation had been held for all relevant staff on 9 November 2012 and 18 March 2013.

The changes would not affect the council's ability to utilise overt surveillance and other techniques in its detection and enforcement activities.

Resolved:

(1) That the Policy and Guidance on the Use of RIPA be endorsed and adopted;
(2) That reports be submitted to the committee on an annual basis to update it on any amendments made to the policy as a result of recommendations from the Office of the Surveillance Commissioners or future legislative changes to ensure it remains fit for purpose; and
(3) That an internal report be submitted following any use by the council of the Regulation of Investigatory Powers Act 2000.

10. **URGENT BUSINESS**

There was no urgent business.

11. **DATE OF NEXT MEETING**

The chair consulted the committee on a proposal to move its next meeting from the scheduled date of 1 July 2013 to the alternative of 15 July 2013 to avoid other commitments. The proposal received general support and arrangements would be put in hand to effect this change, subject to consultation with the chair of the Standards Committee in relation to the rearrangement of the meeting of that committee currently scheduled for 15 July.

COUNCILLOR PAUL WARING
Chair

The meeting concluded at 7.55 pm.

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

EXECUTIVE MANAGEMENT TEAM'S REPORT TO THE COMMITTEE

Date 15 July 2013

1.	**HEADING**	**Audit Committee Terms of Reference**
	Submitted by:	**Audit Manager**
	Portfolio:	**Finance and Resources**
	Ward(s) affected:	**All**

Purpose of the Report To remind members of the Terms of Reference in respect of the Audit and Risk committee

Recommendations That the Terms of Reference be noted

Reasons There have been no changes to the Terms of Reference, this report is a reminder to members with regards to the work of the committee and enables them to have a full understanding of their roles and responsibilities in relation to the nature of the reports that will be presented to them.

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

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

Terms of Reference – April 2013

Audit Activity

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

Regulatory Framework

- To consider the internal control environment and the level of assurance that may be given as to its effectiveness, to include the review of the Annual Governance Statement and the recommendation to the Council of its adoption.
- To satisfy itself that the Council's assurance statements including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- To monitor the effectiveness of the Councils risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management. To review the effectiveness of corporate governance arrangements to ensure that the Council complies with best practice.

- To monitor the effectiveness of the Council's policies and arrangements for Anti-Fraud, Anti Corruption, Bribery and Anti Money Laundering.
- To review any issue referred to it by the Chief Executive, Section 151 Officer, Monitoring Officer, Executive Director or any Council body.
- To maintain an overview of the Councils Constitution in respect of Standing Orders in relation to Contracts and Financial Regulations and make recommendations to Council in consultation with the Monitoring Officer and Section 151 Officer for any amendments.
- To receive annual reports on exceptions and exemptions to the councils Financial Regulations and Standing Orders in Relation to Contracts

Accounts

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

Other Areas

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

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

EXECUTIVE MANAGEMENT TEAM'S REPORT TO THE COMMITTEE

Date 15 July 2013

1. HEADING **Audit Committee Plan of Work 2013/14**

Submitted by: **Audit Manager**

Portfolio: **Finance and Resources**

Ward(s) affected: **All**

Purpose of the Report **To provide members with details of the proposed work plan for the Audit & Risk Committee for 2013/14**

Recommendations **That the Audit & Risk Committee work plan be received**

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

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Audit & Risk Committee Plan of work

2013/14

Committee Date	Reports
15 July 2013	1. Outstanding Recommendations & Assurance Qtr 4 2. Annual Report of Internal Audit Service 3. Review of Effectiveness of Audit Committee 4. Review of Effectiveness of Internal Audit/Updates & Action Plan 5. Annual Governance Statement with Supporting Evidence 6. Health and Safety Annual Report 2012-13 7. Risk Management Policy and Strategy 8. Unaudited Statement of Accounts 9. Work plan for 2013-14 10. Audit and Risk committee Terms of Reference 11. External Audit Plan 12. Treasury Management Annual Report
23 September 2013	1. Qtr 1 Progress 2. Qtr 1 Outstanding Recommendations & Assurance 3. Risk Management Report – April to June 2013 4. Audited Statement of Accounts 5. Annual Governance Report (External Audit) 6. External Audit Fees 2014-15
18 November 2013	1. Qtr2 Progress 2. Qtr 2 Outstanding Recommendations & Assurance 3. Health and Safety Half-Year Report April-September 2013 4. Risk Management Report – July to September 2013 5. Mid-Year Review of Treasury Management Activities
18 February 2014	1. Qtr 3 Progress 2. Qtr 3 Outstanding Recommendations & Assurance(include Oct, Nov & Dec assurances) 3. Internal Plan 2014/15 4. Revised Audit Strategy and Terms of

	Reference 5. Risk Management Report – October to December 2013 6. Annual Audit Letter (External Audit) 7. External Audit Strategy 2013/14
7 April 2014	1. Anti Fraud & Anti Corruption Polices – Review & Update 2. Anti Money Laundering Policy 3. Code of Corporate Governance 4. Risk Management Report – January to March 2014 5. Certification of Claims and Returns (External Audit) 6. Overview of the Councils Constitution in respect of Standing Orders and Financial Regulations. 7. Protecting the Public Purse

AUDIT AND RISK COMMITTEE – 15th July 2013

HEALTH AND SAFETY ANNUAL REPORT

Submitted by: **Nesta Henshaw – Head of Environmental Health Services**

Portfolio: **Finance & Resources**

Ward(s) affected: **None**

Purpose of the Report

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

Recommendation

That the report be noted.

1. **Background**

1.1 Attached at is the eighth health and safety report submitted to the council. It covers the period April 2012 to March 2013.

2. **Legal and Statutory Implications**

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

3. **Equality Impact Assessment**

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

4. **Financial & Resource Implications**

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

5. **Risks**

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

6. **Issues**

6.1 There are some trends highlighted in relation to accident statistics reported in section 5 of the annual report. Employee days lost at work has increased over the pervious year, this is due to long term periods of absence resulting from a low number of accidents. In addition the number of accidents throughout the year show an increasing trend, with a peak in February, it is believed that this is attributable to the increased level of reporting and use of the Target 100 system.

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Newcastle-under-Lyme Borough Council

HEALTH AND SAFETY ANNUAL REPORT APRIL 2012 – MARCH 2013

1. INTRODUCTION

1.1 This report outlines the current state of health and safety matters during the year from April 2012 to March 2013.

1.2 There is considerable progress to report, including the completion of works at the Civic offices to accommodated the police and Staffordshire County Council partnership groups, and the development of Target 100, the Councils health and safety management system

2. POLICIES AND GUIDANCE

2.1 The General Health and Safety Policy has been revised and updated. The Policy was signed by the Chief Executive on the 4th April 2013 and republished on the intranet and Target 100.

3. TARGET 100

3.1 Target 100 is the safety management system which the Council uses to manage and record health and safety policies, procedures, assess risk and organise routine assessments and tasks for the management and control of Health and Safety across the Council. This also provides practical Health and Safety advice and guidance to comply with the law. This was introduced in late 2010 and its use continues to be developed throughout the Council.

3.2 The Target 100 system providers undertake monthly independent audits on the Councils use of the system and score the performance of Health and Safety management. The monthly system usage audit reports are presented at, and monitored by, the Corporate Health and Safety Committee.

3.3 The use of Target 100 has been expanded to include the reporting and investigation of workplace accidents, incidents and near misses whilst being developed to allow the recording of complaints, inspections, vehicle accidents and occupational health risk assessments.

3.4 Waste Management have being working closely with the Target 100 provider to use the Target 100 system to risk assess and monitor all of the waste collection routes.

3.5 Training for users continued in early 2013 with a further 8 sessions being run to provide a general update on the system and develop knowledge on -

- Action Planning and updating
- Risk Assessment development, updating and monitoring
- Accident & Near miss recording and investigation

4. HEALTH AND SAFETY TRAINING

4.1 The following Health and Safety Training has been completed –

- First Aid Refresher – May2012/ January 2013
- First Aid at Work – June/ July 2012
- Target 100 user training – February/ March 2013
- Streetscene/Waste services Refresher – January/June 2013
- Fire Marshal Training – 6 courses

4.2 Further training courses planned for 2013/14 include further fire evacuation training for controlling officers, Defibrillator training, use of evac+chair, First Aid at Work for the Museum, Cemetery, Crematorium and all other service areas requiring trained staff.

5. ACCIDENT REPORTS

5.1 During the year 36 work-related accidents were reported, in the following categories –

- Musculo-skeletal 5
- Hit fixed/other object 8
- Slip/trip/fall 10
- Cuts/bruises/grazes 11
- Other 2

Three of the injuries were reportable to the HSE. Two as Major Injuries (one fractured wrist and one fractured ribs) and the other as an injury resulting in lost of work for more than 7 days due to post traumatic headache concussion.

5.2 These three reportable injuries resulted in a total of 132 days lost from work, with an average of 0.26 days lost per employee. This is a considerable increase on last year's figure and those recorded in previous years, these accidents were investigated and appropriate remedial measures put in place where necessary. The results are shown below -

Year	Number of accidents	Number reportable	Total days lost	Average days lost per employee
2006/7	36	3	88	0.14
2007/8	35	2	73	0.11
2008/9	30	3	71.5	0.11
2009/10	38	1	18.5	0.03
2010/11	31	4	150	0.23
2011/12	35	3	60	0.10
2012/13	36	3	132	0.26

5.3 All accidents (staff & members of public)

Month	RIDDOR * Reportable	Non-Reportable	Near Miss	Dangerous Occurrence
April 2012	0	1	0	0
May 2012	0	0	0	1
June 2012	1	3	0	0
July 2012	0	5	1	0
August 2012	1	8	1	0
September 2012	1	10	0	0
October 2012	1	14	1	1
November 2012	0	23	0	0
December 2012	1	11	0	0
January 2013	0	13	1	0
February 2013	2	40	3	1
March 2013	1	12	0	0
TOTAL	**8**	**140**	**7**	**3**

* RIDDOR - Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 – Accidents which result in over a 7 day absence from work of an employee; a member of the public taken from the premises by ambulance and major injuries (broken bones etc) would all be reportable to the Heath & Safety Executive by the Local Authority.

The accident figures appear to show an increase in the number of accidents occurring throughout the year. It is believed that there is better reporting of accidents (major and minor) due to the introduction and promotion of the Target 100 accident reporting procedure.

5.4 A Dangerous Occurrence was also reported to the HSE, under the requirements of RIDDOR, as follows –

- During the installation of security cameras at the Civic Offices, the contractor drilled a hole in the wall through a conduit. The hole was directly in line with a structural column within the building which is known to be sprayed with an asbestos resin.

5.5 Over the year, 7 near misses were reported and investigated in order to prevent future accidents.

5.6 Two incidents of abusive behaviour by the same member of the public towards council employees have been reported.

6. HEALTH AND SAFETY AUDITS & INSPECTIONS

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

- Bradwell Crematorium
- Knutton Depot
- Madeley Rural Hub
- Civil Enforcement Services
- Jubilee 2

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

- Kidsgrove sports centre
- Contact Centre & post room
- Guildhall

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

7. KNUTTON DEPOT

7.1 The Knutton Lane Health and Safety Committee held meetings on 7th June and 13th September, 6th December and 15th March.

7.2 Matters arising from the meetings included:-

- Round-specific risk assessments for Collection Services
- Leptospirosis guidance cards printed and distributed to staff
- Lighting in offices, corridors and stairwells and the need to ensure adequate safe lighting
- Provision of hepatitis B vaccinations

- Vehicle and traffic management system including speed of vehicles
- Provision of female showers for operatives
- Repair and maintenance of tarmac at site.

7.2 The noise and vibration assessment and monitoring programme for Streetscene has commenced. This was identified in the light of an internal noise measurement report and also following advice from the HSE Inspector who conducted the inspection of the waste and recycling service in early 2012.

8. CORPORATE HEALTH AND SAFETY COMMITTEE

8.1 The Corporate Health and Safety Committee held four meetings during the period, on 20th June, 18th September, 18th December and 26th March.

8.2 Matters arising from the meetings included:-

- Continuing to drive forward the use of Target 100, as outlined in section 3 above and the future reporting of Target 100 use at Departmental management meetings.
- Review and endorsement of the Council's general health and safety policy.
- The proposed introduction of a Use of Violent Warning Markers policy and database maintenance programme.
- A review of the lone working arrangement at the Council and the proposed future use of the identicom lone worker device following a trial use of the devices
- Assessment of noise and vibration at work throughout the Council and the introduction of a programme of monitoring and health surveillance where necessary
- Hepatitis B vaccination programme has been tendered and quotations received, a preferred contractor to undertake the work has been identified, final staff numbers have being collated and an overall cost has been calculated.
- A review of statutory inspections at the Councils premises.
- Review and endorsement of asbestos policy and procedure for the Civic Offices.
- A review of the fire evacuation policy and procedure for all the Councils premises within the Borough.
- A review of the findings of the independent health and safety audit undertaken (as detailed in sec 10 below)

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

- Accident statistics
- New/forthcoming legislation

- Statutory inspections/testing
- Tenant Partnerships
- Workplace inspections by the Committee
- Standing agenda items on safety at other sites
- Review of policies
- Information from outside sources such as Trade Unions
- Facilities inspections
- Health and Safety Service - replacement
- Monitoring of Target 100
- Fire risk assessment Civic offices
- Health and Safety Executive reports/information

9. FIRE AUDIT/ INSPECTION

9.1 An independent review of the fire risk assessment for the Civic Offices was under taken in April. The review was prompted by the additional tenants in the building which has resulted in changes to the way the building operates.

9.2 The assessment identified the Civic Offices as having a "tolerable " risk rating overall, however there are a number of recommendations that have been made which are as follows –

- Removal of excessive clutter, Vending machines, cabinets and combustible material from all fire escape routes.
- Rearrange offices to ensure the best use of current sockets in order to reduce the excessive number of extension leads and trailing cables.
- The use of wedges on fire doors must cease and a process adopted to ensure that they are not used.
- Combustible material must stop being stored on or over electric cabling throughout the building.
- A number of physical alterations have been recommended in order to improve fire safety throughout the building.

9.3 The report was presented to the Corporate Health and Safety Committee in March to move forward with the recommendations over 2013/2014.

10. INDEPENDENT HEALTH AND SAFETY AUDIT

10.1 An independent audit was undertaken of both the Council Health and Safety Management and operations at the Depot in 2009, this resulted in a number of recommendations all of which have been implemented.

10.2 A further independent audit has been undertaken in April 2012 and the findings and an action plan of recommended works was reported to corporate Health and Safety committee in June 2012.

10.3 There were significant improvements in Health and Safety arrangement at the Council since the last audits, these included:

- The profile of Health and Safety throughout the organisation has been raised
- Health and Safety has been integrated into all areas of the Council
- The Health and Safety policy has significantly improved, is communicated and regularly reviewed
- Target 100 provides the tools for managers to effectively review and manage Health and Safety
- There are good examples of management of health and safety across the organisation including the outcome of the HSE inspection of waste services and the prompt development of health and safety systems at Jubilee 2.

10.4 There were also some Areas for improvement identified, these were reported to the Corporate health and safety committee and an action plan developed. Notably the improvements recommended included:

- Consistency in the use of Target 100 across the organisation
- Use of Target 100 for the reporting of accidents and near misses
- The review of the general health and safety policy to include specific responsibilities for Heads of Service for depot and leisure services
- Completion of comprehensive audits/inspections across the council
- Increased detail in the reporting of statutory inspections across the organisation.

10.5 Progress against the audit recommendations has commenced and will continue throughout 2013/2014.

11. INTERNAL AUDIT OF HEALTH AND SAFETY

11.1 A further audit of the Corporate health and safety was undertaken in October/November 2012 by the Councils Internal Audit Services. The audit review has an overall audit opinion of 'adequately controlled'.

11.2 The action plan identified a number of medium level risks, these included:

- Risk assessments to be updated and monitored by all Heads of Service & Business Managers
- Health & safety induction information
- First Aid information to be updated

- Training for fire marshals

Considerable work and training has been undertaken to action the updating and monitoring of risk assessments. To further assist a report on the individual service areas performance is currently being developed.

All of the other actions have been completed. In addition there were some low risk actions identified, in relation to the publication of the health and safety policy and employees handbook, most of these have already been completed and all will be undertaken within the recommended timescales.

12. FORTHCOMING LEGISLATION/HSE GUIDANCE

12.1 Health and Safety Executive are currently consulting on their proposals for amendment to the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, they are proposing to reduce the extent of the regulations such as excluding reporting for self employed persons and occupational diseases and also reducing the list of reportable major injuries.

12.2 Health and Safety Executive are currently consulting on their proposals for revising approved codes of practice that give guidance and interpretation of legal requirements. The number and length of approved codes of practice are to be reduced.

13. CORPORATE HEALTH AND SAFETY SERVICES

13.1 The Corporate Health and Safety Officer retired from the Authority in August 2012. A review of the future delivery of the service has been undertaken with a decision being made to re appoint a fulltime Officer to the position.

13.2 The interviews where undertaken in April and the new Corporate Health and Safety Officer will Commence work on the 1st July 2013.

REPORT OF THE EXECUTIVE MANAGEMENT TEAM
TO THE AUDIT AND RISK COMMITTEE

15 July 2013

CORPORATE RISK MANAGEMENT

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

Portfolio: **Communications, Policy and Partnerships**

Ward(s) affected: **All**

Purpose of the Report

To provide to Members the updated Risk Management Policy and Strategy documents as appended.

Recommendations

The Committee is asked to:-

(a) **Note the updated Risk Management Policy & Strategy found at Appendix 1.**

(b) **Approve the minor changes as listed on the documents appended.**

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

Reasons

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

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

1. Background

1.1 The attached documents were previously agreed in 2011 after a full review of the old Policy and Strategy documents. They were also reviewed, amended and updated in 2012.

2. Issues

2.1 None

3. Outcomes Linked to Corporate and Sustainable Community Priorities

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

4. Legal and Statutory Implications

4.1 The Accounts and Audit (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.

7. **List of Appendices**

Appendix 1 – Risk Management Policy and Strategy
Appendix A – Roles and Responsibilities
Appendix B – Risk Management Process
Appendix B(i) – Check List for Risk Identification
Appendix B(ii) – Impact Measures and Classification
Appendix B(iii) – Action Categories
Appendix B(iv) – Reviewing and Reporting Communications Framework
Appendix B(v) – Escalation Process
Appendix C – Quick Guide

8. **Background Papers**

None

APPENDIX 1

NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

RISK MANAGEMENT POLICY STATEMENT 2013/14

Date of Approval:	July 2013
Approved by:	Audit & Risk Committee
Next review due:	June 2014
Version:	4.0
Changes:	See below

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

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

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

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

Changes	08/06/2012	1. Page 1 – Title date changed to 2012/13

		2. Page 2 para 2.2 – changed transformation to change
		3. Page 3 para 3 – full stop inserted after third bullet point
		4. Page 4 para 6 – full stop inserted at end of list
Changes	**12/06/2013**	**1. Page 1 – Title date changed to 2013/14**
		2. Page 5 para 3d – amended corporate priority
		3. Page 7 para 7 – amended wording in 6th bullet point

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

RISK MANAGEMENT POLICY STATEMENT 2013/14

1. Purpose

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

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

2. Commitment to Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Recognises that good risk management practice is an integral part of management responsibilities if the highest quality services are to be delivered to the community in the most cost effective way;

- Recognises that risk management can be used as a valuable tool at a corporate level as well as at operational/service/functional level;

- Is committed to manage all of its activities in a way which minimises risks to people, property, services and its finances and to protect its assets through effective and efficient risk management; and

- Recognises that effective risk management is an integral part of robust performance management and good governance within the Council, as managing identified risks and controlling the potential negative consequences, whilst identifying opportunities, helps to ensure the delivery of objectives and priorities.

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

(a) A Cleaner, Safer and Sustainable Borough;
(b) Creating a Borough of Opportunity;
(c) Creating a Healthy and Active Community; and
(d) A co-operative council delivering high quality, community driven services

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

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

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

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

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

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

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

7. The above will be achieved by:-

- Reporting risk to individual Executive Directors and Heads of Service; Departmental Management Teams (DMTs), Wider Management Team (WMT), EMT and the council’s Audit & Risk Committee;
- Implementing a Risk Management Strategy that establishes clear roles, responsibilities, escalation and reporting lines within the council for risk management;
- Providing opportunities for shared learning around risk management across the council;

- Offering a platform for identifying and prioritising risk areas;
- Reinforcing the importance of effective risk management as part of everyday work of employees;
- Incorporating risk management considerations into all aspects of the council's work including risk management capabilities in to policy and strategy making, service plans and performance challenge of Heads of Service;
- Monitoring arrangements on an ongoing basis;
- Regularly reviewing its arrangements to ensure it is following best practice and will consult with stakeholders; and
- Engaging with stakeholders, including key partners and contractors, to develop their understanding of risk management and to ensure that they are engaged in effective risk management themselves.

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

Signed: G Snell Date: 01/08/2012

Councillor G Snell
Leader of the Council

Signed: Date: 24/07/2012

Mr J Sellgren
Chief Executive

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

RISK MANAGEMENT STRATEGY 2013/14

1. Purpose

The purpose of this strategy is to: -

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

2. Objectives of the Risk Management Strategy

The objectives of the strategy are:-

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

3. Achievement of objectives

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

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

The roles and responsibilities are outlined at appendix A.

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

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

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

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

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

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

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

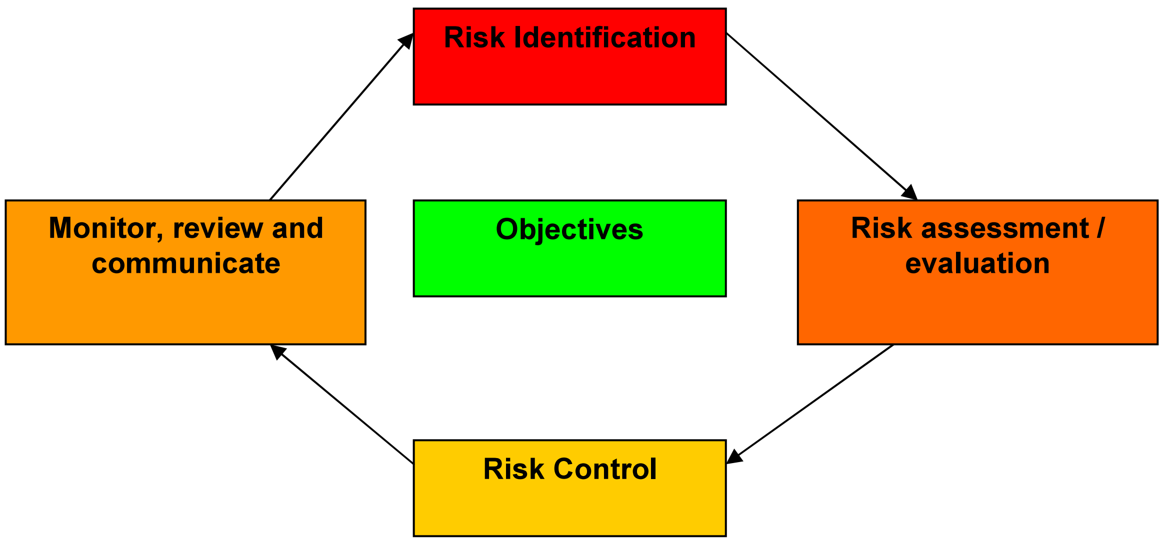
Some objectives, however, are reliant on external organisations with whom the council works e.g. key partners and contractors. Working with external organisations could affect the achievement of objectives and this also must be taken into account when delivering the key elements of this strategy.

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

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

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

<ins>Summary Guide</ins>



3.2.1 Objectives

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

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

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

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

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

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

3.2.2 Risk identification

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

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

- Those that could significantly impact on the achievement of the Council's overall priorities;
- Those that are recorded in the Strategic Risk Register; and
- Those that can be used to inform policy decisions.

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

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

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

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

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

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

3.2.3 Risk assessment/Evaluation

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

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

How likely is it to happen?

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

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

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

3.2.4 Risk Control

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

Who owns the risk?

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

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

(see Appendix B(iii))

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

3.2.5 Monitor, Review and Communicate

Key questions to consider as part of this process: -

- Are the controls you have put in place effective?

- Has the risk changed either as a result of what you have done or other factors?
- Does it need escalating, having gone through all the checks you need to make?
- Are new risks evolving as a result of the existing risk or due to other factors?
- Who do you need to inform – internally and externally to the council?

Key to what prompts what kind of action: -

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

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

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

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

- Development and maintenance of the Constitution;
- Economic Development Strategy;
- Stronger and Safer Communities Strategy;
- Health and Well Being Strategy;
- Co-operative Strategy;
- Council Plan;
- Medium Term Financial Strategy;
- Service Plans;
- Code of Corporate Governance;
- Code of Practice on Procurement;
- Reports to support key decisions;
- Performance management;
- Policy planning; and
- Financial management

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

To achieve this: -

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

3.4.2 Confirmation is obtained from the Corporate Governance Working Group and the Audit & Risk Committee and internal Audit, who use CiPFA best practice that the council's risk management framework is judged to be sufficiently robust and that assurance statements properly reflect the risk environment and its management of those risks.

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

3.5 *To manage risk in accordance with best practice*

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

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

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

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

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

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

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

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

4. Conclusion

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

Date of Approval:	**July 2013**
Approved by:	**Audit & Risk Committee**
Next review due:	**June 2014**
Version:	**4.0**
Changes:	**See below**

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

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Next review due:	**June 2012**
Version:	**2.1**
Changes:	**Compare with previous version 1.0 April 2010**

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

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

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

Changes	**11/06/2013**	**1. Pg 1 – Year amended from 2012/13 to 2013/14**
		2. Corporate Plan amended to Council Plan throughout document
		3. Pg 8 – para 3.3 – additions made to list of documents
		4. Appendix B(ii) – Cost impact levels reduced

		in response to the current financial situation imposed by the budget cuts

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APPENDIX A

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

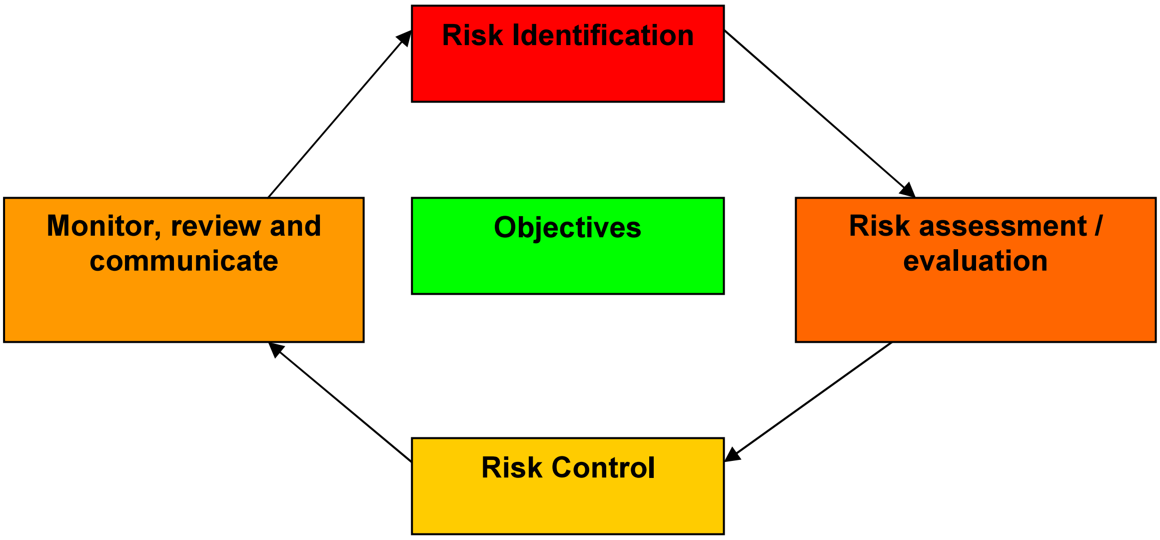
	as appropriate that the risks are being managed in accordance with the Risk Management Strategy
Executive Directors (EMT)	• Ensure that the risk management process is promoted, developed, managed and implemented effectively in their service areas. • Make decisions with their heads of service as to which service risks may warrant inclusion on their strategic risk register • Take ownership of strategic risks in their directorates and include them in the strategic risk register • Disseminate relevant information to service managers and employees • Escalate where necessary any issues that cannot be resolved to the Audit & Risk Committee for advice on decisions • Establish and monitor a rolling programme of operational risk reviews • Promote good risk management practice throughout the council in conjunction with CGWG • Ensuring that when Cabinet reports are written by their officers, that a relevant up to date risk assessment is provided where applicable, before being signed off for submission to Cabinet • Ensure that the appropriate portfolio holder is aware of detailed risk assessments when discussions begin on any proposal
Corporate Governance Working Group (CGWG)	• Promote good risk management practice throughout the council in conjunction with EMT • Support the development of the risk management process, share experience on risk and aid/advise in the review of risk management reviews • To review the risk management policy and strategy where necessary • To identify trends and priorities across the council • Liaise with specialist risk groups in order to inform the strategic risk registers • Ensure processes are in place to report any new/perceived (key) risks or failures of existing control measures • Report on key performance results to EMT and Audit & Risk Committee • To accept and make decisions on the course of action of any issues brought to them by DMT or the strategic risk champion • To escalate any issues to EMT brought to the group by DMT or the strategic risk champion, where a stronger decision is needed and cannot be resolved at this level
Directorate Management	• Ensure the completion of project risk registers where

Teams (DMTs) Wider Management Team (WMT)	appropriate (DMT) • Liaise with specialist risk groups in order to inform the any relevant strategic and operational risk profiles (e.g. Health & Safety, legal, environmental) (DMT/WMT) • To accept and make decisions on any issues escalated to them by the risk champions (DMT) • To escalate, where necessary, any risks, overdue actions and reasons for such, overdue risk reviews to the CGWG, where a higher decision is needed and cannot be resolved at this level (DMT) • Monitor the implementation of action plans and control assurance programmes (DMT/WMT) • Report key performance results (DMT) • Promote and share best practice across the directorate (DMT) • Monitor (and share with the director) situations where: - - risks are rising in the level of security; - circumstances where managers have been unable to implement the agreed mitigating actions; - risks could potentially have an impact on other services (DMT) • To understand the escalation process of risks, action plans and issues (DMT/WMT) • To accept the notification of any incidents or near-misses reported to them by employees or risk champions, and record them appropriately (DMT)
Head of Business Improvement & Partnerships (BIP) Business Improvement Manager (BIM) Business Improvement Officer (Risk) (BIO)	• Develop and maintain a risk management process reflecting established best practice (BIP/BIM/BIO) • Lead on the annual review of the risk management policy, strategy and methodology, helping to ensure all aspects of the process remain robust. (BIP/BIM/BIO) • Ensure risks are reviewed and reported to management in line with the timelines in the risk management framework (BIM/BIO) • Collate and administer the strategic risk registers (BIO) • Prepare annual and quarterly risk management reports for the Audit & Risk Committee (BIM/BIO) • Identify and communicate risk management issues to DMT/EMT for dissemination to services and assist in undertaking risk management activity through guidance, training or direct support. (BIM/BIO) • Promote risk management process throughout the council with both members and officers ensuring the process is embedded, effective and reflects best practice. (BIP/BIM/BIO)

	• Consult with Executive Directors concerning risk issues (BIP) • Act as a lead support officer for the CGWG (BIP/BIO) • Manage the insurance fund and external insurance contract (BIO) • Liaise with external insurers to ensure that future premiums reflect all risk management activities being undertaken (BIO) • Administer the designated risk management system for managing and controlling risks (BIO) • Monitor and report to the CGWG any issues that arise either from strategic risk reviews, overdue risk review reports, non-compliance with guidelines laid out in the risk management framework/approach by employees of the council, reported to them by the operational risk champions (BIP/BIM/BIO) • Identify any emerging risks and incorporate into the relevant risk registers (BIO) • Report to the CGWG any further support required (BIP)
Operational Risk Champions	• Create and maintain operational risk registers in conjunction with heads of service. • Monitor and report to their respective DMTs any high risks and any issues that may arise in respect of overdue actions/overdue reviews and other problems they encounter for them to either deal with or to escalate to the CGWG via the strategic risk champion. • Update the operational risk profiles on the designated risk management system. • Report to the BIO any further support required. • Ensure that incidents occurring or near-misses are reported to DMT.
Employees	• Manage risks effectively in their jobs. • Raise any perceived/new risks for their service area with the appropriate line manager/business manager/head of service or risk champion for inclusion in the risk register. • Report any incidents or near-misses to their risk champion or head of service.

APPENDIX B

Risk Management Process



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

<table>
<tr><td></td><td></td><td>customers/clients/citizens/children; environmental (a description of these can be found at appendix B(i).

Strategic risks are those that

• Could impact significantly on the achievement of the council’s four priorities
• Are recorded in the strategic director risk assessments
• Used to inform policy decisions

Operational risks are those that

• Impact significantly on the business objectives
• Are recorded in the individual service risk registers
• Are used to inform the Heads of Service

Project risks are those that

• Could impact significantly on the achievement of the project
• Are recorded in the project risk register
• Are used to inform both strategic and operational risk identification

Partnership risks are those that

• Could significantly impact on the achievement of the partnerships aims and objectives
• Are recorded in the partnership risk registers
• Are used to inform both strategic and operational risk identification

There are three elements to any risk scenario

• The vulnerability describes the situation (that may be perceived) that exposes the council to risk
• The trigger is an event or change in situation that has a negative/positive result
• The consequences are the events that follow should the risk occur</td></tr>
<tr><td>3</td><td>Risk assessment/ evaluation</td><td>Areas of potential risk need to be systematically and accurately assessed. The process requires an assessment of: -

• The impact it would have if a risk event occurs
• The likelihood of the risk event occurring
• Possible resources needed and other implications
• The priority of the risk for action in relation to the</td></tr>
</table>

		council's risk tolerance level (amber and green areas on the table/matirx of risk ratings) Once threats and opportunities have been identified their potential "inherent" risk is evaluated – i.e. with no controls in place and using the matrix found in appendix B (ii). The risk is then re-evaluated taking into account the effectiveness of the controls in place. This result is the "residual" risk rating, or – put another way – the final risk rating.
4	**Risk control**	Some risks cannot be eliminated completely. Risk management is the process of taking action to minimise the likelihood of the risk occurring and/or to reduce the impact if it does happen. To control the possibility of the event occurring, you need to determine a course of action to try to reduce the risk. Such actions are likely to include the following: tolerate (live with the risk), treat (deal with the risk), transfer (move the risk onto another organisation) or terminate (stop doing whatever it is that is creating the risk) – those actions can be determined by the further action plans you put in place to control the risk further (if any). A description of the action categories can be found at appendix B(iii). Clear responsibility for managing the risk to an appropriate 'risk owner' must be assigned. The risk owner can then give responsibility of further action to designated officers that enable them to still influence the risk. The further actions must be SMART and must be developed appropriate to the risk identified. Any such actions are entered into the risk register and monitored.
5	**Monitor, review and communicate**	There **must** be monitoring and review of: • The risk itself • The implementation of the *agreed* control measures • The effectiveness (or otherwise) of any further actions • Were an incident to occur, it is recorded and used to inform a lessons-learnt report As part of the review cycle, risks and actions will be re-analysed and the cycle will continue as shown in the

		cycle at the top of this appendix. Review and communication of the risks, controls and actions must be reported in line with the timescales shown at appendix B(iv) and dealt with accordingly – i.e. escalated, received and agreed.

APPENDIX B(i)

Check List for Risk Identification – Categories (not exhaustive)

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

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

IMPACT MEASURES AND CLASSIFICATION **APPENDIX B(ii)**

	High (red)	Medium (amber)	Low (green)
Health & Safety	Death, abuse, life threatening OR permanent disability	Serious injury OR long-term absence from work (over 7 days)	Minor injury OR short-term absence from work (less than 7 days)
Cost	More than £300k	Between £50-£300k	Between £20-£50k
Reputation	National media attention, potential public interest report, third party intervention	Sustained local media attention, Executive Director reporting, Member interest	Short term local media attention, Wider Management Team reporting
Service Delivery	Serious service failure directly affecting partners, stakeholders (more than 1 month)	Service failure but not directly affecting partners or stakeholders (upto 1 month)	Service disruption (between 1 day to 2 weeks)
Project Delivery	Project failure impacting on council's priorities and performance	Project failure impacting on Directorate's performance and priorities	Project delay impacting on service performance and priorities
Legal implications	Statutory body, partner or enforcement agency	Member and Executive Management Team	Wider Management Team

Likelihood Measures

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

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

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ACTION CATEGORIES **APPENDIX B(iii)**

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

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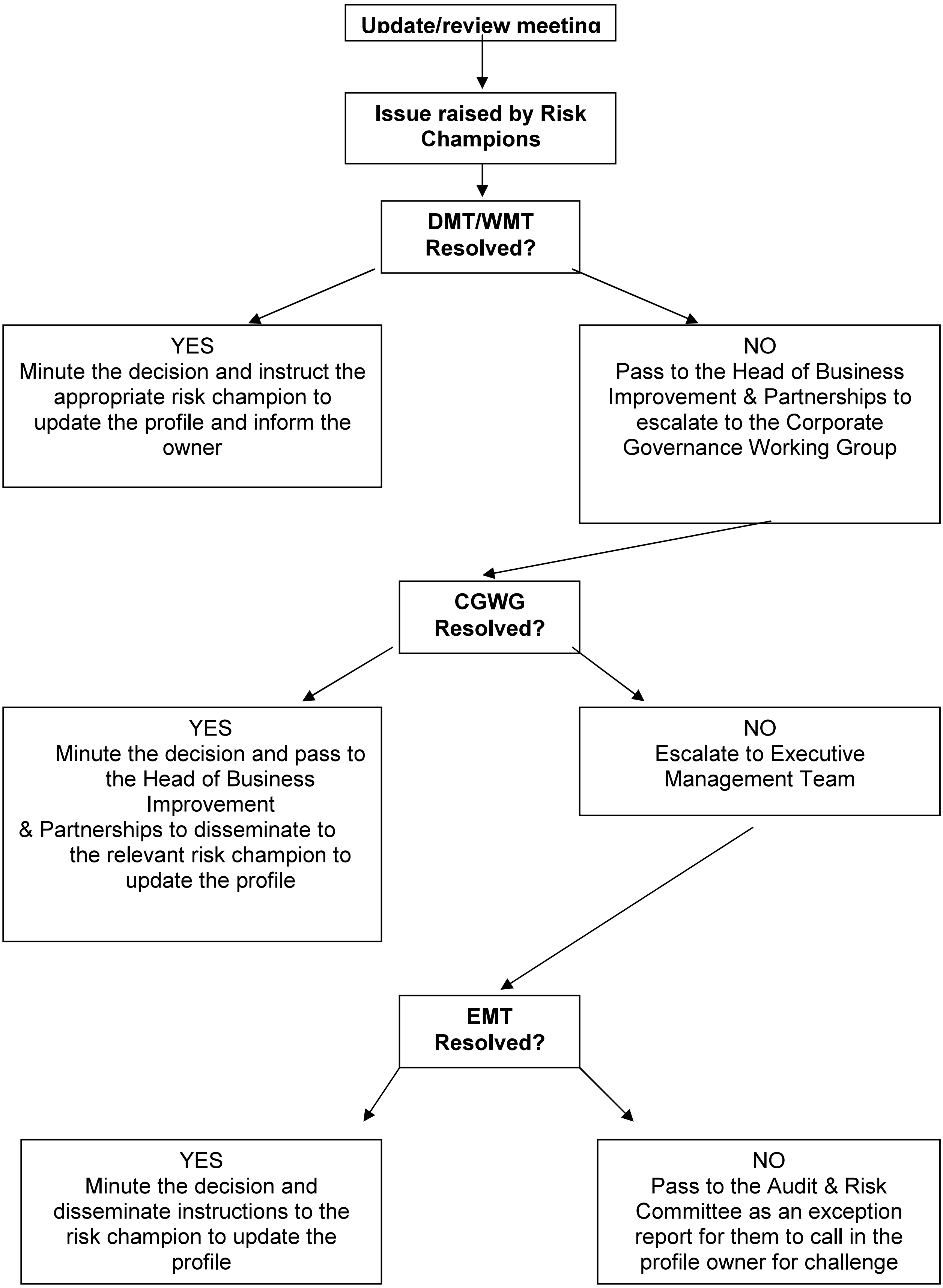
RISK MANAGEMENT REVIEWING & REPORTING, COMMUNICATING FRAMEWORK

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

		champion) or WMT (where appropriate), CGWG (via strategic risk champion), EMT and Audit & Risk Committee if no resolution found.	Progress to manage this risk must be reviewed at least annually (or sooner if circumstances change significantly) and a comment recorded in the relevant risk register.

ESCALATION PROCESS



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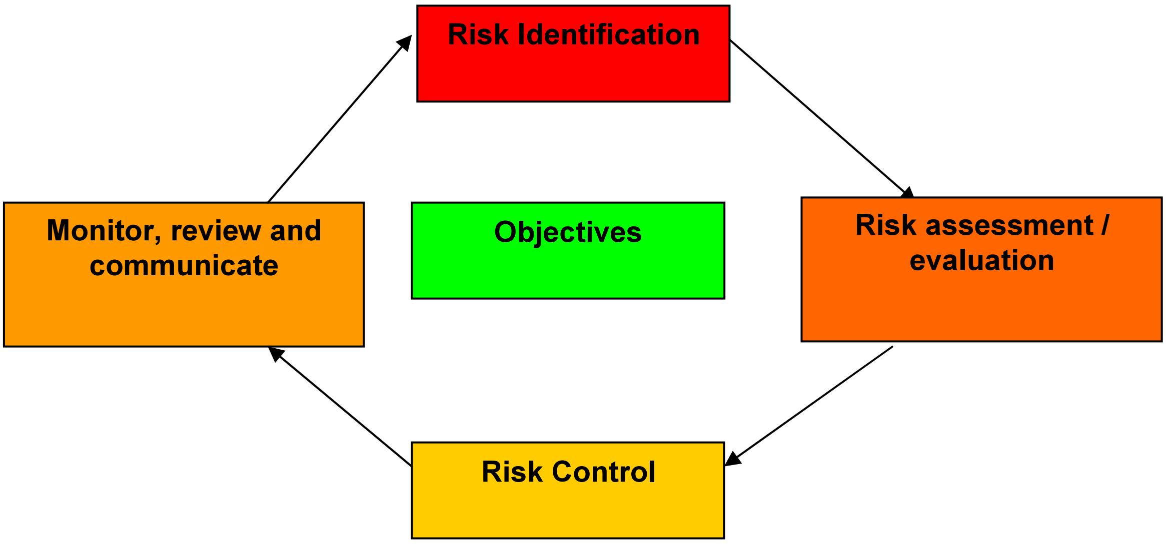
APPENDIX C

NEWCASTLE-UNDER-LYME
BOROUGH COUNCIL

A QUICK GUIDE TO THE COUNCIL'S RISK MANAGEMENT PROCESS

CONTENTS

Risk Management Process – An Overview



Objectives

In developing our approach to risk management, a key part at all stages of the process is to identify SMART objectives - in other words the objectives need to be Specific, Measurable, Achievable, Realistic and Time-bound. In other words, they need to be structured in such a way that they can be assessed as to whether they have worked properly or not. This section takes into account all the objectives set out above and provides more information on each.

Risk identification

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

Risk assessment/Evaluation

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

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

How likely is it to happen?

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

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

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

Risk Control

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

Who owns the risk?

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

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

(see Appendix B(iii))

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

Monitor, Review and Communicate

Key questions to consider as part of this process: -

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

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

Key to what prompts what kind of action: -

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

RISK ASSESSMENT IMPACT MEASURES AND CLASSIFICATION

	High (red)	Medium (amber)	Low (green)
Health & Safety	Death, abuse, life threatening OR permanent disability	Serious injury OR long-term absence from work (over 7 days)	Minor injury OR short-term absence from work (less than 7 days)
Cost	More than £300k	Between £50-£300k	Between £20-£50k
Reputation	National media attention, potential public interest report, third party intervention	Sustained local media attention, Executive Director reporting, Member interest	Short term local media attention, DMT/WMT reporting (depending on the issue)
Service Delivery	Serious service failure directly affecting partners, stakeholders (more than 1 month)	Service failure but not directly affecting partners or stakeholders (up to 1 month)	Service disruption (between 1 day to 2 weeks)
Project Delivery	Project failure impacting on council's priorities and performance	Project failure impacting on Directorate's performance and priorities	Project delay impacting on service performance and priorities
Legal implications	Statutory body, partner or enforcement agency	Member and/or EMT	DMT/WMT (where appropriate)

ALWAYS TAKE THE WORST CASE SCENARIO AS YOUR IMPACT LEVEL

Likelihood Measures

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

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

RISK MANAGEMENT REVIEWING, REPORTING & COMMUNICATING FRAMEWORK

Final Risk Rating	Risk Action	Management Action required	Review/Reporting required
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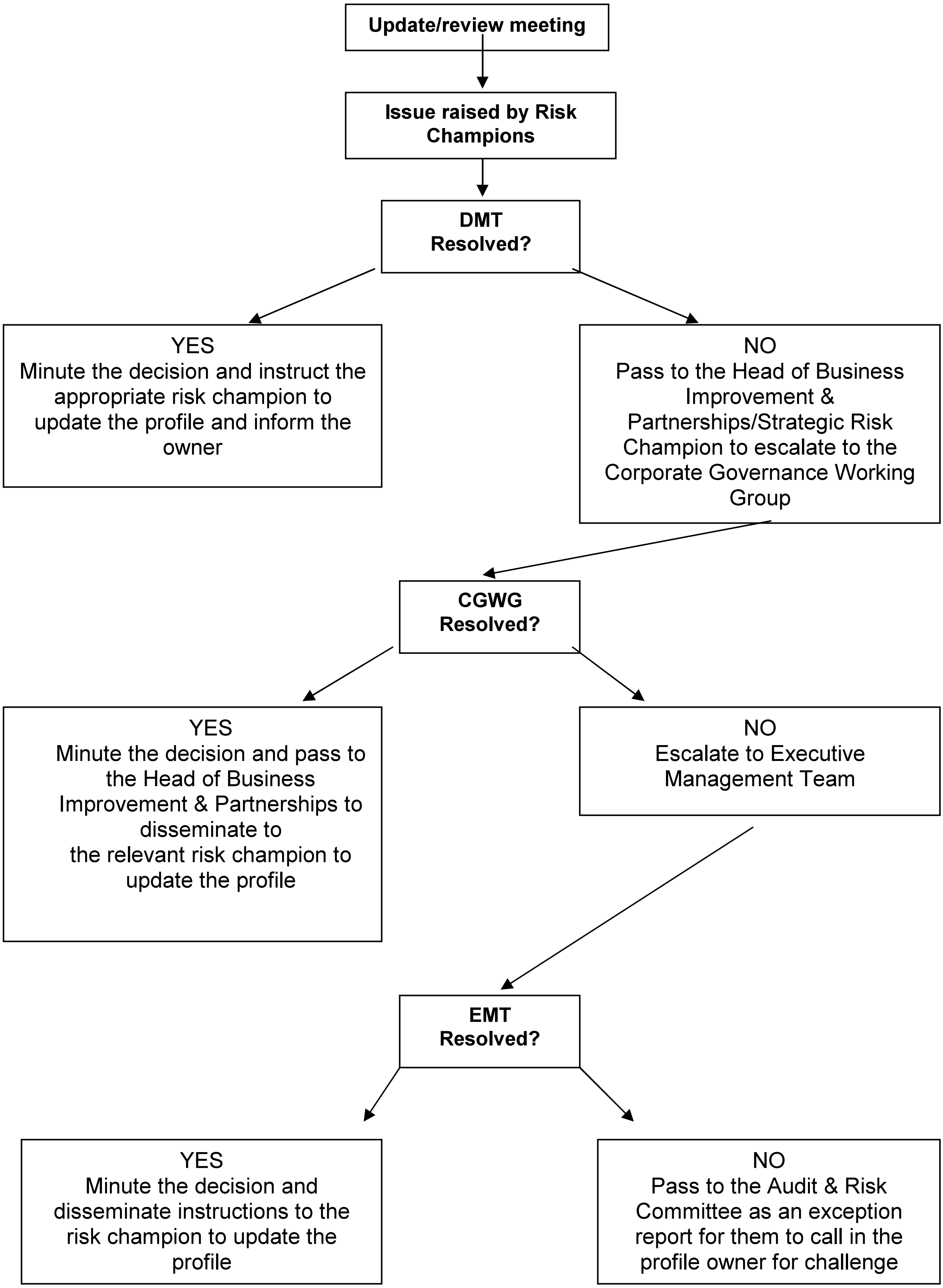


NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO AUDIT AND RISK COMMITTEE

Date 15 July 2013

1. Treasury Management Annual Report 2012/13

Submitted by: Head of Finance

Portfolio: Finance and Resources

Ward(s) affected: All indirectly

Purpose of the Report

To receive the Treasury Management Annual Report for 2012/13 and to review the Treasury Management activity for this period.

Recommendations

a) That the Treasury Management Annual Report for 2012/13 be received prior to submission to Council on 11 September 2013.

b) That the Actual Prudential Indicators contained within the report be received prior to submission to Council on 11 September 2013.

Reasons

The CIPFA Treasury Management Code of Practice on Treasury Management (revised in November 2011) recommends that Members should be informed on Treasury Management activities at least twice a year. It was resolved that the Audit and Risk Committee would monitor and oversee the delivery of the Treasury Management Strategy. A half yearly report was submitted to the Audit and Risk Committee in November 2012 covering the period 01 April – 30 September 2012. The annual report covering 2012/13 is now presented to the Audit and Risk Committee prior to submission to Council on 11 September 2013.

1. **Background**

1.1 The CIPFA Code of Practice on Treasury Management (revised in November 2011) recommends that Members should be informed on Treasury Management activities at least twice a year. It was resolved that the Audit and Risk Committee would monitor and oversee the delivery of the Treasury Management Strategy. This will be achieved through the receipt of a half yearly and annual Treasury Management Report.

1.2 This report therefore ensures that this Council is embracing Best Practice in accordance with CIPFA's recommendations in the CIPFA Code of Practice.

1.3 Treasury Management operations are carried out in accordance with policies laid down in the currently approved Treasury Management Policy Statement, backed up by approved

Treasury Management Practices and Schedules thereto, and the Annual Treasury Management Strategy Report.

2. **Issues**

2.1 The Treasury Management Annual Report for 2012/13 is attached at Appendix “” (paper). The economic background and economic forecast included in the report has been provided by the Council’s Treasury Management Advisors, Sector Treasury Services Limited.

2.2 **Heritable Bank**

The original investment with Heritable Bank was £2,500,000. Thirteen dividends have been received so far from administrators Ernst and Young totalling £1,937,728.

The bank’s administrators Ernst and Young continue to predict an estimated base case return of between 86% and 90% in their report to creditors, dated 2 May 2012. Their subsequent report dated 11 February 2013 did not change this opinion.

3. **Legal and Statutory Implications**

3.1 See Background for details.

4. **Financial and Resource Implications**

4.1 There are no specific financial implications arising from the report.

5. **Major Risks**

5.1 Treasury management is a major area of risk for the Council in that large amounts of money are dealt with on a daily basis and there are a number of limits and indicators, which must be complied with.

5.2 The overriding consideration in determining where to place the Council’s surplus funds is to safeguard the Council’s capital. Within this constraint the aim is to maximise the return on capital.

5.3 Operational procedures, coupled with monitoring arrangements, are in place to minimise the risk of departures from the approved strategy.

6. **List of Appendices**

6.1 Appendix “” (paper), Treasury Management Annual Report 2012/13.

7. **Background Papers**

- CIPFA Treasury Management Code of Practice (revised November 2011),
- Council’s Treasury Management Policy Statement,
- Council’s Treasury Management Strategy,
- Local Government Act 2003,
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003,
- Guidance on Local Authority Investments issued by the Department for Communities and Local Government (revised March 2010),
- Ernst & Young Progress Reports (28 January 2010, 28 July 2011 and 2 May 2012).
- Sector Treasury Services Limited model report for 2012/13

ANNUAL TREASURY REPORT 2012/13

1. INTRODUCTION AND BACKGROUND

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 was adopted by this Council on 24 February 2010.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council of an annual treasury management strategy report (including the annual investment strategy*)* for the year ahead and an annual review report of the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of the treasury management strategy to a specific named body which in this Council is the Transformation and Resources Overview and Scrutiny Committee.
6. Delegation by the Council of the role of scrutiny of treasury management performance to a specific named body which in this Council is the Audit and Risk Committee, a midyear and year end review report is received by this Committee.

Treasury management in this context is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2012/13.

2. THIS ANNUAL TREASURY REPORT COVERS

- The Council's treasury position as at 31st March 2013;
- The strategy for 2012/13;
- The economy in 2012/13;
- Investment rates in 2012/13;
- Compliance with treasury limits and Prudential Indicators;
- Investment outturn for 2012/13;
- Involvement of Elected Members;
- Other issues.

3. TREASURY POSITION AS AT 31 MARCH 2013

The Council's investment position at the beginning and the end of the year was as follows:

	At 31/3/13	Return	Average Life (Days)	At 31/3/12	Return	Average Life (Days)
Total Debt	*£0m*	*N/A*	*N/A*	*£0m*	*N/A*	*N/A*
Total Investments	*£4.900m*	*0.99%*	*16*	*£10.475m*	*1.03%*	*43*

It should be noted that the above table is only a snapshot of the Total Investments as at 31 March. Large fluctuations in cash inflows and outflows that occur throughout the month can have an impact on the figure reported.

The decline in total investments has been due to a combination of few capital receipts being received due to the economic downturn and capital expenditure being incurred on projects including:

- HIP Disabled Facilities
- Newcastle Town Centre Partnership Scheme
- Beasley Place Housing Scheme
- The Wammy Neighbourhood Park

4. THE STRATEGY FOR 2012/13

The strategy agreed by Council on 22 February 2012 was that:

- There would be no long term borrowing for capital purposes;

- Short term borrowing would be required in the event to cover any temporary shortfalls in revenue income or to temporarily fund capital expenditure during the interim period before a permanent means of finance became available;

- All borrowing would be kept absolutely within the Authorised Limit of £15m and would not normally exceed the Operational Boundary of £5m (although it could for short periods of time be permitted to rise to a figure between £5m and £15m due to variations in cash flow);

- Temporary surpluses which might arise would be invested, either in short term deposits with the Council's bankers or in money market investments (cash deposits) if the size warranted this and for an appropriate period in order that these sums would be available for use when required;

- The proportions of loans and investments to be at fixed or variable rates were: fixed rate loans to be between 0% and 100% of the total and fixed rate investments to be between 0% and 100% of the total;

- Long term investments to be permitted as follows: maturing beyond 31/03/13 £10m, maturing beyond 31/03/14 £10m, maturing beyond 31/03/15, £10m;

- The overriding consideration in determining where to place the Council's surplus funds was to safeguard the Council's capital. Within this constraint the aim was to maximise the return on capital; and,

- Forward commitment of funds for investment is permitted in respect of in house investments.

Changes in strategy and credit Policy during the year

There have been no changes to the Treasury Management Strategy during the year. As approved by Council on 30 July 2008 we continue to use the lowest common denominator methodology in respect of determining suitable counterparties. This methodology is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

This, and the downgrading of numerous Banks and Building Societies, has led to a severely restricted counterparty listing remaining. Consequently, difficulty has been found in placing investments with counterparties that meet our criteria.

THE ECONOMY AND INTEREST RATES - narrative supplied by the Council's Treasury Management Advisors – Sector Treasury Services Limited

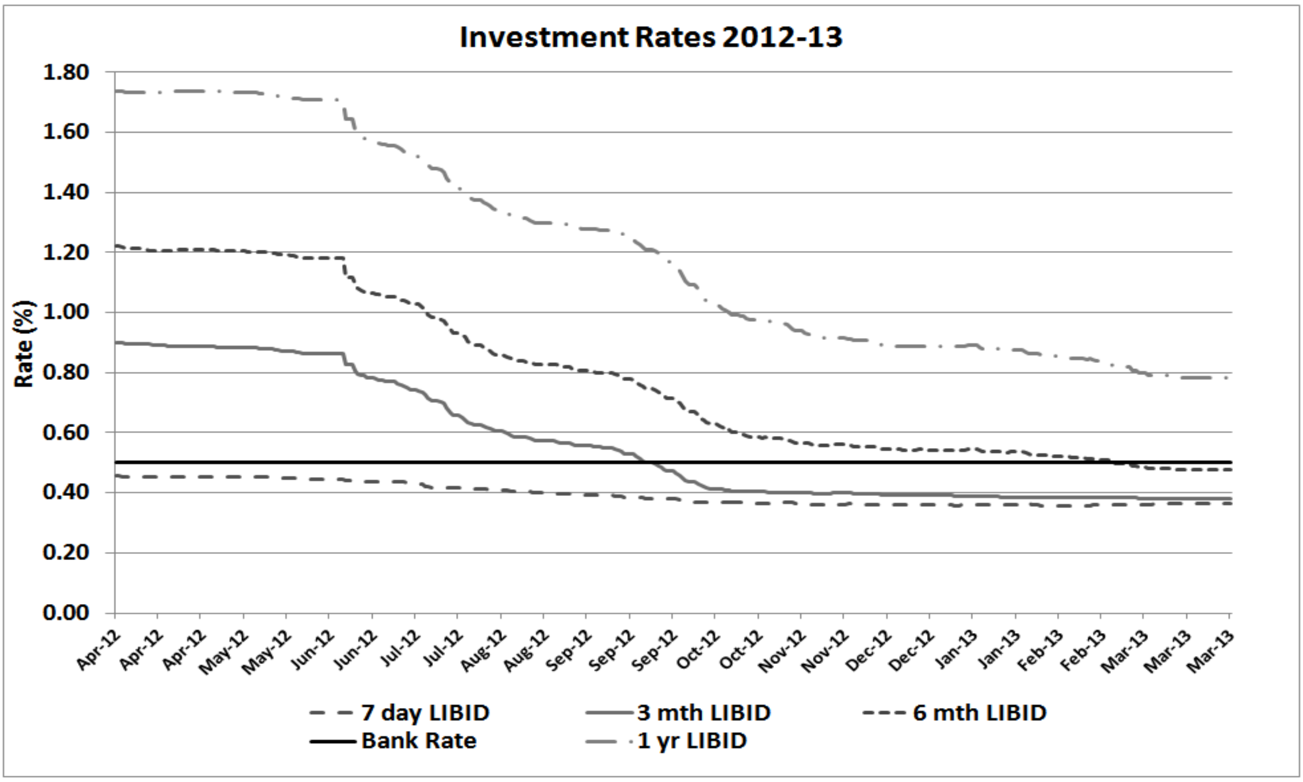
The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would start gently rising from quarter 4 2014. However, economic growth did not materialise during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moodys followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March. Key to retaining the AAA rating from Fitch and S&P will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 2016. The EU sovereign debt crisis was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

Gilt yields moved up and down during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of Quantitative Easing (QE) in July and widely expected further QE still to come, combined to keep Public Works Loan Board (PWLB) rates depressed for much of the year at historically very low levels.

Deposit rates. The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the European Central Bank (ECB) statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

5. INVESTMENT RATES IN 2012/13 – narrative and graph supplied by the Council's Treasury Management Advisors – Sector Treasury Services Limited

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.



6. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Annex 1.

7. INVESTMENT OUTTURN FOR 2012/13

Internally Managed Investments
The Council manages its investments in-house and invests with the institutions listed on the Council's approved lending list. The Council invested for a range of periods from overnight to up to three months dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Four of the seven fixed investments made in 2012/13 were for a period of three months, with the remaining three fixed investments being for less than three months.

Investment Outturn for 2012/13
During 2012/13 an average rate of return of 0.99% was achieved on an average individual investment of £1.393m. This compared with the target of 1% included in the departmental business plan.

8. INVOLVEMENT OF ELECTED MEMBERS

Elected members have been involved in the treasury management process during 2012/13 including:

- Scrutiny of the treasury management strategy by the Transformation and Resources Overview and Scrutiny Committee prior to being submitted for approval by the Full Council.
- Scrutiny of treasury management performance by the Audit and Risk Committee through the receipt of a half yearly treasury management report and the annual report.
- The Portfolio Holder for Finance and Resources receives a monthly budget monitoring report which contains details of Treasury Management activity undertaken during the month; this is forwarded to all Members.
- A quarterly budget monitoring and performance report is reported to Cabinet, this contains details of Treasury Management activity undertaken during the quarter.

9. HERITABLE BANK DEFAULTS

This authority currently has the following investment frozen in the Heritable Bank:

- Investment 5092, £2.5m, maturity date 14 September 2009.

Payments up to 31 March 2013 totalled £1,937,728.

ANNEX 1: PRUDENTIAL INDICATORS

	Position/Prudential Indicator	2011/12 Actual	2012/13 Original Indicator	2012/13 Actual
1	Capital Expenditure	£14.796m	N/A	£2.532m
2	Capital Financing Requirement at 31st March	£0.031m	0.115m	(0.197m)
3	Treasury Position at 31st March			
	Borrowing	£0.0m	N/A	£0.0m
	Other long term liabilities	£0.0m	N/A	£0.0m
	Total Debt	(£0.0m)	N/A	(£0.0m)
	Investments	(£10.475m)	N/A	(£4.900m)
	Net Borrowing	(£10.475m)	N/A	(£4.900m)
4	Authorised Limit (against maximum position)	£0.0m	£15.0m	£0.0m
5	Operational Boundary (against maximum position)	£0.0m	£5.0m	£0.0m
6	Ratio of Financing Costs to Net Revenue Stream	(1.23%)	(0.56%)	(1.04%)
7	Upper Limits on Variable Interest Rates (against maximum position)			
	Loans	0%	100%	0%
	Investments	0%	100%	0%
8	Actual External Debt	£0.0m	N/A	£0.0m
9	Principal Funds Invested for Periods Longer than 364 days (against maximum position)	£0.0m	£10.0m	£0.0m

GLOSSARY

CPI – Consumer Price Index

The Consumer Price Index (CPI) is the main UK measure of inflation for macroeconomic purposes and forms the basis for the Government's inflation target. It is also used for international comparisons.

ECB – European Central Bank

The European Central Bank (ECB) is the central bank for the euro and administers the monetary policy of the EU member states which constitute the Eurozone, one of the largest currency areas in the world.

LIBID – London Interbank Bid Rate

Banks in the City of London tend to lend and borrow money from one another in the wholesale money markets. The rate at which a bank is willing to borrow money is called the London Interbank Bid Rate (LIBID).

LIBOR – London Interbank Offered Rate

This is the benchmark used by banks, securities houses and investors to gauge the cost of unsecured borrowing in the money markets. It is calculated each day by asking a panel of major banks what it would cost them to borrow funds for various periods of time and in various currencies, and then creating an average of the individual bank’s figures.

MPC – Monetary Policy Committee

Interest rates are set by the Bank’s Monetary Policy Committee (MPC). The MPC sets an interest rate it judges will enable the inflation target to be met. The Bank's MPC is made up of nine members – the Governor, the two Deputy Governors, the Bank's Chief Economist, the Executive Director for Markets and four external members appointed directly by the Chancellor. The appointment of external members is designed to ensure that the MPC benefits from thinking and expertise in addition to that gained inside the Bank of England.

PWLB – Public Works Loan Board

The Public Works Loan Board (PWLB) is a statutory body operating within the Debt Management Office and is responsible for lending money to local authorities and other prescribed bodies, as well as for collecting the repayments.

QE – Quantitative Easing

Quantitative Easing is an unconventional monetary policy used by central banks to stimulate the national economy when standard monetary policy has become ineffective. A central bank implements quantitative easing by buying financial assets from commercial banks and other private institutions, thus increasing the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

REPORT TO THE AUDIT AND RISK COMMITTEE ON 15 JULY 2013

DRAFT STATEMENT OF ACCOUNTS 2012/13.

Submitted by: Head of Finance

Portfolio: Finance and Resources

Ward(s) affected: All

Purpose of the Report

To submit the draft Statement of Accounts 2012/13 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 2012/13 be noted.

b) That the financing of capital expenditure incurred during 2012/13, 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 2012/13 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 1 July 2013 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 23 September 2013.

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 2012/13 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 2012/13 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 2012/13 and the ways in which it has been financed.

2. The General Fund Budget

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

2.2 The budget for the General Fund for 2012/13 was originally set in February 2011 and amounted to a net total of £15,383,940. The eventual outturn for the year was a positive variance against this figure, of £3,024.

3. The General Fund Outturn

3.1 As mentioned above, the out-turn in respect of the General Fund Revenue Account was £3,024 better than the original estimate. Whilst there were adverse variances against some budget heads, these have been offset by positive variances against others.

A number of areas of income, largely ones that are sensitive to the state of the local and national economy, were particularly adversely affected as shown in the following table:

Type of Income	Budget	Outturn	Variance
	£000s	£000s	£000s
Local Land Charges	222	169	53
Commercial Properties Rents	1,651	1,492	159
Planning Applications Fees	428	210	218
Car Parking Income	1,218	961	257
Markets Stalls Income	260	147	113
Provision for Income Loss	(200)	-	(200)
Total	3,579	2,979	600

With reference to the Commercial Properties rents shortfall, this is particularly depressed by continuing vacancies in Lancaster Buildings where units remain unlet, following the completion of refurbishment works.

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).

There was also additional expenditure on a number of headings, which is outlined in the following table:

Item	additional expenditure
	£000s
Contribution to Bad Debts Provision	61
Landscape Section and other Salaries - non-recovery of costs	41
Total	102

These adverse variances, shown in the two tables above, have however, been met by favourable variances on other budget heads, the more significant of which are highlighted in the table below.

Item	Saving or additional income
	£000s
Additional Income:	
Customer Services - Income from issue of Disabled Parking Blue Badges	12
Burial Fees Income	24
Licensing Income	61
Litter Fines	24
Housing Benefits - Recovery of Overpayments	117
Procurement Savings:	
Computer Software and Licenses	90
Highways Amenities expenditure	29
External Audit Fees	36

Good Housekeeping Efficiencies:	
Maintenance of Closed Churchyards	10
Neighbourhood Partnership Team – Conference/Seminar Costs & Fees for Services	12
Commercial Properties Expenses (e.g. rates, utilities costs)	44
Community Recreation Service Expenditure/Income	16
CCTV Monitoring Costs	8
Watercourses expenditure	24
Ryecroft Holding Costs (Net)	14
Corporate Training	22
Homelessness Expenditure	55
Budget not Required:	
Budgeted Pay Increase	60
Content Management System	15
Community Development - Contributions to External Bodies	23
Community Centres - Contributions to External Bodies	9
Total	705

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

3.2 An amount of £3,024 has been transferred into the Budget Support Fund in respect of the positive variance.

3.3 As can be seen in Note 22 to the Accounts, the balance on the Budget Support Fund now stands at £0.426m, a reduction of £0.198m from the 1 April 2011 balance. This movement comprises:

- £0.179m transferred from the Fund to support the 2012/13 budget, in accordance with the budget setting resolution of February 2011;
- £0.003m transferred from the Fund to make good the negative variance;
- net transfers of £0.022m from the Fund in respect of budget underspendings carried forward from one year to another.

3.4 It should be noted that no use is to be made of the Budget Support Fund to support the 2013/14 Budget which was approved on 27 February 2013.

3.5 In recognition of the likely continuing shortfall in income, a further amount of £300,000 in addition to the £200,000 already included in the base budget was agreed as part of the 2013/14 budget. This will be closely monitored as income levels continue to be depressed as the country continues in recession. The amount required in future budgets will be kept under review as the economy begins to move out of recession at some stage and income levels improve. The regular budget monitoring reports provided by the Cabinet Portfolio Holder for Finance and Resources will keep members updated as the year proceeds together with the quarterly monitoring reports to Cabinet.

3.6 The Council's investment with the 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 £1,937,728 has been repaid to the Council up to 31 March 2013.

3.7 The Statement of Accounts includes (at Note 42) the accounts of the North Staffordshire Building Control Partnership, the vehicle through which this Council delivers the Building Control service. Overall the Partnership broke-even 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 6, 7 and 22. 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 £1.400m to £1.200m at 31 March 2013. The reduction in the minimum balance was approved by Full Council on 27 February 2013. 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. This calculated reduction of £200,000 allowed £150,000 to be transferred to the Insurance Fund and £50,000 to the Renewals and Repairs Fund.

4.2 The CI&ES shows a deficit of £10.781m 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 from 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 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 2011/12 to 2012/13.

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 can be subject to significant volatility, as can be seen from the revaluation amount reducing from £2.131m in 2011/12 to £0.882m in 2012/13. This occurs because each year different groups of assets, mostly land and property, are considered in detail and different market conditions, which affect the valuations, exist from one year to the next. All of the balance of £10.781m has been reversed out by net transfers from reserves as shown in the Movement in Reserves Statement.

4.4 Notes 8, 9 and 10 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 and Business Rates. 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 £0.156m as at 31 March 2013. This will be recovered from the precepting authorities (Newcastle Borough Council, Staffs County Council, Police Authority, Fire Authority) 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 surplus of £0.103m for the year, compared to a deficit of £0.386m in 2011/12. This was mainly due to changes to the discount regime introduced in 2012/13, 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 £60.038m which consist of Plant, Property and Equipment, Investment Properties and Heritage Assets. Notes 11, 12 and 13 to the Statement of Accounts show an analysis of these assets, together with a summary of movements during 2012/13. The main reason for the decrease in the fixed assets balance compared to the 31 March 2012 value is the revaluation of assets, largely within the commercial property portfolio, whereby some of these assets have been revalued downwards, reflecting the prevailing economic situation which currently adversely affects their market value.

- Investments (all short term at 31 March 2013 - i.e. with less than 1 year to run from that date) amounted to £5.195m and have reduced by £5.801m compared to 31 March 2011. In particular, this reflects the use of capital receipts to finance projects in the capital programme (£0.732m) and the particular cash flow situation as at the balance sheet date. 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.

- 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 £9.476m. Further analysis of this amount is shown in Note 17 to the Statement of Accounts. Short Term Debtors have increased by £2.441m compared with 31 March 2012. The most significant reason for this increase is that the Council overpaid the Department of Communities and Local Government (DCLG) in 2012/13 in respect of amounts due to the National Non Domestic Rates (NNDR) Pool resulting in an amount due from the department of £0.900m at 31 March 2013, included in debtors, whereas in 2011/12 the department was underpaid, resulting in an amount owing to them at 31 March 2012 of £2.006m, which was 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 overpaid will be repaid to the Council in 2013/14. Additionally, the Department of Work and Pensions (DWP) owes the Council £0.506m at 31 March 2013 in respect of reimbursement of Rent Allowances paid on their behalf, whereas at 31 March 2012 the Council had been overpaid by £1.316m, which was included in creditors. Also, the amount of Right to Buy sales receipts owing to the Council from Aspire Housing increased by £0.342m and accruals for housing benefits paid to clients in advance in 2012/13, which relate to 2013/14, increased by £0.416m.

- The balance shown as a Long Term Debtor of £2.104m relates to the balance owing to the Council in respect of properties let on finance lease terms (£1.510m), the outstanding loan to Kidsgrove Town Council in respect of works to the Victoria Hall Kidsgrove (£0.174m) and outstanding mortgages (£0.420m). 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 £0.72m reflecting payments made in 2012/13, whilst the mortgages balance has increased by £0.015m, as a result of the addition of 2 further former Kickstart Loans, less repayments made by mortgagors in 2012/13.

- The amount the Council owes to its creditors is £5.630m. Further analysis of this amount is shown in Note 21 to the Statement of Accounts. Creditors have reduced by £3.213m compared to 31 March 2012. This is mainly attributable to a reduction in accruals for capital payments (£1.590m at 31 March 2012; £0.615m at 31 March 2013), reflecting the reduced size of the capital programme and NNDR Pool contributions being overpaid to the DCLG, resulting in a debtor at 31 March 2013 rather than a creditor which was the situation at 31 March 2012, when the Council had underpaid the Department by £2.006m. The loss of the DWP creditor of £1.316m at 31 March 2012, referred to above under debtors, reduces the creditors balance but is offset by an additional creditor of £1.490m in respect of housing benefit payments made to landlords in early April which related to 2012/13, which necessitated an accrual of that amount.

- Cash at bank and held by collectors, cashiers and as petty cash floats has changed from an in hand position of £0.354m at 31 March 2012 to £0.228m at 31 March 2013. This is mainly as a result of a reduction in the actual year end cash at bank balance of £0.091m, reflecting differing cash flow positions at the respective year-ends.

- The Liability relating to Defined Benefit Pension Schemes increased from £54.951m to £63.523m. 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. 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 38 to the Accounts.

7. Reserves

7.1 The Council has usable reserves totalling £7.693m. Note 22 to the Accounts shows a full analysis of all these reserves. The main items, with their balances at 31 March 2013, are:

- Capital Receipts Reserve (£2.702m)
- Capital Grants Unapplied (£1.296m)
- Budget Support Fund (£0.426m)
- Contingency Reserve Fund (£0.102m)
- Insurance Fund (£0.158m)
- New Initiatives Fund (£0.097m)
- ICT Development Fund (£0.509m)
- Renewal and Repairs Fund (£0.046m)
- RENEW Reserve (£0.122m)
- Equipment Replacement Fund (£0.277m)
- New Homes Bonus Reserve (£0.491m)

7.2 Generally the level of reserves has reduced compared with their opening balances at the beginning of 2012/13.

7.3 The Capital Receipts Reserve is predominantly 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 New Homes Bonus Reserve is all committed to finance expenditure in 2013/14.

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 (£0.905m). 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 2012/13 (Draft)
Appendix 2 Financing of Capital Expenditure

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APPENDIX 1

STATEMENT OF ACCOUNTS 2012/13

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 2012/13. 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 2013.

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

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2011 and the requirements of the 2012/13 "Code of Practice on Local Authority Accounting" published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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 June and 28 June 2013, as advertised in the local press.

The accounts were approved by the Audit and Risk Committee on 23 September 2013 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 2012/13 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.

There has been no change in the Council's statutory functions during the year.

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 2012/13 and its financial prospects for future years.

The Borough Council's Accounts for the year 2012/13 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. It 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 2013. 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.
16	Cash Flow Statement	Summarising the total cash movement of the Council's transactions.
17	Notes to the Accounts	To provide explanation and analysis of items contained in the above accounting statements. Note 1 details the accounting policies which have been employed in compiling the Council's accounts.
63	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.
66	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 Council 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 a positive variance of £3,024, i.e the net budget was £15.384m and the outturn was £15.381m.

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 previously meant that 2012/13 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 2012/13

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.

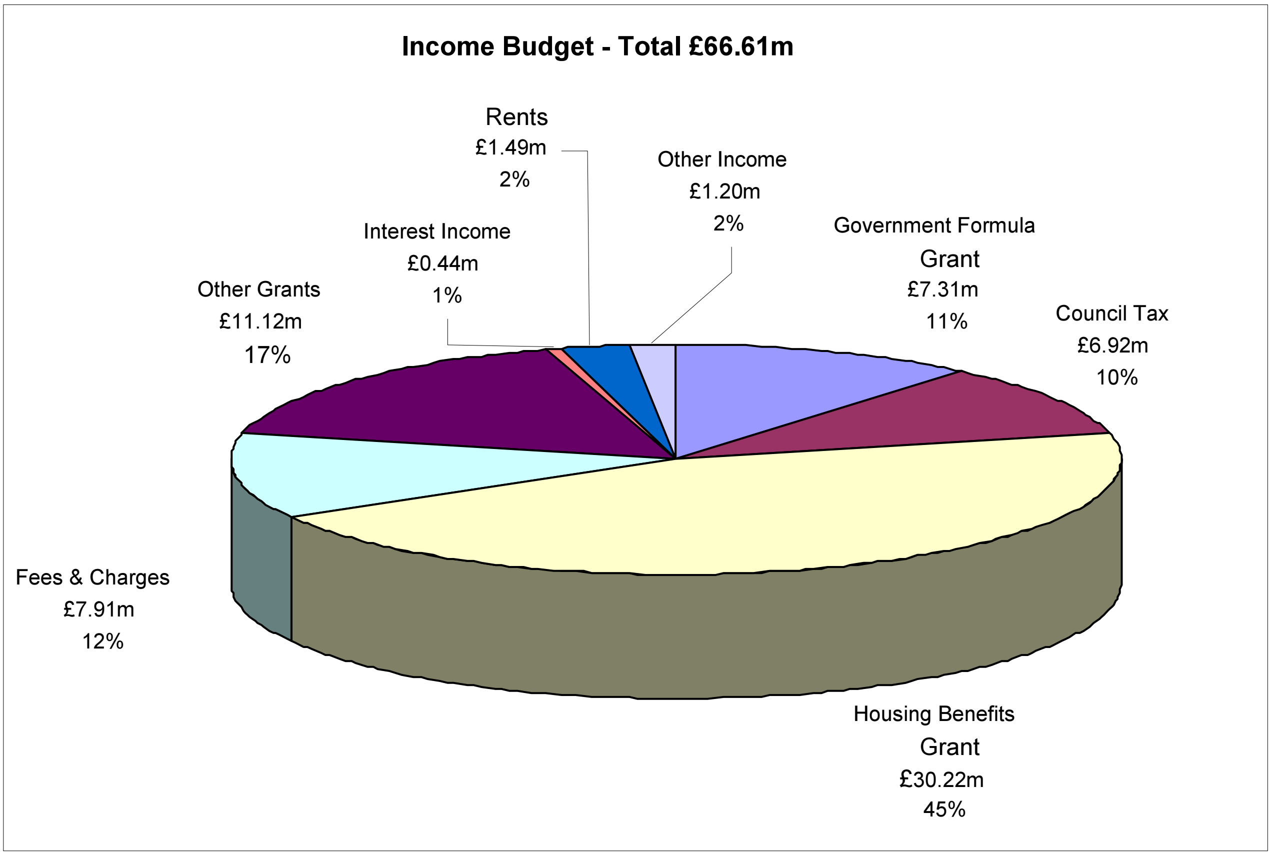
Revenue Expenditure

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 2012/13, the Borough Council received a formula grant allocation of £7.316m. In addition the Council received an amount of £0.346m in respect of Council Tax Freeze Grant because it held the Council Tax levies for 2012/13 at the same levels as in 2011/12 (£0.173m) and ongoing grant (£0.173m) payable because there was no increase in 2011/12 from 2010/11 levels.

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. It should be noted that the arrangements between central and local government in respect of business rates have changed from 1 April 2013 and this is referred to later in the "Financial Prospects" section of this Foreword.

The gross income to pay for its services which was included in the Borough Council's Revenue Budget for 2012/13 was £66.61m, made up as follows:



What we planned to spend

The Council set an original Net Revenue Budget for 2012/13 of £15.384m on 22 February 2012.

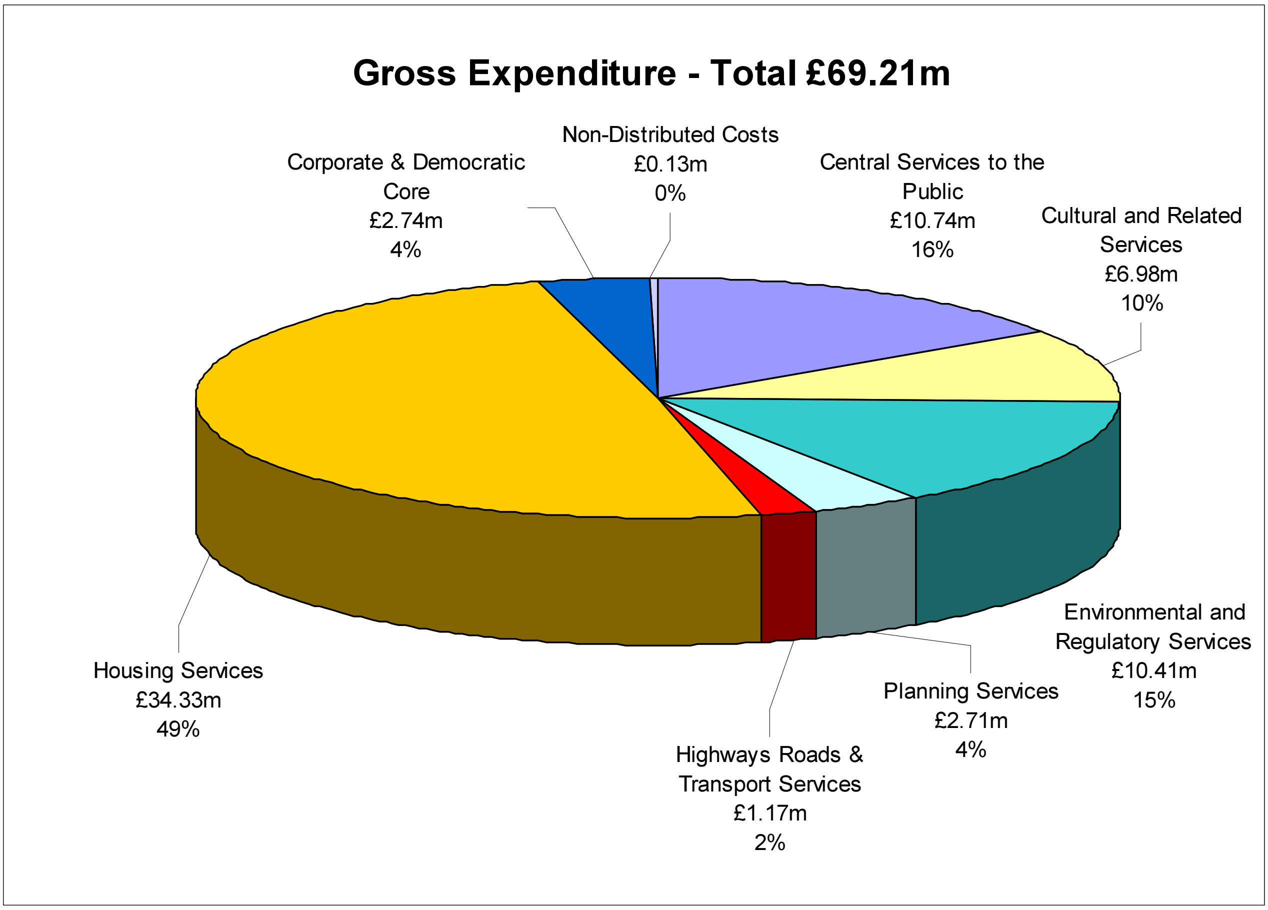
What we actually spent

Actual net expenditure was £15.381m. As mentioned earlier, this represents a positive variance compared to the original budget of some £3,000.

This amount has been transferred into the Budget Support Fund. The balance on the Fund, as at 31 March 2013 is £0.426m, as against its balance at 1 April 2012, which was £0.624m. In addition to the transfer into the Fund of £3,000, a net transfer of some £0.022m was made from it to meet 2012/13 commitments carried forward and in respect of payments made in 2012/13 relating to previous years' amounts carried forward. £0.179m of the Fund was also used, to provide general support for the budget in accordance with the approved budget for 2012/13.

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 2012/13. It shows that Gross Expenditure for the year was £69.21m 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 11, 12, 14 and 34 to the accounts show the Council's capital spending for 2012/13 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 2013.

There are a number of sources of funds which may be available to finance the Council's capital expenditure. In 2012/13 and previous years the major source of finance has been unapplied capital receipts. These have arisen from sales of land, property and other assets.

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. In addition the Contingency Reserve may be used to meet capital costs. The balances on the Council's reserves are shown in note 22 (page 42) 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 2013/14 to 2017/18.

The original forecast shortfall for 2013/14 was £1.8m. On 27 February 2013 the Council set a balanced budget without any increase in council tax. This was mainly due to efficiency savings of £1.9m being identified, allowing £0.1m to be contributed to a new Revenue Investment Fund to provide funding for projects which align with emerging corporate priorities. The majority of these savings 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 continuing desire to achieve significant reductions in public expenditure will inevitably impact upon the Council's own finances. 2012/13 saw a significant reduction in central government support by way of the formula grant which is repeated in 2013/14 (a reduction of just under £0.4m (5.4%) from the 2012/13 level). Provisional data provided by central government indicates that a further reduction of some £1.0m will occur in 2014/15, which represents a further 12.4% reduction in central government support. Indications for later years are that further reductions will continue to be made in this support for some time.

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 continues with its 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 27 February 2013 provided for total capital spending of £7.963m 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, which previously existed, 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 limited 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 i.e. 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 22 (page 42) 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 2014/15 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 2013 is £1.2m. 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 2013 just over 77% of the amount deposited has been repaid.

k) Assets and Liabilities Acquired

There have been no significant assets or liabilities acquired during 2012/13.

l) Pensions Scheme Liability

The Liability relating to Defined Benefit Pension Schemes increased from £54.951m to £63.523m. 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) Specific Events in 2013/14

There are a couple of significant finance-related legislative changes which will affect the Council in 2013/14:

Firstly, the arrangements in relation to National Non Domestic Rates (NNDR) changed with effect from 1 April 2013 in so far as the National Pooling system has been abolished. Under this scheme, billing authorities such as Newcastle paid all the rates they collected to the government to be held in a national pool which would then redistribute all of these funds to local authorities as NNDR Grant (a part of Formula Grant). The new arrangements enable local authorities to retain part of the income collected, in essence a share of the growth in rates income. In future this could be a source of additional income for the Borough Council, although initially amounts may be modest. In order to maximise the amount retained, the Council has joined with other Staffordshire Authorities to form a local Pool which avoids loss of income to central government in the form of a levy on rates growth.

Secondly, the Council has become wholly responsible for the assessment and payment of Council Tax Support in accordance with a scheme of its own devising. This replaces Council Tax Benefit formerly administered by the Council on behalf of the Department for Work and Pensions, which funded the payments and laid down the scheme to be applied by authorities across all of England. From April 1 2013 the Council's local scheme is in operation. This is grant-aided by the Department of Communities and Local Government but at a level equivalent to only 90 per cent of the previous DWP funding. There are considerable uncertainties surrounding the implementation and application of these changes which could have an adverse effect upon the Council. However, because any costs above the grant received have to be shared between the Borough Council and the major precepting authorities (Staffs County Council, the Fire Authority and the Police Authority) any adverse effect on this Council is much reduced.

The Council also assumed responsibility, from the beginning of May 2013, for operating the municipal golf course situated at Keele Road. This follows the previous operator relinquishing the right to operate the course on the Council owned site due to entering into liquidation. This is a temporary arrangement whilst a procurement exercise is completed to appoint a replacement operator.

n) Audit of the Accounts

The Borough Council's appointed auditors, Grant Thornton UK LLP, currently undertake the annual audit of the accounts. Their contact details are:

John Gregory

Grant Thornton UK LLP

Colmore Plaza

20 Colmore Circus

Birmingham

B4 6AT

o) 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 2012/13 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.

p) 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

q) 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 the meeting, which is shown below.

The Statement of Accounts was approved at a meeting of the Audit and Risk Committee on 23 September 2013

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 2013.

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

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

The Executive Director - Resources and Support Services has also:

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

The Executive Director - Resources and Support Services Certificate

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Borough Council as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

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 2011 Brought Forward	(1,750)	(6,672)	(5,986)	(1,934)	(16,342)	(13,843)	(12,571)
Movement in Reserves during 2011/12							
Surplus or (Deficit) on Provision of Services	7,036	-	-	-	7,036	-	7,036
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 6)	(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	(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)

	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 2012 Brought Forward	(1,400)	(2,931)	(2,420)	(1,321)	(8,072)	(9,497)	(17,569)
Movement in Reserves during 2012/13							
Surplus or (Deficit) on Provision of Services	4,079	-	-	-	4,079	-	4,079
Other Comprehensive Income & Expenditure	-	-	-	-	-	6,702	6,702
Total Comprehensive Income & Expenditure	**4,079**	**-**	**-**	**-**	**4,079**	**6,702**	**10,781**
Adjustments between accounting basis and funding basis (Note 6)	(3,695)	-	(280)	24	(3,951)	3,951	-
Net Increase/Decrease before transfers to Earmarked Reserves	384	-	(280)	24	128	10,653	10,781
Transfers to/from Earmarked Reserves (Note 7)	(184)	435	-	-	251	(251)	-
Increase/Decrease in Year	**200**	**435**	**(280)**	**24**	**379**	**10,402**	**10,781**
Balance at 31 March 2013 Carried Forward	(1,200)	(2,496)	(2,700)	(1,297)	(7,693)	905	(6,788)

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.

2011/12				2012/13		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
10,899	9,518	1,381	Central Services to the Public	10,743	9,601	1,142
6,281	1,306	4,975	Cultural and Related Services	6,977	1,863	5,114
10,886	3,783	7,103	Environmental and Regulatory Services	10,411	3,731	6,680
4,892	690	4,202	Planning Services	2,714	546	2,168
2,199	1,286	913	Highways & Transport Services	1,165	1,273	(108)
31,227	29,726	1,501	Housing Services	34,328	32,917	1,411
2,708	34	2,674	Corporate & Democratic Core	2,741	28	2,713
83	25	58	Non-Distributed Costs	132	-	132
69,175	**46,368**	**22,807**	**Cost of Services**	**69,211**	**49,959**	**19,252**
1,607	1,317	290	Other Operating Expenditure (Note 8)	393	774	(381)
5,233	1,587	3,646	Financing & Investment Income & Expenditure (Note 9)	3,335	1,715	1,620
-	19,707	(19,707)	Taxation and non-specific Grant Income (Note 10)	-	16,412	(16,412)
		7,036	**(Surplus) or Deficit on Provision of Services**			**4,079**
		(2,131)	(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets			(882)
		-	(Surplus) or Deficit on Revaluation of Heritage Assets			-
		7,711	Actuarial Gains/Losses on Pensions Assets/Liabilities			7,584
		5,580	**Other Comprehensive Income & Expenditure**			**6,702**
		12,616	**Total Comprehensive Income & Expenditure**			**10,781**

Notes

1. Both the expenditure and income amounts for 2012/13 show an increase in relation to Cultural and Related Services largely as a result of the J2 leisure facilities being open for a full year.
2. Planning Services expenditure has reduced in 2012/13 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.
3. Expenditure on Highways and Transport Services has reduced largely as a result of a reduction in impairment charges of some £1.0m. These charges are reversed out of the accounts via the Movement in Reserves Statement.

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. 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, 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'.

31/03/2012		Note	31/03/2013	
£000			£000	£000
	Property, Plant & Equipment	11		
32,026	Land & Buildings		31,687	
1,024	Infrastructure		995	
5,800	Vehicles, Plant, & Equipment		5,490	
6,496	Community Assets		5,627	
45,346				43,799
15,220	Investment Property	12		14,810
1,429	Heritage Assets	13		1,429
172	Intangible Assets	14		168
145	Long Term Investments	15		-
2,190	Long Term Debtors			2,104
64,502	**Long Term Assets**			**62,310**
10,851	Short Term Investments	15		5,195
28	Inventories	16		36
7,035	Short Term Debtors (Net of Bad Debt Provisions)	17		9,476
354	Cash and Cash Equivalents	18		228
18,268	**Current Assets**			**14,935**
(8,843)	Short Term Creditors	20		(5,630)
(56)	Short Term Borrowing	15		(25)
(193)	Deposits			(210)
(9,092)	**Current Liabilities**			**(5,865)**
(400)	Provisions	21		(461)
(54,951)	Net Pensions Liability	38	(63,523)	
(626)	Deferred Liabilities		(459)	
(55,577)				(63,982)
(132)	Capital Grants Receipts in Advance	32		(149)
(56,109)	**Long Term Liabilities**			**(64,592)**
17,569	**Net Assets**			**6,788**
	Usable Reserves	22		
1,400	General Fund Balance		1,200	
2,931	Other Usable Reserves		2,496	
2,420	Capital Receipts Reserve		2,700	
1,321	Capital Grants Unapplied Account		1,297	
8,072	Total Usable Reserves			7,693
	Unusable Reserves	23		
12,198	Revaluation Reserve		13,080	
50,427	Capital Adjustment Account		47,721	
2,002	Deferred Capital Receipts Reserve		1,981	
(54,951)	Pensions Reserve		(63,523)	
1	Collection Fund Adjustment Account		14	
(180)	Accumulated Absences Account		(178)	
9,497	Total Unusable Reserves			(905)
17,569	**Total Reserves**			**6,788**

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.

2011/12 £000		2012/13 £000	Note
7,036	Net (Surplus) or Deficit on the Provision of Services	4,079	
(2,701)	Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash movements	(3,103)	19
2,616	Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	1,049	19
6,951	Net Cash Flows from Operating Activities	2,025	
(2,126)	Investing Activities	(4,873)	25
(4,405)	Financing Activities	2,974	26
420	Net Increase or Decrease in Cash and Cash Equivalents	126	
(774)	Cash and Cash Equivalents at the beginning of the Reporting Period	(354)	
(354)	**Cash and Cash Equivalents at the end of the Reporting Period**	**(228)**	18

Notes to the Accounts

1. Accounting Policies

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. 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 2012/13 and the Best Value Accounting Code of Practice 2012/13, 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.

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 forecasts 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 2013, 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 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 Council has no available for sale assets.

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 39) 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 13 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 2012/13 (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 39 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 40 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 several changes in accounting policies which will be required from 1 April 2013, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

- IAS 1 Presentation of Financial Statements – the changes require authorities to disclose separately the gains or losses reclassifiable into the surplus or deficit on the provision of services. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required;
- Service Concession Arrangements, clarifications for the recognition criteria for assets under construction or intangible assets – the Council does note have any schemes that this could potentially effect;
- IAS 12 Income Taxes – this change in the accounting policy particularly affects investment properties. It is not considered that this change will affect the Statement of Accounts;
- IFRS 7 Financial Instruments Disclosures – the change in accounting is in relation to the offsetting of financial assets and liabilities. Within the cash and cash equivalents line on the balance sheet there is a bank overdraft, note 18 provides a breakdown of this item.

There have been several significant changes in relation to IAS 19 (Employee Benefits). IAS 19 is changing for accounting years starting on or after 1 January 2013 and this will affect the budgeted pension expense for the next financial year. The key change affecting Local Government Pension Scheme employers relates to the expected return on assets. Advance credit for anticipated outperformance of return seeking assets (such as equities) will no longer be permitted. The expected return on assets is currently credited to profit and loss, however from 2013 this is effectively replaced with an equivalent figure calculated using the discount rate.

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 2013 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. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director - Resources and Support Services on 28 June 2013. 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 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. 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.

2012/13	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	(2,939)	-	-	2,939
Revaluation Losses on Property, Plant & Equipment	(334)	-	-	334
Movements in the market value of Investment Properties	(395)	-	-	395
Amortisation of Intangible Assets	(73)	-	-	73
Capital Grants and Contributions applied	248	-	-	(248)
Revenue Expenditure Funded from Capital under Statute	(101)	-	-	101
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	(323)	-	-	323
Capital element of Finance Leases where Council is the lessor	(72)	-	-	72
Finance lease adjustments	-	-	-	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	166	-	-	(166)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement	366	-	(366)	-
Application of Grants to capital financing transferred to the Capital Adjustment Account	-	-	90	(90)
Grants and contributions brought forward reclassified as revenue income	(300)	-	300	-
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	983	(983)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	731	-	(731)
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	-	-	-	-
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	53	-	-	(53)
Finance lease adjustments	-	-	-	-
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(988)	-	-	988
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	13	-	-	(13)
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	2	-	-	(2)
Total Adjustments	**(3,695)**	**(280)**	**24**	**3,951**

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 & 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**

7. 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 2012/13 £000	Transfers In 2012/13 £000	Net Movement 2012/13 £000
Contingency Reserve Fund	(6)	-	(6)
Budget Support Fund	(260)	62	(198)
Conservation and Heritage Fund	(3)	11	8
ICT Development Fund	(294)	70	(224)
Equipment Replacement Fund	(6)	54	48
Insurance Fund	(437)	356	(81)
Museum Purchases Fund	(13)	2	(11)
Maintenance Contributions	(73)	58	(15)
Mayors Charities Reserve	(15)	16	1
Standards Fund	(80)	-	(80)
New Initiatives Fund	(27)	-	(27)
RENEW Reserve	(10)	-	(10)
Renewals & Repairs Fund	(492)	495	3
Deposit Guarantee Scheme Reserve	-	4	4
Planning Delivery Grant Reserve	(73)	-	(73)
New Homes Bonus Reserve	(551)	777	226
Total	**(2,340)**	**1,905**	**(435)**

Details of all transfers to/from reserves, both usable and unusable, are shown in notes 22 and 23, together with a note of the nature and purpose of each reserve.

8. Other Operating Expenditure

2011/12 £000		2012/13 £000
335	Parish Precepts	331
1	Payments to the government Housing Capital Receipts Pool	1
1,423	Gains/Losses on the disposal of Non-Current Assets	61
(1,469)	Capital income not arising from asset sales	(774)
290	**Total**	**(381)**

9. Financing and Investment Income and Expenditure

2011/12 £000		2012/13 £000
58	Interest Payable and similar charges	58
1,411	Pensions Interest Cost and Expected Return on Pensions Assets	1,874
(484)	Interest Receivable and similar income	(310)
2,661	Income and Expenditure in relation to Investment Properties and changes in their fair value	(2)
3,646	**Total**	**1,620**

10. Taxation and Non Specific Grant Income

2011/12 £000		2012/13 £000
(7,275)	Council Tax income	(7,290)
(6,329)	Non Domestic Rates - Grant from central government	(7,346)
(2,432)	Non-Ringfenced Government Grants	(1,162)
(3,671)	Capital Grants and Contributions	(614)
(19,707)	**Total**	**(16,412)**

11. Property, Plant and Equipment

Movements on Balances

Movements in 2012/13	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 2012	33,565	1,340	11,999	6,983	53,887
Additions	342	-	934	323	1,599
Deletions	-	-	-	-	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	1,113	-	-	-	1,113
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	(745)	-	(205)	(1,049)	(1,999)
Derecognition - Disposals	(150)	-	(286)	-	(436)
Derecognition - Other	-	-	-	-	-
Transfers between Asset Categories	(450)	-	471	(21)	-
Other Movements in Cost or Valuation	-	-	(51)	-	(51)
At 31 March 2013	**33,675**	**1,340**	**12,862**	**6,236**	**54,113**
Accumulated Depreciation & Impairment					
At 1 April 2012	(1,539)	(316)	(6,199)	(487)	(8,541)
Depreciation Charge	(736)	(29)	(1,300)	(122)	(2,187)
Derecognition - Disposals	287	-	127	-	414
Derecognition - Other	-	-	-	-	-
Other movements in Depreciation/Impairment	-	-	-	-	-
At 31 March 2013	**(1,988)**	**(345)**	**(7,372)**	**(609)**	**(10,314)**
Net Book Value					
As at 31 March 2012	32,026	1,024	5,800	6,496	45,346
As at 31 March 2013	31,687	995	5,490	5,627	43,799

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	-	-	-	-	-
Transfer 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)
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

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 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years budgeted to cost £0.351m. Similar commitments at 31 March 2012 were £0.984m. The major commitments are:

- Midway multi storey car park repairs, £24,000;
- Vehicles and plant purchases, £327,208.

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 and 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	10,071	5,962	1,340	17,382
Valued at Fair Value as at:	-	-	-	-	-
31 March 2009	6,518	317	-	-	6,835
31 March 2011	3,439	-	17	-	3,456
31 March 2011	5,513	1,592	-	-	7,105
31 March 2012	13,789	420	-	-	14,209
31 March 2013	4,407	462	257	-	5,126
Total Cost or Valuation	**33,675**	**12,862**	**6,236**	**1,340**	**54,113**

12. 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:

2011/12		2012/13
£000		£000
925	Rental Income from Investment Property	1,403
(583)	Direct Operating Expenses arising from Investment Property	(1,405)
342	**Net Gain/(Loss)**	**(2)**

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:

2011/12		2012/13
£000		£000
13,053	Balance at start of the Year	15,220
	Additions:	
-	Purchases	-
-	Construction	-
3,792	Subsequent Expenditure	15
592	Reinstatement due to expiry of finance lease	-
(188)	Disposals	(15)
(2,974)	Net Gains/(Losses) from Fair Value Adjustments	(410)
	Transfers:	-
945	To/(From) Property, Plant & Equipment	-
-	Other Changes	-
15,220	**Balance at end of the Year**	**14,810**

13. 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 2012/13 and the previous year.

Movements	£000
Cost or Valuation	
At 1 April 2011	1,538
Revaluations	1
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(110)
At 31 March 2012	**1,429**
Cost or Valuation	
At 1 April 2012	1,429
Additions	-
Disposals	-
Revaluations	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-
At 31 March 2013	**1,429**

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.

14. 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 £72k charged to revenue in 2012/13 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:

2011/12		2012/13
£000	**Balance at start of Year:**	£000
1,446	Gross Carrying Amounts	1,508
1,260	Accumulated Amortisation	1,336
186	Net Carrying Amount at start of Year	172
61	Additions	68
-	Disposals	-
(75)	Amortisation for the period	(72)
-	Other Changes	-
172	Net Carrying Amount at end of the Year	168
	Comprising:	
1,508	Gross Carrying Amounts	1,576
(1,336)	Accumulated Amortisation	(1,408)
172		**168**

15. Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2012			31-Mar-13	
Long Term	Current		Long Term	Current
£000	£000		£000	£000
		Investments		
145	10,851	Loans and Receivables	-	5,195
145	10,851	**Total Investments**	-	5,195
	7,643	**Debtors ***		10,070
	56	**Borrowings**		25
	8,843	**Creditors**		5,630
	354	**Cash and Cash Equivalents**		228

* Debtors include Long Term Debtors of £594k (31/03/13), £608k (31/03/12).

Income, Expense, Gains and Losses:

2011/12 Financial Liabilities measured at Amortised Cost	2011/12 Financial assets: Loans & Receivables	2011/12 Total		2012/13 Financial Liabilities measured at Amortised Cost	2012/13 Financial assets: Loans & Receivables	2012/13 Total
£000	£000	£000		£000	£000	£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
-	(155)	(155)	Interest Income	-	(138)	(138)
-	(36)	(36)	Interest Income Accrued on Impaired Financial Assets	-	(21)	(21)
-	(191)	(191)	Total income in Surplus or deficit on the Provision of Services	-	(159)	(159)
1	(191)	(190)	Net Gain (Loss) for the Year	1	(159)	(158)

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 2012 Carrying Amount	31 March 2012 Fair Value		31-Mar-13 Carrying Amount	31-Mar-13 Fair Value
£000	£000		£000	£000
		Liabilities		
56	56	Financial Liabilities	25	25
8,843	8,843	Creditors	5,630	5,630
		Assets		
10,996	10,996	Loans and Receivables	5,195	5,195
7,643	7,643	Debtors *	10,070	10,070
354	354	Cash and Cash Equivalents	228	228

* Debtors include Long Term Debtors of £594k (31/03/13), £608k (31/03/12).

16. Inventories

2011/12				2012/13		
Fuel	ICT Consumables	Total		Fuel	ICT Consumables	Total
£000	£000	£000		£000	£000	£000
32	4	36	**Balance Outstanding at start of Year**	24	4	28
482	5	487	Purchases	467	2	469
(484)	(3)	(487)	Recognised as an expense in the Year	(490)	(2)	(492)
(6)	(2)	(8)	Written-off Balances	32	-	31
24	**4**	**28**	**Balance Outstanding at Year end**	**33**	**4**	**36**

17. Debtors

31-Mar-12 £000		31-Mar-13 £000
224	Central Government Bodies	1,446
2,591	Other Local Authorities	2,839
43	NHS Bodies	24
-	Public Corporations and Trading Funds	-
4,177	Other Entities and Individuals	5,167
7,035	**Total**	**9,476**

18. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31-Mar-12 £000		31-Mar-13 £000
118	Cash held by the Council	83
236	Bank Current Accounts	145
354	**Total**	**228**

19. Cash Flow statement - Analysis of Adjustments

Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash movements

2011/12		2012/13
£000		£000
3,671	(Increase)/Decrease In Creditors	520
43	(Increase)/Decrease in Deposits	(17)
128	Increase/(Decrease) in Debtors	1,269
(8)	Increase/(Decrease) in Inventories	9
17	(Increase)/Decrease in Provisions	(61)
(5,757)	Charges for the Depreciation and Impairment of Non-Current Assets	(2,939)
(615)	Revaluation Losses on Property, Plant & Equipment	(334)
(75)	Movements in the market value of Investment Properties	(395)
(76)	Amortisation of Intangible Assets	(73)
-	Value of Donated Assets	-
3,649	Capital Grants and Contributions applied	248
(86)	Capital element of Finance Leases where Council is the lessor	(72)
843	Finance Lease Adjustments	-
-	Non Depreciated element of asset disposals	-
(542)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(988)
(4,290)	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	(323)
397	Establishment of deferred capital receipts balance in respect of the Kickstart loan portfolio transfer	53
(2,701)		**(3,103)**

Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities

2011/12		2012/13
£000		£000
22	Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement	366
(355)	Grant brought forward transferred to Revenue (re REFCUS)	(300)
2,949	Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	983
2,616		**1,049**

20. Creditors

31-Mar-12		31-Mar-13
£000		£000
3,790	Central Government Bodies	1,829
875	Other Local Authorities	853
29	NHS Bodies	32
258	Public Corporations and Trading Funds	258
3,891	Other Entities and Individuals	2,658
8,843	**Total**	**5,630**

21. Provisions

	Insurance Claims Provision	Planning Appeals Provision	Employee Benefits	MMI Provision	Total
	£000	£000	£000	£000	£000
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 1 April 2012	120	-	180	100	400
Additional provisions made in 2012/13	-	-	178	80	258
Amounts used in 2012/13	(17)	-	(180)	-	(197)
Unused amounts reversed in 2012/13	-	-	-	-	-
Balance at 31 March 2013	**103**	**-**	**178**	**180**	**461**

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 was 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”.

22. 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 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012	Transfers Out 2012/13	Transfers In 2012/13	Balance at 31 March 2013
	£000	£000	£000	£000	£000	£000	£000
Capital:							
Capital Receipts Reserve	5,986	(6,765)	3,200	2,421	(732)	1,013	2,702
LSVT Capital Fund	2,269	(2,386)	117	-	-	-	-
Special Projects (Economic Development) Fund	883	(883)	-	-	-	-	-
Capital Grants Unapplied	1,934	(4,319)	3,705	1,320	(639)	615	1,296
Both Revenue and Capital:					-	-	
Equipment Replacement Fund	157	(13)	85	229	(6)	54	277
Renewals & Repairs Fund	96	(498)	445	43	(492)	495	46
ICT Development Fund	800	(103)	35	732	(293)	70	509
New Initiatives Fund	201	(76)	-	125	(27)	-	97
Planning Delivery Grant Reserve	195	(122)	-	73	(73)	-	-
Revenue:							
General Fund Balance	1,750	(350)	-	1,400	(200)	-	1,200
Insurance Fund	338	(903)	805	240	(438)	356	158
Contingency Reserve Fund	114	(86)	80	108	(6)	-	102
Budget Support Fund	1,093	(575)	106	624	(260)	62	426
Conservation and Heritage Fund	53	(10)	14	57	(3)	11	64
Museum Purchases Fund	79	(4)	2	77	(13)	2	66
Maintenance Contributions	125	(110)	83	98	(73)	58	83
Mayors Charities Reserve	11	(15)	14	10	(15)	16	11
RENEW Reserve	142	(10)	-	132	(10)	-	122
Standards Fund	95	-	-	95	(80)	-	15
Deposit Guarantee Scheme Reserve	21	(1)	4	24	-	4	28
New Homes Bonus Reserve	-	-	264	264	(551)	777	491
Total	**16,342**	**(17,229)**	**8,959**	**8,072**	**(3,911)**	**3,533**	**7,693**

Note 6 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 Special Projects (Economic Development) Fund comprised monies originally provided from Revenue;
- 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 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. During the year a special contribution has been made to the fund from the General Fund in the amount of £50,000;

- The ICT Development Fund is to be used to meet the costs of new IT requirements and the replacement of IT equipment;
- The New Initiatives Fund was established to fund new initiatives, both capital and revenue, not currently provided for in the Council's budgets;
- The Planning Delivery Grant Reserve was 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. During the year a special contribution of £200,000 was made from the General Fund to the Insurance Fund and Repairs and Renewals Fund;
- 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. During the year a special contribution has been made to the fund from the General Fund in the amount of £150,000;
- 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 Budget Support Fund was 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 Standards Fund is used to ensure that the Council meets its responsibilities under the Ethical and other standards frameworks. During the year £80,000 has been transferred from the Standards Fund to the Municipal Mutual Insurance (MMI) Provision;
- The Deposit Guarantee Reserve was created to hold the unspent balances relating to the Guarantee Scheme for landlord deposits in respect of homeless persons;
- The New Homes Bonus Reserve was created to hold unused balances in relation to New Homes Bonus grant.

23. Unusable Reserves

Movements in the Council's unusable reserves are shown below:

	Balance at 1 April 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012	Transfers Out 2012/13	Transfers In 2012/13	Balance at 31 March 2013
	£000	£000	£000	£000	£000	£000	£000
Capital:							
Revaluation Reserve	10,067	(53)	2,184	12,198	(693)	1,575	13,080
Capital Adjustment Account	48,864	(13,803)	15,366	50,427	(6,236)	3,530	47,721
Deferred Capital Receipts Reserve	1,753	(148)	397	2,002	(74)	53	1,981
Revenue:			-				
Pensions Reserve	(46,698)	(8,253)	-	(54,951)	(8,572)	-	(63,523)
Collection Fund Adjustment Account	49	(48)	-	1	(1)	14	14
Accumulated Absences Account	(192)	192	(180)	(180)	(178)	180	(178)
Total	**13,843**	**(22,113)**	**17,767**	**9,497**	**(15,754)**	**5,352**	**(905)**

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 6 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.

24. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2011/12 £000		2012/13 £000
(262)	Interest Received	(134)
59	Interest Paid	47

25. Cash Flow Statement - Investing Activities

The cash flows for investing activities include the following items:

2011/12 £000		2012/13 £000
11,753	Purchase of property, plant and equipment, investment property and intangible assets	1,906
112,052	Purchase of short and long term investments	111,636
	Other payments for investing activities	
(3,023)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(671)
(119,627)	Proceeds from short and long term investments	(117,435)
(3,281)	Other receipts from investing activities	(309)
(2,126)	**Net Cash Flows from Investing Activities**	**(4,873)**

26. Cash Flow Statement - Financing Activities

The cash flows for financing activities include the following items:

2011/12 £000		2012/13 £000
-	Cash receipts of short and long term borrowing	(9)
(5,213)	Other receipts from financing activities	(131)
161	Cash payments for the reduction of the outstanding liabilities relating to finance leases	166
8	Repayments of short- and long-term borrowing	41
639	Other payments for financing activities	2,907
(4,405)	**Net Cash Flows from Financing Activities**	**2,974**

27. 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 2012/13	Chief Executive	Resources & Support Services	Operational Services	Regeneration & Development	Corporate Items	Total
	£000	£000	£000	£000	£000	£000
Fees, Charges and other service income	(1,083)	-	(4,986)	(4,248)	(1,498)	(11,815)
Government Grants	-	-	-	(746)	(41,467)	(42,213)
Total Income	**(1,083)**	**-**	**(4,986)**	**(4,994)**	**(42,965)**	**(54,028)**
Employee Expenses	716	-	2,817	821	77	4,431
Other Service Expenses	1,208	-	8,551	2,115	41,790	53,664
Support Service Recharges	1,355	-	2,453	4,414	3,004	11,226
Total Expenditure	**3,279**	**-**	**13,821**	**7,350**	**44,871**	**69,321**
Net Expenditure	2,196	-	8,835	2,356	1,906	15,293

Directorate Income and Expenditure 2011/12 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	(1,103)	-	(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

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.

2011/12 £000		2012/13 £000
16,559	Net Expenditure in the Directorate Analysis	15,293
5,933	Amounts in the Comprehensive Income & Expenditure Statement not reported to management in the Analysis	3,957
315	Amounts included in the Analysis not included in Cost of Services in the Comprehensive Income & Expenditure Statement	2
22,807	**Cost of Services in Comprehensive Income & Expenditure Statement**	**19,252**

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.

2012/13	Directorate Analysis	Services & Support services in Analysis	Amounts not reported to Management for decision making	Amounts not included in Cost of Services	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges and other Service Income	(11,815)	(527)	-	-	-	(12,342)	-	(12,342)
Interest and Investment Income	-	-	-	-	-	-	(311)	(311)
Income from council tax	-		-	-	-	-	(7,290)	(7,290)
Government Grants and Contributions	(42,213)	(184)	-	-	-	(42,397)	(8,509)	(50,906)
Capital Income	-	-	-	-	-	-	(1,388)	(1,388)
Total Income	**(54,028)**	**(711)**	**-**	**-**	**-**	**(54,739)**	**(17,498)**	**(72,237)**
Employee Expenses	4,431	11,063	-	-	-	15,494	-	15,494
Other Service Expenses	53,664	4,843	-	2	-	58,509	-	58,509
Support Service Recharges	11,226	-	-	-	(16,290)	(5,064)	-	(5,064)
Depreciation, Amortisation and Impairment	-	1,095	3,957	-	-	5,052	-	5,052
Interest payments	-	-	-	-	-	-	58	58
Precepts and Levies	-	-	-	-	-	-	331	331
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	1	1
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	61	61
Pensions Interest Cost/Return on Assets	-	-	-	-	-	-	1,874	1,874
Total Expenditure	**69,321**	**17,001**	**3,957**	**2**	**(16,290)**	**73,991**	**2,325**	**76,316**
Surplus or Deficit on the Provision of Services	**15,293**	**16,290**	**3,957**	**2**	**(16,290)**	**19,252**	**(15,173)**	**4,079**

2011/12 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	(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**

28. 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:

2011/12		2012/13
£000		£000
(191)	Turnover	(148)
224	Expenditure	235
33	**(Surplus)/Deficit**	**87**

29. Members' Allowances

In 2012/13 a total of £325,430 was paid to members in respect of allowances and expenses (£315,516 in 2011/12).

30. Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

2012/13 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 *	110,523	1,833	112,356	25,367	137,723
Executive Directors:					
Regeneration & Development	83,993	2,750	86,743	21,047	107,790
Resources & Support Services	83,993	-	83,993	19,906	103,899
Operational Services	83,993	2,750	86,743	19,906	106,649
Heads of Service:					
Central Services	55,073	2,750	57,823	13,052	70,875
Leisure and Cultural Services	55,073	2,750	57,823	13,052	70,875
Assets & Regeneration	55,073	-	55,073	13,052	68,125
Customer & ICT Services	55,073	2,663	57,736	13,052	70,788
Operations	53,694	2,750	56,444	12,726	69,170
Business Improvement & Partnerships	52,314	2,750	55,064	-	55,064
Planning Services	52,314	-	52,314	12,398	64,712

2011/12 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 **	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	-	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	-	53,685
Planning Services	50,935	-	50,935	11,518	62,453

* This includes salary of £99,736 plus Returning Officers fees for the Borough Council Elections.
** This includes salary of £99,736 plus Returning Officers fees for the Borough Council Elections.

4 other Council employees received between £50,000 and £55,000 remuneration during 2012/13 (excluding employer's pension contributions) the same as in 2011/12.

31. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

2011/12 £000		2012/13 £000
111	Services in accordance with Section 5 of the Audit Commission Act 1998	72
24	Fees for Grant Certification under Section 28 of the Audit Commission Act 1998	39
135		**111**

32. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2012/13:

2011/12 £000		2012/13 £000
	Credited to Taxation and Non Specific Grant Income	
22	Contribution from West Midlands IEP	13
425	Lottery Fund contribution	25
318	Planning Obligations Contributions (Section 106 contributions)	433
2,896	Staffordshire County Council contribution	-
11	Other Contributions	3
3,672	**Total**	**474**
	Credited to Services	
27,882	Housing Subsidy - Rent Allowance	31,261
889	Housing Subsidy - Housing Benefit Administration Grant	829
8,490	Council Tax Benefit Grant	8,250
1,956	Revenue Support Grant	142
6,329	National Non-Domestic Rates Grant	7,173
586	Disabled Facilities Grant	648
173	Council Tax Freeze Grant	346
13	Homelessness Directorate Grant	-
88	Safer Communities Grant	-
26	Waste and Resources Action Programme Grant	-
30	Local Public Service Agreement Grants	-
23	Waste Infrastructure Grant (via Staffs County Council)	-
62	Mortgage Repossession Fund	-
264	New Homes Bonus Scheme	777
127	Local Services Support Grant	127
-	New Burdens - Council Tax Reform	84
-	Dept Energy & Climate Change Fuel Poverty Fund Grant	26
-	Discretionary Housing Grant	38
-	English Heritage Grant	82
82	Other Grants	65
138	Contributions towards Community Safety Service (e.g from Police, Fire Service, Staffs County Council)	102
35	Future Jobs Fund Contribution	-
53	Contribution to Disabled Facility Grants	4
47	Town Centre Contributions	-
144	Other Contributions	129
47,437	**Total**	**50,083**

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-Mar-12 £000		31-Mar-13 £000
	Capital Grants Receipts in Advance	
38	Free Swimming Grant	38
24	Safer Communities Grant	24
5	Other Grants	5
60	Planning Obligations Contributions (Section 106 contributions)	77
5	Other Contributions	5
132	**Total**	**149**

33. 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 27 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2013 are shown in note 32.

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 2012/13 is shown in note 29. During 2012/13, transactions with Aspire Housing totalled £21,530,888 (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 had transactions totalling £197,918 (net) with voluntary and other organisations where 6 members had positions on the governing body and 1 was an employee of the organisation. Additionally transactions with the Victoria Theatre totalled £87,153 (net) where 2 members sit on its Board and transactions with the Staffordshire Fire Authority totalled £17,228 (net) where 2 members sit on its Board. Details of members' relationships are recorded in the Register of Members' Disposable Pecuniary Interests, open to public inspection at the Council's Civic Offices during office hours.

Officers

Payments were made to an entity related to a Council officer and to a company where a relative of a Council Officer was a member of its board. In both cases the officers have no direct involvement in procuring the services concerned.

34. 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 table below.

2011/12 £000		2012/13 £000
115	*Opening Capital Financing Requirement*	(31)
	Capital Investment	
7,503	Property, Plant and equipment	1,137
3,792	Investment Properties	15
61	Intangible Assets	68
3,455	Revenue Expenditure Funded from Capital under Statute	1,313
	Sources of Finance	
(6,543)	Capital Receipts	(732)
(4,939)	Government Grants and Other Contributions	(1,644)
(3,314)	Sums set aside from revenue	(157)
(161)	Minimum Revenue Provision	(166)
(31)	*Closing Capital Financing Requirement*	(197)
	Explanation of Movements in Year	
15	Assets acquired under Finance Leases	-
(161)	Minimum Revenue Provision	(166)
(146)	*Increase/(Decrease) in Capital Financing Requirement*	(166)

35. 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-Mar-12 £000		31-Mar-13 £000
609	Vehicles, Plant, Furniture and Equipment	433
609		**433**

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-Mar-12 £000		31-Mar-13 £000
	Finance Lease Liabilities (net present value of minimum lease payments):	
166	Current	138
436	Non-current	298
117	Finance Costs payable in future years	71
719	**Minimum Lease Payments**	**507**

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

31-Mar-12 Minimum Lease Payments £000	31-Mar-12 Finance Lease Liabilities £000		31-Mar-13 Minimum Lease Payments £000	31-Mar-13 Finance Lease Liabilities £000
166	46	Not later than one year	138	71
436	71	Later than one year and not later than five years	298	-
-	-	Later than five years	-	-
602	**117**		**436**	**71**

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-Mar-12 £000		31-Mar-13 £000
40	Not later than one year	31
29	Later than one year and not later than five years	-
-	Later than five years	-
69		**31**

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

2011/12 £000		2012/13 £000
40	Minimum Lease Payments	34
40		**34**

Council as Lessor

Finance Leases

The Council has leased out 8 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-Mar-12 £000		31-Mar-13 £000
	Finance Lease Debtor (net present value of minimum lease payments):	
242	Current	222
12,130	Non-current	11,908
10,790	Unearned Finance Income	10,641
23,162	**Gross Investment in the Lease**	**22,771**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

31-Mar-12 Minimum Lease Payments £000	31-Mar-12 Finance Lease Liabilities £000		31-Mar-13 Minimum Lease Payments £000	31-Mar-13 Finance Lease Liabilities £000
397	155	Not later than one year	372	150
1,667	704	Later than one year and not later than five years	1,567	677
21,098	9,931	Later than five years	20,832	9,814
23,162	**10,790**		**22,771**	**10,641**

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-Mar-12 £000		31-Mar-13 £000
468	Not later than one year	473
984	Later than one year and not later than five years	977
1,657	Later than five years	1,577
3,109		**3,027**

36. Impairment Losses

During 2012/13 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 2012/13 was £0.701m (2011/12 £3.836m).

37. Termination Benefits

The Council terminated the contracts of a number of employees in 2012/13, incurring liabilities of £162,133 (£555,723 in 2011/12). The termination benefits consisted of £45,422 redundancy costs together with £28,103 pay in lieu of notice, £81,430 actuarial strain payments and £7,178 long service awards.

38. 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:

2011/12 Local Government Pension scheme	2011/12 Discretionary Benefits Arrangements		2012/13 Local Government Pension scheme	2012/13 Discretionary Benefits Arrangements
£000	£000		£000	£000
		Comprehensive Income & Expenditure Statement		
		Cost of Services:		
2,188		Current Service Cost	2,159	
56		Past Service Costs / (Gains)	47	
43		Settlements and Curtailments	-	
	(477)	Unfunded Benefit Contributions		(461)
		Financing and Investment Income and Expenditure		
7,001		Interest cost	6,576	
(5,590)		Expected Return on Scheme Assets	(4,702)	
3,698	**(477)**	*Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services*	**4,080**	**(461)**
		Other Post Employment Benefit charged to the Comprehensive Income & Expenditure Statement		
(7,711)		Actuarial Gains and (Losses)	(7,584)	
(7,711)	**-**	*Total Post Employment Benefit charged to the Comprehensive Income & Expenditure Statement*	**(7,584)**	**-**
		Movement in Reserves Statement		
7,169		Reversal of Net Charges made to the Surplus or Deficit on the Provision of Services for Post Employment Benefits in accordance with the Code	6,596	
		Actual amount charged against the General Fund Balance for pensions in the year:		
3,156		Employers' Contributions payable to Scheme	**3,092**	
	(477)	Retirement Benefits payable to pensioners		**(461)**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 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):

2011/12 Funded Liabilities: Local Government Pension scheme	2011/12 Unfunded Liabilities: Discretionary Benefits Arrangements		2012/13 Funded Liabilities: Local Government Pension scheme	2012/13 Unfunded Liabilities: Discretionary Benefits Arrangements
£000	£000		£000	£000
130,130	(1,304)	Opening Balance at 1 April	140,241	(1,781)
2,188	-	Current Service Cost	2,159	-
7,001	-	Interest Cost	6,579	-
732	-	Contributions by Scheme Participants	702	-
5,738	-	Actuarial (Gains) and Losses	15,243	-
(5,647)	(477)	Benefits Paid	(5,396)	(461)
56	-	Past Service Costs / (Gains)	47	-
43	-	Curtailments	-	-
-	-	Settlements	-	-
140,241	**(1,781)**	**Closing Balance at 31 March**	**159,575**	**(2,242)**

Reconciliation of fair value of the scheme assets:

2011/12		2012/13
£000		£000
82,128	Opening Balance at 1 April	83,509
5,590	Expected Rate of Return	4,702
(1,973)	Actuarial Gains and (Losses)	7,659
2,679	Employer Contributions	2,631
732	Contributions by Scheme Participants	702
(5,647)	Benefits Paid	(5,396)
-	Settlements	-
83,509	**Closing Balance at 31 March**	**93,807**

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 (2011/12: £6.736m).

Scheme History

	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000
Present Value of Liabilities:					
Local Government Pension Scheme	(91,548)	(141,527)	(122,343)	(131,306)	(150,023)
Discretionary Benefits	(6,025)	(7,423)	(6,483)	(7,154)	(7,307)
Fair Value of Assets in the Local Government Pension Scheme	57,416	80,247	82,128	83,509	93,807
Surplus/(Deficit) in the Sheme:	(40,157)	(68,703)	(46,698)	(54,951)	(63,523)
Local Government Pension Scheme	(34,132)	(61,280)	(40,215)	(47,797)	(56,216)
Discretionary Benefits	(6,025)	(7,423)	(6,483)	(7,154)	(7,307)
Total	**(40,157)**	**(68,703)**	**(46,698)**	**(54,951)**	**(63,523)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £63.523m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £6.88m. 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 2014 is £2.551m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 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 2013. The principal assumptions used by the actuary have been:

2011/12			2012/13	
Local Government Pension scheme	Discretionary Benefits Arrangements		Local Government Pension scheme	Discretionary Benefits Arrangements
		Long Term expected rate of return on assets in the Scheme:		
6.2%		Equity Investments	4.5%	
3.3%		Bonds	4.5%	
7.9%		Other	9.0%	
		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	
2.5%	2.5%	Rate of Inflation	2.8%	2.8%
4.8%		Rate of Increase in Salaries	5.1%	
2.5%	2.5%	Rate of Increase in pensions	2.8%	2.8%
4.8%	4.8%	Rate for Discounting Scheme Liabilities	4.5%	4.5%
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-Mar-12		31-Mar-13
%		%
78	Equity Investments	79
12	Debt Instruments	12
10	Other Assets	9
100	**Closing Balance at 31 March**	100

History of Experience Gains and Losses

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

	2008/09	2009/10	2010/11	2011/12	2012/13
	%	%	%	%	%
Differences between the expected and actual return on assets	(39.5)	25.5	(2.7)	(2.4)	8.2
Experience gains and losses on liabilities	0.2	(0.2)	0.3	(2.8)	0.1

39. 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 £721,000. An amount of £180,000 has been set aside as a provision for these costs, so the maximum contingent liability is £541,000.

(b) Insurance Fund

It is estimated that claims totalling circa £48,000 will arise from incidents that had occurred up to 31 March 2013 but have not yet been reported.

(c) VAT

The computation of the Council's 2012/13 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 department to pay to them all of the proceeds to be received in respect of the sale, when it occurs, of a development site for which the department provided development funding. Some of the proceeds have already been paid over; the remaining amount may be up to 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 £107,000 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.

40. Contingent Assets

The Council does not have any contingent assets.

41. 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 2013 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 2013	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2013	Estimated maximum exposure to default and uncollectability at 31 March 2013	Estimated maximum exposure at 31 March 2012
	£000	%	%	£000	£000
	A	B	C	(A X C)	
Deposits with banks & financial institutions	4,934	0%	1.25%	62	131
Heritable Bank	261	-	Impairment	301	301
Customers (trade debtors)	3,484	-	15%	523	535
				885	**967**

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 £2.912m of the £3.484m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31-Mar-12 £000		31-Mar-13 £000
73	31 to 89 days	39
227	90 to 149 days	192
2,772	Over 150 days	2,681
3,072		**2,912**

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-Mar-12 £000		31-Mar-13 £000
10,851	Less than one year	5,195
145	Between one and two years	-
-	Between two and five years	-
-	More than five years	-
10,996		**5,195**

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 2013, 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	157
Impact on Surplus or Deficit on the Provision of Service:	157

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.

42. Building Control Account

NORTH STAFFORDSHIRE BUILDING CONTROL PARTNERSHIP 2012-2013 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.

	2012-13		
	Newcastle & Stoke Partnership		
	Total	***Fee Earning***	***Non-chargeable***
	£'000s	£'000s	£'000s
Salaries	490	320	170
Premises	17	11	6
Transport	19	12	7
Supplies	23	15	8
Central Support	73	41	32
Structural Eng	17	17	-
Total Expenditure	**639**	**416**	**223**
Building Regulation Charges	415	415	-
Miscellaneous Income	1	1	-
Total Income	**416**	**416**	-
Surplus/ (deficit)	**(223)**	**0**	**(223)**

43. Trusts and Other Similar Funds

The following statement summarises the balances and movements during the year of the various Funds for which the Council 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 2012	Expenditure	Income	Balance at 31 March 2013
	£000	£000	£000	£000
Newcastle Almshouses Trust (Accom. For Poor Widows)	-	7	14	7
Sports Advisory Council (Advice/Assistance to Sport)	10	21	22	11
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)	27	3	5	29
United Charities - Relief in Sickness Charity (Christmas gifts for elderly)	64	5	11	70
	110	**36**	**52**	**126**

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 2011 and the carried forward balances are those for 30 September 2012.

Collection Fund

2011/12 £000				2012/13 £000
	Expenditure			
7,246	Precepts and Demands	- Borough Council	7,256	
40,186		- County Council	40,264	
6,938		- Police Authority	6,951	
2,642		- Fire Authority	2,647	
57,012				57,118
	Business Ratepayers			
31,902	- Contribution to National Pool		30,880	
143	- Cost of Collection		142	
32,045				31,022
466	Provision for Bad Debts			472
	Contribution towards Previous Years Surplus/(Deficit)			
387	- Re Council Tax		170	
-	- Re Community Charge		-	170
89,910	**Total Expenditure**			**88,782**
	Income			
32,392	Business Ratepayers		31,367	
48,783	Council Taxpayers		49,347	
81,175				80,714
	Transfers from General Fund			
8,349	- Council Tax Benefit		8,171	
-	- Discretionary NNDR Relief		-	
8,349				8,171
-	Transfer from/(to) Bad Debts Provision			
89,524	**Total Income**			**88,885**
(386)	**Surplus/(Deficit) For The Year**			**103**
	Collection Fund Balance			
127	Balance at Beginning of Year			(259)
(386)	Surplus/(Deficit) for the Year			103
(259)	**Balance at end of Year**			**(156)**

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 2012/13 was 45.8p, with a reduction for "small businesses" to 45p on application (43.3p in 2011/12 - "small business" reduction, 42.6p). 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.

	2011/12 £	2012/13 £
Non Domestic Rateable Value at year-end	84,575,612	84,368,921

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 2012/13 of £1,450.99 compared with £1,450.99 in 2011/12. 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 2012/13 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)	23,796	19,949	6/9	13,292
Band B (£40,001 - £52,000)	10,026	8,929	7/9	6,945
Band C (£52,001 - £ 68,000)	10,802	9,733	8/9	8,651
Band D (£68,001 - £88,000)	4,428	4,048	9/9	4,048
Band E (£88,001 - £120,000)	2,625	2,402	11/9	2,935
Band F (£120,001 - £160,000)	1,697	1,565	13/9	2,261
Band G (£160,001 - £320,000)	900	814	15/9	1,356
Band H (Over £320,000)	46	22	18/9	43
				39,531
Less adjustment for collection rates (1%)				(395)
Borough Council Tax Base				**39,136**

Council Tax Base Analysed over Parished and Unparished areas of the Borough

	Equivalent Band D Dwellings
Newcastle (Includes Parish Council Tax Bases Below)	39,136
Kidsgrove	*7,219*
Audley	*2,669*
Loggerheads	*1,957*
Balterley, Betley & Wrinehill	*574*
Chapel & Hill Chorlton	*197*
Keele	*332*
Madeley	*1,558*
Maer	*254*
Silverdale	*1,446*
Whitmore	*805*

3. Precepts

The following authorities made demands (precepts) on the Collection Fund:

2011/12 £000		2012/13 £000
7,246	Newcastle Borough Council	7,256
40,186	Staffordshire County Council	40,264
6,938	Staffordshire Police Authority	6,951
2,642	Staffordshire Fire Authority	2,647
57,012		**57,118**

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: £78,148 (£60,397 2011/12);
- NNDR: £355,363 (£313,601 2011/12).

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
The period of time to which the 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.

APPENDIX 2

Capital Expenditure Financing 2012/13

	Capital Expenditure	"Ex Deferred Charges"	Total
	£	£	£
Capital Expenditure			
Expenditure during 2011/12	1,219,832	1,312,524	2,532,356
Total to be Financed	1,219,832	1,312,524	2,532,356
Financing of Expenditure			
Capital Receipts	630,221	101,554	731,775
Government Grant -			
Housing Subsidies	-	648,381	648,381
Regional Housing Board Grant	-	300,000	300,000
Fuel Poverty Fund Grant Fund	-	26,262	26,262
Contributions from Other Bodies	338,868	79,763	418,631
Council's Reserves -			
ICT Development Fund	250,743	-	250,743
New Homes Bonus Reserve	-	156,564	156,564
Total Financing	1,219,832	1,312,524	2,532,356

Notes:

- Expenditure in respect of projects which would formerly have been classified as deferred charges is included in the above table, although it is no longer capital expenditure according to the current CIPFA Accounting Code of Practice, which now classifies such items as “revenue expenditure met from capital by statute”. This is mostly housing renewal type expenditure, for example on renovation grants, disabled facilities grants, etc., where there is no creation of an asset, and is currently included in the Council’s capital programme.

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1. EXTERNAL AUDIT PLAN 2012/13

Submitted by: **Executive Director – Resources and Support Services**

Portfolio: **Finance and Resources**

Ward(s) affected: **All**

Purpose of the Report

To consider the External Audit Plan for 2012/13 as attached at Appendix A.

Recommendation

That the External Audit Plan for 2012/13 be approved.

Reasons

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and corporate governance of public services. The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business and this is reflected in the proposed plan.

1. Background

1.1 Grant Thornton's plan for the 2012/13 audit of the Council's financial statements and value for money conclusion is attached as Appendix A. The plan sets out the work that Grant Thornton propose to undertake to satisfy their responsibilities under the national audit requirements as set out in the Code of Audit Practice and associated guidance. They are required by professional auditing standards to specify the detailed risks that they need to consider as part of their opinion planning work.

2. Issues

2.1 Grant Thornton have considered the risks that are appropriate to the current audit. These are set out on in the attached plan.

3. Options Considered

3.1 Officers have reviewed the plan and agreed to the one attached as Appendix A.

4. Proposal

4.1 It is proposed that Grant Thornton's Audit Plan for 2012/13 is approved.

5. Outcomes Linked to Corporate Priorities

5.1 The External Audit function gives assurance on the stewardship of public resources and effectiveness of services in terms of value for money as well as contributing to the prevention, detection and investigation of potential fraud and corruption incidents.

6. Legal and Statutory Implications

6.1 The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's Statutory Code of Audit Practice.

7. Financial and Resource Implications

7.1 Provision in respect of the fees for the Grant Thornton's work for 2012/13 - £85,936 - is contained within the Council's budget estimates.

8. Major Risks

The level of fee is based on a number of assumptions within the Audit Plan. If these assumptions are not met then additional audit work may have to be undertaken which could result in an increased audit fee. Grant Thornton will keep the Executive Director (Resources and Support Services) informed of any changes to the plans and therefore the fee.

9. List of Appendices

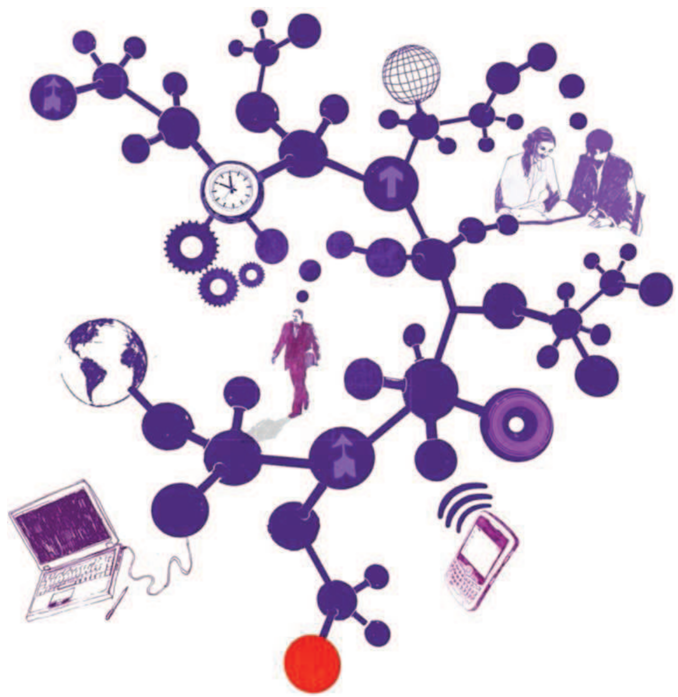
Appendix A: Grant Thornton's Audit Plan 2012/13.

Grant Thornton

The Audit Plan for Newcastle under Lyme Borough Council

Year ended 31 March 2013

28th June 2013



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Reduction in central government funding

- The coalition government debt reduction plans include reducing the grants available to local authorities.
- Funding will reduce by £395k for the 2013/14 settlement.

2. Business rate pooling

- From 1 April, 50% of business rates growth will be retained by LA's with 50% to central government.
- Of the 50% retained locally, 80% will be for District Councils, and 20% for the County.
- The Council has joined with the Stoke-on-Trent and Staffordshire Pool.

3. Housing Benefit /Council Tax changes

- Government is reducing the grant for Council Tax benefit paid to councils by 10%.
- The current system of housing benefit will transfer to 'universal credit'. This will have a significant operational impact.

4. Loans and Borrowing

- The Council had an investment of £2.5m with the Heritable bank. Over £1.9m of this balance has already been recovered and latest reports indicate that a further £0.3m will be returned over the next few years.

5. Impact of economic downturn

- The economic downturn has led to an overall reduction in income relating to fee charging services provided by the Council and in business rate income.

Our response

1. Reduction in central government funding

- We will assess the Council's continuing plans to address the funding reductions through our VFM work .
- We note that the Council's actual expenditure for 2012/13 has come in on budget for the year.
- We note that the 2013/14 settlement was broadly in line with expectations, the medium term financial plan did not need amending and the Council has followed a council tax freeze in 2012/13 with a further freeze in 2013/14.

2. Business rate pooling

- We note the Council has been prudent and no account has been taken in the 2013/14 budget for potential additional business rates .
- We will gain an understanding of the impact of the changes through our discussions with officers, providing support where appropriate.
- We will monitor how this affects the Council and the actions taken to encourage new businesses to the district.

3. Housing Benefit /Council Tax changes

- We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management.

4. Loans and Borrowing

- We will review the accounting entries in relation to the Icelandic investments and ensure these are consistent with current guidance.

5. Impact of economic downturn

- We will assess the Council's arrangements for securing Financial Resilience to inform our 2012/13 VFM Conclusion. We will review the extent to which the Council has been able to develop a robust financial strategy which takes account of reductions in income as part of this assessment.

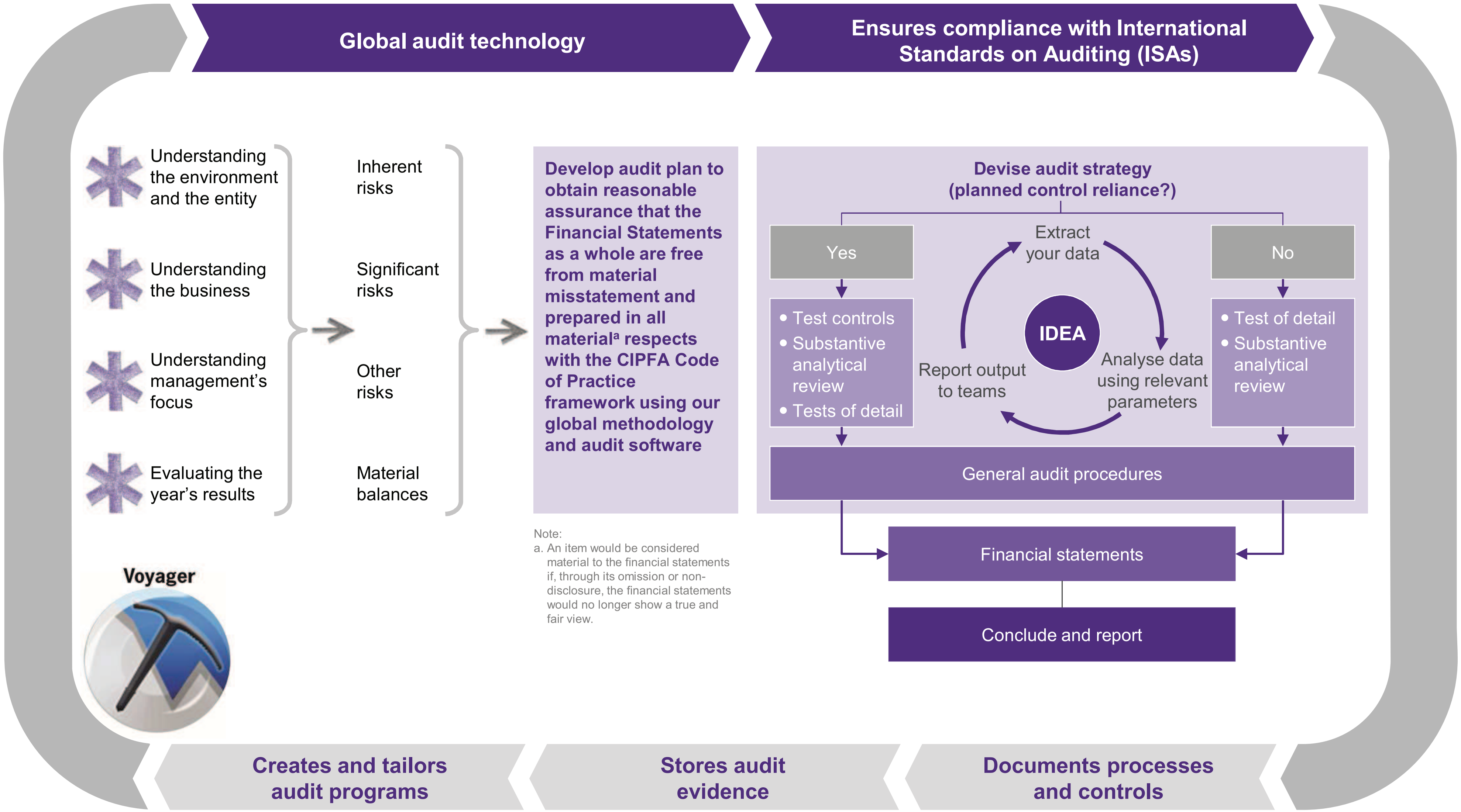
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements					
1.Financial reporting • Changes to the CIPFA Code of Practice • Recognition of grant conditions and income	**2. Legislation** • Local Government Finance settlement 2012/13 • Welfare reform Act 2012	**3. Corporate governance** • Annual Governance Statement (AGS) • Explanatory foreword	**4. Pensions** • Planning for the impact of 2014/15 changes to the Local Government pension Scheme (LGPS)	**5. Financial Pressures** • Managing service provision with less resource • Progress against savings plans	**6. Other requirements** • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required

Our response					
We will ensure that • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • grant income is recognised in line with the correct accounting standard	• We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate	• We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge	• We will discuss how the Council is planning to deal with the impact of the 2014/15 changes through our meetings with senior management	• We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion	• We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		✓
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×
Precepts and Levies	No	Council Tax	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		✕
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Dividend income from Joint Venture	No	Revenue	Low	None		✕
Impairment of investments	No	Investments	Low	None		✕
Investment properties: Income expenditure, valuation, changes & gain on disposal	No	Property, Plant & Equipment	Low	None		✕
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
PFI revenue support grant& other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	No	Investments	Low	None		×
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		×
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Work completed to date:** • We have assessed the arrangements for revenue recognition and have concluded that there is not a material risk of fraud. We can therefore rebut the presumption of fraud in revenue recognition **Further work planned:** • Performance of attribute testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	**Work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entry controls and transactions • Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses understated	• We have completed our documentation of the system and performed a walkthrough of identified controls. • We have performed detailed testing of controls in operation and can confirm that there were no failures.	• Review of accounting estimates, judgements and decisions made by management. • Cut off testing to ensure that creditors have been recorded in the correct period.
Operating expenses	Creditors understated or not recorded in the correct period	• We have completed our documentation of the system and performed a walkthrough of identified controls. • We have performed detailed testing of controls in operation and can confirm that there were no failures.	• Performance of substantive testing on material operating expenditure. • Review of accounting estimates, judgements and decisions made by management. • Cut off testing to ensure that creditors have been recorded in the correct period.
Employee remuneration	Remuneration expenses not correct	• We have completed our documentation of the system and performed a walkthrough of the identified controls.	• Performance of attribute testing of payroll expenditure • Ensure proper disclosure of employees whose remuneration, including employee pensions contributions, was £50,000 or more.
Welfare Expenditure	Welfare benefits improperly computed	• We have completed our documentation of the system and performed a walkthrough of the identified controls.	• Undertake HBCOUNT work including initial sample testing on the Housing Benefit and Council Tax Benefit grant claim.

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding. We will report our findings from our controls testing as part of our ISA260 report at the conclusion of our audit.
Review of information technology (IT) controls	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.	Our review of controls has identified some minor areas where improvements to your controls could be made. We have reported them to management.

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VFM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria	Work to be undertaken
The Council has proper arrangements in place for: • securing financial resilience • challenging how it secures economy, efficiency and effectiveness in its use of resources We will consider whether the Council is prioritising its resources with tighter budget	Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control. Specifically we will: • undertake a detailed risk assessment which will support our overall conclusion • undertake a financial resilience review • follow up prior year recommendations

Logistics and our team

The audit cycle

Our team

John Gregory **Director** T 0121 232 5333 E John.Gregory@uk.gt.com	**David Jenkins** **Manager** T 0121 232 5322 E David.Jenkins@uk.gt.com
Naomi Povey **Executive** T 0121 232 5294 E Naomi.J.Povey@uk.gt.com	

Date	Activity
Jan 2013	Planning meeting
Feb – Mar 2013	Interim site work
July 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
Aug 2013	Audit findings clearance meeting
Sept 2013	Audit Committee meeting to report our findings
Sept 2013	Sign financial statements and VfM conclusion
December 2013	Issue Annual Audit Letter

Fees and independence

Fees

	£
Council audit	72,436
Grant certification	13,500
Total	**85,936**

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Grant certification work plan for Newcastle under Lyme Borough Council

Year ended 31 March 2013

July 2013

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Contents

Our approach to grant certification work

Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information.

The Audit Commission makes certification arrangements with grant-paying bodies, including confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and set out the specific procedures to be applied in examining the claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

As the Council's appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission.

Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return. The arrangements for 2012-13 are:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data
- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work where possible.

Role of all parties

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role & responsibility
Grant paying body	Sets conditions of grant and deadline for submission for pre-certified and certified claims
Audit Commission	Issues certification instructions for auditor work
Council	Submits claims for certification to the Appointed Auditor within grant paying body submission deadlines
Appointed Auditor	Certifies claims in accordance with Audit Commission certification instructions and within certification deadlines

The Council's role is set out in more detail below:

- the Head of Finance is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to claims and returns
- the Council should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement
- the Council should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from grant paying bodies
- grant-paying bodies usually require the Council's certificate to be given by an appropriate senior officer. This is typically the Executive Director – Resources and Support Services (Section 151 Officer) or an officer authorised by written delegated powers
- the Council should monitor arrangements with any third parties involved in the certification process.

Claims history
The most significant claims and returns in 2011-12 were:
- housing and council tax benefit claim
- national non-domestic rates return

Our certificate
Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification
- without qualification but with agreed amendments incorporated by the Council or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which may impact on the certification fee.

Certification work fees
The Audit Commission sets an indicative scale fee for grant claim certification based on 2010/11 actual certification fees for each Council. The indicative scale fee for the Council is £13,500. This fee is based on the following assumptions:

- there will be no change in the scope of our work due to the control environment in place during the year
- the Council provides adequate working papers to support each entry in the claim/return
- the Council's staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries.

Where there is any significant variation from these assumptions, we will discuss a variation to the indicative scale fee with the Council and the Audit Commission.

The Council has identified all claims and returns requiring certification and this information is incorporated into Appendix A to this plan.

Administration

When each expected claim or return is completed, a copy of the signed claim should be held for us to pick up at your offices.

- The **original** claims and returns should be retained by the Council.
- If additional claims and returns are identified by either us or the Council they will be incorporated into the appendix in this plan
- All claims and returns listed in appendix A should be sent to us, even if below the de minimis limit so that we can confirm that no certification is required. We are required to report the value of these claims to the Audit Commission in our annual certification report.

Managing the certification process – our role

- We intend to certify all claims and returns in accordance within the deadlines set by the Audit Commission. If we receive any claims after the Council's submission deadline, we will endeavour to certify them within the Audit Commission deadline but, where this is not possible, within three months from receipt
- A copy of each certified claim or return will be sent to the relevant named contact when the certification process is complete, along with a copy of the qualification letter, where applicable
- Copies of the certification instructions can be provided on request for any new claims or returns
- We expect to complete the certification of all claims by late 2013 and will issue a grant certification report highlighting any issues that need to be brought to the Council's attention.

Appendix A: Summary of expected claims & returns for the year ended 31 March 2013

Claim (CI reference)	Authority deadline	Certification deadline	Claim certified in prior year	Prior year outcome
Housing and council tax benefits scheme (BEN01)	30/04/13	30/11/13	Yes	Claim qualified
National non-domestic rates return (LA01)	28/06/13	27/09/13	Yes	Claim unqualified

Grant Thornton

REPORT: ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JANUARY TO 31 MARCH 2013

Submitted by: Audit Manager

Portfolio Finance and Resources

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.

Recommendations

A 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 At the end of the fourth quarter there were no outstanding high risk recommendations due for review and implementation.

2.2 A summary of the Assurances and outstanding audit recommendations for the last quarter can be found at Appendix A. This reflects how the levels of assurance can and do vary on a month by month basis dependant upon the number and level of outstanding recommendations that require implementation.

3. **Reasons for Preferred Solution**

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

4. **Outcomes Linked to 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

9.1 Not applicable

10. Earlier Cabinet/Committee Resolutions

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

11. **<u>List of Appendices</u>**

Appendix A – Summary of Assurance for Quarter 4

12. <u>Background Papers</u>

Internal Audit PI and Assurances file

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NEWCASTLE·UNDER·LYME BOROUGH COUNCIL

Summary of Outstanding Audit Recommendations and Levels of Assurance – Quarter 4 2012-13

	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar
Total number of Recommendations	70	67	75	124	102	123	71	65	65	58	58	58
Number of Recommendations Outstanding	5	0	5	27	25	22	4	0	3	5	11	13
% Implemented	92	100	92	76	75	77	93	100	95	89	78	77
% Overdue for implementation	8	0	9	24	25	23	7	0	5	11	22	23
No of recommendations with target date changed > 2	1	0	4	6	1	2	2	0	0	0	0	2
High Risk recommendations with target date changed > 2	0	0	2	0	0	0	2	0	0	0	0	0
Medium Risk recommendations with target date changed > 2	1	0	1	6	1	2	0	0	0	0	0	0
Low Risk recommendations with target date changed > 2	0	0	1	0	0	0	0	0	0	0	0	2

	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar
Overall Assurance Level	**Sub**	**Full**	**Ltd**	**Sub**	**Sub**	**Sub**	**Ltd**	**Full**	**Full**	**Sub**	**Sub**	**Sub**

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 94% of all recommendations implemented as the agreed performance measure for 2012-13.

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.

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO THE AUDIT & RISK COMMITTEE

Date 15 July 2013

INTERNAL AUDIT SECTION ANNUAL REPORT 2012-13

Submitted by: Audit Manager

Portfolio: Finance and Resources

Ward(s) affected: All

Purpose of the Report

To consider the annual report of the Internal Audit Section for the financial year 2012-13 enclosed as Appendix A.

Recommendations

A That the Internal Audit Section Annual Report for 2012-13 be received.

Reasons

Internal Audit's Strategy is "*To deliver a risk-based audit plan in a professional manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make the recommendations to improve it".* This report outlines how Internal Audit has achieved this during the 2012-13 financial year.

1. Background

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

1.2 The Council's Internal Audit Section consists of 3.5 FTE staff and is managed by the Audit Manager.

1.3 This report aims to provide information about the programme of work undertaken by Internal Audit during the financial year 2012-13, which has been extracted from the Internal Audit time monitoring system. Monitoring of the Section's performance against plan is completed and an analysis undertaken of actual work areas across major audit areas.

1.4 The section has continued to contract in specialist external computer support. The contract for 2012-13 was awarded to CW Audit Services.

1.5 As required by the Chartered Institute of Public Finance and Accountancy's (C.I.P.F.A.) Code of Practice for Internal Audit in Local Government in the UK 2006, the Audit Manager has developed a Strategy for delivering the Internal Audit Service as per the Terms of Reference, reviewed by Audit and Risk Committee on 30 January 2012. The Strategy states how Internal Audit will contribute to the Council's review of corporate governance arrangements, risk management processes, key internal control systems and how the assurance for the annual statement on internal control will be demonstrated. It establishes the resources and skills required for its delivery and the allocation of audit work.

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

2. Issues

2.1 The Audit and Risk Committee approved the Audit Plan for 2012-13 on the 30January 2012. The plan accounted for 534 audit days.

2.2 Internal Audit have maintained a good level of productivity, 85% against a target of 74%, and completed 91% of the audit plan. Productivity for Internal Audit is measured in terms of the available resource which is calculated in terms of audit days, with each day representing 7.4 working hours. The total available days is then adjusted to take into account annual leave, sickness, training, supervision, corporate work and a contingency allowance. The resulting sum is classed as productive days available for the year, for this reason it is not possible to achieve 100% staff productivity.

2.3 The percentage of Internal Audit recommendations implemented by your officers has increased to 91% against a target of 95%. This is due to an increase in the number of recommendations made and also an increase in requests to change the target dates which resulted in a larger number of recommendations that remained outstanding at the end of the year. There are no high or medium risk recommendations that are considered as not receiving adequate management attention.

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

3. Options Considered

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

4. Proposal

Not applicable

5. Reasons for Preferred Solution

Not applicable

6. Outcomes Linked to Corporate Priorities

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

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

7. **Legal and Statutory Implications**

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

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

9.1 The total budget, for the Section for 2012/13 was £241,540

10. **Major Risks**

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

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Report to Audit & Risk Committee 30 January 2012 – Internal Audit Plan 2012-13
Report to Audit & Risk Committee 30 January 2012– Internal Audit Strategy and Terms of Reference

13. **List of Appendices**

13.1 Annual Report of the Internal Audit Section 2012-13

15. **Background Papers**

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

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ANNUAL REPORT OF THE

INTERNAL AUDIT SERVICE

2012/13

CONTENTS

1. **INTRODUCTION**

The Annual Reporting Process

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

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

1.2 This report is a summary of the work of the Section throughout 2012-13. As such it presents a snapshot picture of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by Managers to address the weaknesses identified. The recommendations made will be progressing through the normal management processes.

Requirement for Internal Audit

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

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

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

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

2. **Adequacy and Effectiveness of the internal control environment**

How Internal Control is reviewed

2.1 The Audit Manager prepares an annual risk based audit plan which takes into account the adequacy of the organisations risk management, and other assurance processes.

The plan outlines the areas that will be reviewed in terms of their priority and resources required to undertake the review.

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

(i) Impact i.e. the materiality/importance of the system in achieving the Council's objectives; and

(ii) Probability, which includes:-

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

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

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

Internal Audit Opinion for 2012-13 and the Annual Governance Statement (AGS)

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

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

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

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

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

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

3. SIGNIFICANT ISSUES ARISING 2012-13

3.1 Internal Audit examined 44 systems in 2012-13. During the conduct of our audit work we have had regard to the following objectives of internal audit:

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

3.2 Within the Audit Plan there are 10 review areas that are categorised as High Risk Business Critical Systems. These reviews are undertaken annually, full reviews of all systems are conducted every other year with key controls being examined in between. A summary of the level of assurance for each review area together with the number of recommendations made is shown in the table below;

Audit Area	Level of Assurance Given	Number of Recommendations made		
		High	Medium	Low
Payroll	Well Controlled	0	1	3
Asset Management (Capital)*	Well Controlled	0	0	0
Cash Management*	Adequately Controlled	3	2	4
Council Tax	Well Controlled	1	0	1
Creditors	Adequately Controlled	0	2	3

Audit Area	Level of Assurance Given	Number of Recommendations made		
Treasury Management	Well Controlled	0	0	1
NNDR	Well Controlled	1	0	1
General Ledger	Well Controlled	0	0	0
Housing Benefits*	Well Controlled	0	1	0
Sundry Debtors	Adequately Controlled	1	3	4

** denotes systems where only key controls examined in 2012-13*

3.3 A summary of the level of assurance, for all of the systems covered in 2012/13 by risk category, is given in the table below:-

Risk	Assurance			
	Full	Substantial	Limited	Little
High (A)	9	4	2	0
Medium (B)	1	26	1	0
Low (C)	0	0	1	0
	10	30	4	0

Opinions are classified as:

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

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

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

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

3.4 Whilst there are 4 audits that have been classified as Limited Assurance most of these do not have a significant impact on the Council as a whole, many require a small number of changes to be introduced which will lead to significant improvements in the control environment. .

3.5 The main recurring themes across the audits are (figures in brackets demonstrate proportions of outstanding recommendations in these risk areas for 2012/13):

- The lack of written procedures and standards. Without these inconsistencies in working practices can develop, controls can be lost and cover in the event of absences can be haphazard. There is a need to ensure that all employees are made aware of the working practices that they should be following to ensure that they comply with the correct procedures. During 2012/13 procedure notes were found to be in place for the majority of the business critical systems, however in some instances it was found that these required updating. (23 per cent).

- The completeness and accuracy of records within service areas is important. 25 per cent of the recommendations made during 2012/13 related to issues where records had not been completed correctly, or the correct information was not found. Whilst the categorisation of recommendation accounted for 25 per cent of those made during 2012/13 none of these were categorised as high risk, the majority of these were medium or low and served to act as reminders to staff to ensure care is taken over the recording of data in relation to their particular service areas.

- Non compliance with Standing Orders and Financial Regulations was found in a number of areas particularly in relation to the lack of stock and inventory controls, there were also a few relatively minor issues in relation to compliance with contract procedures (11 per cent)

- Completion of risk assessments and ensuring that risk assessments were kept up to date is another common area where recommendations were made. 14 per cent of the recommendations outstanding at the end of the financial year related to risk assessments.

- Another key area that Internal Audit reviews as part of their work is issues of Information Security. 14 per cent of the recommendations outstanding related to this area, and included issues such as ensuring compliance with the Council's policies on Information Security Management.

- The remaining 13 per cent of recommendations were categorised in terms of business continuity (1 per cent), incomplete management information (4 per cent) staffing issues, particularly in relation to training matters (3 per cent), issues of physical security (2 per cent), separation of duties (2 per cent), and inadequate review processes (1 per cent).

3.6 In addition to the planned audits 10 special projects were carried out , these were due to various breaches of council policy, procedures and regulations. In all cases where a lack of managerial controls were found to contribute to the improper conduct of officers; a managerial report is completed which highlights the weakness and makes recommendations accordingly. The recommendations from these reports are followed up in the usual way.

3.7 Of the 10 special projects identified above, 5 were as a result of the Council's Whistleblowing Policy, and 5 from management.

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

4 <u>ANALYSIS OF COMMON OR MATERIAL WEAKNESSES</u>

Analysis of recommendations

4.1 During the period 1/4/12 to 31/3/13 a total of 503 recommendations have been made, of these 43 recommendations were outstanding as at the 31 March 2013. In total 460 recommendations have been implemented, 91%.

Recommendations are classified as:

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

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

4.2 The following table shows the spilt of recommendations over high, medium and low for those that were due for implementation by the 31 March 2013:

	ALL	IMPLEMENTED	OUTSTANDING
High	88	82	6
Medium	262	240	22
Low	153	138	15
TOTAL	**503**	**460**	**43**

Target 2012/13	95%
Per Centage Implemented since April 2012	91%
Proposed target 2013/14	96%

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

Details of major findings not acted upon

Acceptance of recommendations

There were no recommendations rejected by Management during the year.

Recommendations not receiving adequate management attention

4.4 There are no high or medium risk recommendations that we consider are not receiving adequate management attention. Where appropriate outstanding high risk recommendations are reported to Audit and Risk Committee on a quarterly basis.

5 AUDIT PERFORMANCE

Work planned to be completed

5.1 The following table gives a summary of the results of the performance indicators since 2010/11, together with details of actual figures for 2012/13, and target for 2013/14;

Indicator	2010/11 actual	2011/12 actual	2012/13 actual	2013/14 target
Percentage of audit plan completed	93%	92%	91%	90%
Productivity of staff	76%	83%	85%	74%
Recommendations implemented	83%	88%	91%	92%
Medium to high satisfaction of the service from surveys	86%	93%	91%	90%

5.2 The table below indicates the performance against the audit plan for 2012/13, split over the 3 different risk categories for audits and for the audit plan in total.

	Planned	Actual	Actual (%)
High Risk Audits	23	23	100%
Medium Risk Audits	30	26	86%
Low Risk Audits	0	0	0
Achievement of the Audit Plan	53	49	92%

5.3 The 2012/13 audit plan as approved by Audit and Risk Committee provided for 534 days of audit work.

5.4 The level of productivity within the Section met was 85% against the target of 74% that was set at the start of the year. Each year the total resources available in Internal Audit are evaluated in terms of audit days, each day representative of 7.4 working hours. This figure is adjusted for leave, training, sickness, supervision, corporate work and a contingency allowance. The resulting sum is classed as productive days available for the year, for this reason it is not possible to achieve 100% staff productivity.

5.5 Out of 53 planned audits, 49 were completed, 92% against a target of 90%.

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

5.7 Satisfaction levels in terms of the service remained high at 91% this is above the set target of 85%. Any comments and feedback that is received following each audit is constantly reviewed to ensure that the service continues to meet the expectations of our customers. During 2013/14 we are looking to implement electronic surveys through the use of Safevoice. This is a software tool recently purchased by the Council which enables communications to be delivered effectively electronically straight to the desktop.

Factors affecting the extent of our internal audit work

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

- the audit technicians have continued to gain knowledge and understanding of their roles which has been evident in the completion of a high percentage of the audit plan in addition to completing a number of special projects.
- the completion of work as part of a number of special investigations that has absorbed in excess of 50 days audit time, 10% of the original available planned time.
- the Audit Manager completed a two day Fraud Loss Measurement Training course, which has provided a useful tool that can be used to identify the extent of losses as a result of fraud or error. The methodology learned from this training was applied to an area of procurement where a number of issues were identified that will enable the council to streamline areas of the business with a view to making efficiency savings. It is intended to look at this on an annual basis as part of the audit plan and review different service areas across the authority.
- The audit team has supported students from Newcastle College's Career Academy programme. During the summer we hosted 2 students on a 4 week internship, the students were studying for a BTEC in Business and Finance. The internship provide the students with valuable work experience that will hopefully assist them with their future career choices.

6.0 NON AUDIT AREAS

6.1 This is work undertaken by the Internal Audit Section that is not directly related to audit areas and includes administration, supporting the corporate management of the authority, professional and staff training and attendance at Staffordshire Chief Auditors Group meetings. Non-audit work in 2012/13 accounted for 180 days.

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

7.0 OPERATIONAL PLANS FOR 2013/14

7.1 Internal Audit will continue to identify ways to actively promote awareness of risks in relation to fraud and corruption in line with the national strategy 'Fighting Fraud Locally'. A fraud awareness campaign is planned for summer 2013 and this will make use of a toolkit which has been produced by the National Fraud Authority which is designed to assist local authorities to raise the profile of fraud awareness throughout their organisations. This toolkit utilises a poster campaign, an e-learning training course as well as a publicity campaign.

7.2 The contract for computer auditing will again be provided by CW Audit Services. CW Audit Services successfully won the contract to provide computer audit services for a second year.

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

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

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

7.6 Internal audit will continue to support students from Newcastle College's Career Academy Programme. This involves providing a 4 week internship which is completed over the summer months by students interested in pursuing a career in finance. In addition the Audit Manger is currently mentoring one of the students from the career academy.

7.7 The Audit Manager is a member of the Staffordshire Information Governance Group; this looks at Information Governance issues across the county and in addition has developed an information sharing protocol that enables organisations to share information with partner agencies etc.

7.8 With effect from 1 April 2013 the CIPFA Code of Practice for Internal Audit in Local Government has been replaced with a new set of standards. The Public Sector Internal Audit Standards (PSIAS) have been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) to ensure a consistent set of standards for Internal Auditors irrespective of the sector in which they work. There have been a few changes that will be required to be undertaken in terms of working practices; however the main changes seem to be in relation to the terminology used. CIPFA have produced an application note designed to assist/clarify the standards that have been produced. This guidance note will be used during the course of 2013/14 to ensure that Internal Audit is compliant with the new standards that have been produced. As with the previous CIPFA code the Audit Manager will be required to complete a checklist to demonstrate compliance with the PSIAS and this will be used as part of the evidence for the production of the Annual Governance Statement.

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO THE AUDIT & RISK COMMITTEE

Date 15 July 2013

HEADING Review of the Effectiveness of the Audit Committee

Submitted by: Audit Manager

Portfolio Finance and Resources

Ward(s) affected All

Purpose of the Report
In order to demonstrate that the Council has good governance and as part of providing evidence to support the Annual Governance Statement, the Council needs to demonstrate that it has an effective Audit Committee. An assessment has been completed on the effectiveness of the Audit Committee for 2012/13 and the results are summarised within this report.

Recommendations (to be in bold)

A That the report outlining the findings from the review of the effectiveness of the Audit Committee for 2012/13 be noted.

Reasons

That members agree with the findings of the review which concludes that the effectiveness of the Audit Committee during 2012/13 can be relied upon when considering the Annual Governance Statement.

1. **Background**

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

1.2 This review of the effectiveness of the Council's Audit Committee is undertaken annually.

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

2. **Issues**

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

2.2 The results of the self assessment show that the Audit Committee **is effective** and can be relied upon when considering the Annual Governance Statement for 2012/13.

3. **Options Considered** (if any)

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

4. **Proposal**

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

5. **Reasons for Preferred Solution**

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

6. **Outcomes Linked to Corporate Priorities**

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

7. **Legal and Statutory Implications**

Under the Accounts and Audit Regulations 2011 the Council is required to undertake an annual assessment of the effectiveness of its Audit Committee.

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

There are no financial implications identified from this proposal.

10. **Major Risks**

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

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

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

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15. **Background Papers**

File of evidence compiled against the CIPFA Code of Practice Checklist

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SELF-ASSESSMENT CHECKLIST 2012/13– MEASURING THE EFFECTIVENESS OF THE AUDIT COMMITTEE

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
1.0	**Terms of Reference**					
1.1	Have the Committee's terms of reference been approved by full Council?	✓			Yes, these were approved as part of the Constitution by Full council.	**1**
1.2	Do the terms of reference follow the CIPFA model?	✓				**1,17**
2.0	**Internal Audit Process**					
2.1	Does the Committee approve the strategic audit approach and the annual programme?	✓			The audit strategy and audit plan are reported annually to the Committee.	**2,3**
2.2	Is the work of internal audit reviewed regularly?	✓			Regular progress reports are presented to the Committee.	**4**
2.3	Are summaries of quality questionnaires from managers reviewed?	✓			This is included in the annual report. Satisfaction scores are also one of the PI's for the services and again these are reported quarterly.	**5**
2.4	Is the annual report, from the Head of Audit, presented to the Committee?	✓				**6**
3.0	**External Audit Process**					
3.1	Are reports on the work of external audit and other inspection agencies presented to the Committee?	✓			All external audit reports are presented to committee	**7**
3.2	Does the Committee input into the external audit programme?	✓			The Committee does receive and provide feedback on the external audit plan. In addition the Committee does have a right to request that External Auditors undertake a specific piece of work if they have concerns over a specific issue.	

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
3.3	Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?	✓			The Committee can request that Officers are in attendance at meeting to respond to any queries or concerns that they may have. Quarterly Reports regarding outstanding fundamental recommendations are presented to Committee.	**8**
3.4	Does the Committee take a role in overseeing: • Risk Management Strategies • Internal Control Statements • Anti-Fraud Arrangements • Whistle-Blowing Strategies?	 ✓ ✓ ✓ ✓			All of these are reported to the Audit & Risk Committee.	 **9** **10**
4.0	**Membership**					
4.1	Has the membership of the Committee been formally agreed and a quorum set?	✓			See constitution.	**12**
4.2	Is the Chair free of executive or scrutiny functions?	✓			Chair is free of Executive functions.	**13**
4.3	Are members sufficiently independent of the other key Committees of the Council?	✓			All members sit on a Scrutiny Panel, however, a review of this, does not seem to affect the workings of the Committee.	
4.4	Have all members' skills and experiences been assessed and training given for identified gaps?	✓			A formal assessment of training requirements is undertaken by Member Services. As part of the Member Development Charter, all members will have their own Personal Development Plan. In addition specific training has been given to Members on the Annual Statement of Accounts, and the role of the Audit & Risk Committee.	**14,15**
4.5	Can the Committee access other Committees as necessary?	✓				

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
5.0	**Meetings**					
5.1	Does the Committee meet regularly?	✓			Yes the Committee meets 5 times per year.	**16**
5.2	Are separate, private meetings held with the external auditor and the internal auditor?	✓			Regular meetings are held between Chair, Vice Chair and the Audit Manager to discuss monthly assurance statements and outstanding audit recommendations.	
5.3	Are meetings free and open without political influences being displayed?	✓			All meetings are held in public unless there is a good reason for Confidentiality. All Members are aware of the need to declare any interests.	
5.4	Are decisions reached promptly?	✓				
5.5	Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	✓			Papers are circulated 2 weeks in advance of the meeting.	**4**
5.6	Does the Committee have the benefit of attendance of appropriate officers at its meetings?	✓				
6.0	**Training**					
6.1	Is induction training provided to members?	✓			All new members receive induction training. In addition as part of Member charter Status each member will have there own person specification/job description	**14**

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
6.2	Is more advanced training available as required?	✓			Specific training in relation to the Scrutiny of the Accounts, the role of the audit committee and risk management is provided annually for Members of the Audit & Risk Committee.	**15**
7.0	**Administration**					
7.1	Does the authority's S151 officer or deputy attend all meetings?	✓			The Executive Director (Resources and Support Services) as the Councils Section 151 Officer attends all the meetings of the Audit & Risk committee	
7.2	Are the key officers available to support the Committee?	✓				

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO AUDIT & RISK COMMITTEE

Date 15 July 2013

HEADING **Review of the Effectiveness of the System of Internal Audit**

Submitted by: Audit Manager

Portfolio Finance and Resources

Ward(s) affected All

Purpose of the Report
For members to consider the findings of the annual review of the effectiveness of the system of Internal Audit for 2012/13.

Recommendations

That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2012/13, together with the action plan be agreed.

Reasons

That members agree with the findings of the review which concludes that the system of Internal Audit for 2012/13 can be relied upon when considering the Annual Governance Statement.

1. **Background**

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

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

1.3 The review which has taken place during 2012/13 has involved updating last year's self-assessment for 2011/12 and formulating a revised action plan for work to be completed during the forthcoming financial year.

2. **Issues**

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

2.2 Progress against the action plan for 2012/13 is shown in Appendix C. The action identified has been achieved and a formalised retention of records schedule is now in place.

2.3 The internal review shows that the system of Internal Audit is operating effectively and can be relied upon when considering the Annual Governance Statement for 2012/13.

2.4 With effect from 1 April 2013 the CIPFA Code of Practice for Internal Audit in Local Government has been replaced with a new set of standards. The Public Sector Internal Audit Standards (PSIAS) have been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) to ensure a consistent set of standards for Internal Auditors irrespective of the sector in which they work. There have been a few changes that will be required to be undertaken in terms of working practices; however the main changes seem to be in relation to the terminology used. CIPFA have produced an application note designed to assist/clarify the standards that have been produced. This guidance note will be used during the course of 2013/14 to ensure that Internal Audit is compliant with the new standards that have been produced. As with the previous CIPFA code the Audit Manager will be required to complete a checklist to demonstrate compliance with the PSIAS and this will be used as part of the evidence for the production of the Annual Governance Statement.

3. **Options Considered** (if any)

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

4. **Proposal**

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

5. **Reasons for Preferred Solution**

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

6. **Outcomes Linked to Corporate Priorities**

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

7. **Legal and Statutory Implications**

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

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

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

10. **Major Risks**

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

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

Appendix A - Completed Checklist against the CIPFA Code of Practice
Appendix B - Key to Evidence for Self Assessment
Appendix C - Progress against 2012/13 Action Plan.
Appendix D - Updated Action Plan for 2013/14

15. **Background Papers**

File of evidence compiled against the CIPFA Code of Practice Checklist

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APPENDIX A

SELF ASSESSMENT FOR 2012/13 IN ACCORDANCE WITH THE CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT

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

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
1	**Scope of Internal Audit**					
1.1	**Terms of Reference**					
1.1.1	Do terms of reference:					
	(a) establish the responsibilities and objectives of Internal Audit?	✓			1	TOR 1,2 & 3
	(b) establish the organisational independence of Internal Audit?	✓			1	TOR 5
	(c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:	✓			1	TOR 3 & 8
	(i) those charged with governance?					
	(ii) those parties to whom the Head of Internal Audit may report?					
	(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?	✓			1	TOR 3 & 4
	(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?	✓			1	TOR 3 & 4
	(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?	✓			1	TOR 3
	(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?	✓			1	TOR 2

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
	(h) explain how Internal Audit's resource requirements will be assessed? (i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	✓ ✓			1 1	TOR 3 & 7 TOR 6
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	✓			2	Report to Audit and Risk Committee – updated and reviewed – February 2013.
1.1.3	Have the terms of reference been formally approved by the organisation?	✓			2	TOR are reviewed and updated annually and subsequently reported to Audit and Risk Committee.
1.1.4	Are terms of reference regularly reviewed?	✓			1	TOR are reviewed and updated annually and subsequently reported to Audit and Risk Committee.
1.2	**Scope of work**					
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	✓			3 & 4	Audit strategy sets out objectives for the Service/Audit Planning based on a risk model in the APACE system. Risks are constantly reviewed and updated.
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified: (a) how assurance will be sought? (b) agreed access rights where appropriate?	✓ ✓			1 1 & 5	TOR 6
1.3	**Other Work**					

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
1.3.1	Where Internal Audit undertakes consultancy and/ or fraud and corruption work does it have the: (a) skills, and (b) resources to do this?	 ✓ ✓				 Skills are matched to the nature/type of the investigation.
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	 ✓ ✓			 1 1	 TOR 2 TOR 2
1.4	**Fraud and Corruption**					
1.4.2	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	✓			6 & 7	Anti Fraud and Anti Corruption Framework, Fraud Response Plan updated in March 2013.
2	**Independence**					
2.1	**Principles of Independence**					
2.1.1	Is Internal Audit (a) Independent of the activities it audits?	 ✓			 1	 TOR 5. Audit Manager has right of access to Chief Executive, Directors, Section 151 Officer, Monitoring Officer, Leader of the Council or the External Auditor as required.

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
	(b) free from any non-audit (operational) duties?	✓				Internal Audit has a role with regards to Information Assurance with one of the audit technicians being 0.5 FTE of an Information Assurance officer. Information assurance/security forms parts of audits role and is covered in the CIPFA document Role of the Head of Internal Audit, this does not therefore compromise any of our independence.
2.1.2	Where internal audit staff has been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?			✓		In accordance with Code of Practice Internal Audit reserves the right to review systems/procedures this does not preclude auditing area at later date.
2.2	**Organisational Independence**					
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	✓			1 & 5	Established via TOR, Financial Regulations and compliance with Code of Practice.
2.2.2	Does the Head of Internal Audit have direct access to:					
	(a) Officers?	✓			1	TOR 5 & 6
	(b) Members?	✓			1	TOR 5 & 6
2.2.3	Does the Head of Internal Audit report in his or her own name to members and officers?	✓			1	TOR 5 & 8
2.2.4	(a) Is there an assessment that the budget for Internal Audit is adequate?	✓			3	Audit Strategy 2013-2016
	(b) Does any budget delegated to service areas ensure that:	✓			3	Audit Strategy 2013-2016
	(i) Internal Audit adherence to the Code is not compromised?	✓				
	(ii) Internal Audit can continue to provide assurance for the Statement on Internal Control?	✓				

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
	(iii) the scope of Internal Audit is not affected?	✓				
2.2	**Status of the Head of Internal Audit**					
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	✓			8	The Audit Manager reports directly to the Executive Director (Resources & Support Services). The Audit Manager is a member of the Wider Management Team.
2.5	**Independence of Internal Audit Contractors**					
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?	✓				Issue has not previously arisen but would seek to reduce any conflicts in they arose.
2.6	**Declaration of Interest**					
2.6.1	Do audit staff make formal declarations of interest?	✓			9	Actual signed copies are retained on Audit Planning File.
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	✓				Formal note for e.g. Audit Manager has sister who works in Regeneration and Development Directorate – Audit Manager does not undertake any audits in this area.
3	**Ethics for Internal Auditors**					
3.1	**Purpose**					
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	✓			9	Confidentiality Statement, plus all Auditors have seen Code of Practice.
3.2	**Integrity**					
3.2.1	Has the internal audit team established an environment of trust and confidence?	✓				Executive Directors and Heads of Services request advice from Internal Audit which is an indication of trust and respect and often look to Internal Audit for reassurance prior to engaging in new initiatives and advice.

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	✓				Nothing has been identified that shows any weakness in integrity of the Auditor
3.3	**Objectivity**					
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	✓			9	Statement of Independence and Confidentiality.
3.3.3	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?	✓				
3.3.4	Are staff rotated on regular/ annually audited areas?		✓			Try to rotate as much as possible if resources and experience allow, depending on experience and work available. However limitations due to small team. Also there can be advantages to the same person doing an audit on a couple of consecutive occasions and this is done, although would try to rotate every so often to widen experience and to allow a fresh pair of eyes to look at the system.
3.4	**Competence**					
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of:					
	(a) The organisation's aims objectives, risks and governance arrangements?	✓			1 & 3	Corporate Documents – Strategy, TOR etc circulated.
	(b) The purpose, risks and issues of the service area?	✓			1 & 3	Regular Team Briefings – ensure staff are aware of Corporate Issues.
	(c) The scope of each audit assignment?	✓			1 & 3	Audit Briefs reviewed/updated annually or as required by Auditor and Audit Manager.
	(d) Relevant legislation and other regulatory arrangements that relate to the audit?	✓			1 & 3	

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
3.5	**Confidentiality**					
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	✓			9	Statement of Independence and Confidentiality.
4	**Audit Committees**					
4.1	**Purpose of the Audit Committee**					
4.1.1	Does the organisation have an independent audit committee?	✓			10	Audit and Risk Committee Terms of Reference
4.2	**Internal Audit's Relationship with the Audit Committee**					
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	✓				Audit Manager has monthly meetings with Chair and Vice Chair of Committee to discuss monthly assurance statements issued to Executive Directors.
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	✓			2, 3 & 11	Approved Strategy for 2013-2016 on 18/02/13, receives quarterly reports on progress.
4.2.3	Does the committee approve the annual internal audit plan and monitor progress?	✓			11 & 12	Audit plan 2012/13 approved by Audit and Risk Committee and receives quarterly progress reports.
4.2.4	Does the Head of Internal Audit:					
	(a) Attend the committee and contribute to its agenda?	✓				
	(b) Participate in the committee's review of its own remit and effectiveness?	✓			10	
	(c) Ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives?	✓			1 & 3	Internal Audit Terms of Reference Audit Strategy 2013-2016
	(d) Report on the outcomes of internal audit work to the committee?	✓			11	E.g. Quarterly progress report (Qtr 1 Apr to Jun 12) reported to Audit & Risk Committee September 2012

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
	(e) Establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa?	✓				No changes required in 2012/13
	(f) Present the annual internal audit report to the committee?	✓			13	Internal Audit Report 2011/12
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	✓				
5	**Relationships**					
5.1	**Principles of Good Relationships**					
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with:	✓				
	(a) Management?	✓			1, 32	TOR and Financial Regulations, Audit Protocol Document produced and distributed to Executive Directors and Heads of Service.
	(b) Other internal auditors?		✓			
	(c) External auditors?	✓			14	Protocol exists for working with External Auditors.
	(d) Other regulators and inspectors?		✓		1	TOR 9
	(e) Elected members?		✓		1	
5.2	**Relationships with Management**					
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	✓			22	Monthly Assurance statements sent to Executive Directors

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
5.2.2	Is the timing of audit work planned in conjunction with management?	✓				Audit Plan is discussed with Management. Audit Briefs issued 5 working days before Audit commences – will try to accommodate management wishes to delay or bring forward audit reviews – however not always possible to do this.
5.3	**Relationships with Other Internal Auditors**					
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?		✓			The Staffordshire Chief Auditors Group meets on a regular basis and provides a mechanism for sharing information in respect of Audit Programmes etc. In addition Internal Audit provide assurance to Staffordshire County Council in respect of Grant Funding, Pensions and Staffordshire connects
5.4	**Relationships with External Auditors**					
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	✓			14 & 15	External Audit relies on the work of IA after completing a review of files. Annual Audit & Inspection letter acknowledges this.
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	✓				Regular quarterly meetings are scheduled.
5.4.3	Are the internal and external audit plans co-ordinated?	✓				
5.5	**Relationships with Other Regulators and Inspectors**					
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?		✓			Visits by inspectors etc are mainly co-ordinated by the Performance Management Unit within the Corporate Improvement Team.
5.6	**Relationships with Elected Members**					

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	✓			1	
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	✓				Regular meetings with Chair and Vice Chair of the Audit and Risk Committee.
6	**Staffing, Training and Continuing Professional Development**					
6.1	**Staffing Internal Audit**					
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	✓			8	
6.1.1	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	✓				Contract with CW Audit Services for provision of IT Audits
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	✓				The Audit Manager is CIPFA qualified.
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	✓				Audit Manager – 20 years audit experience, 14 years at supervisory role, 6 years in Management capacity.
6.1.3	(a) Do all internal audit staff have up-to-date job descriptions? (b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	✓ ✓			16 17	
6.2	**Training and Continuing Professional Development**					
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor?	✓			17 & 18	.

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
	(b) Are individual auditors periodically assessed against these predetermined skills and competencies? (c) Are training or development needs identified and included in an appropriate ongoing development programme? (d) Is the development programme recorded, regularly reviewed and monitored.	✓ ✓ ✓			18 18, 19 & 20 18 & 20	Reviewed annually as part of Employee Appraisal Scheme. Corporate Training Scheme. See also individual Employee Appraisal files.
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	✓			20	Individual Training logs maintained by all auditors.
7	**Audit Strategy and Planning**					
7.1	**Audit Strategy**					
7.1.1	(a) Is there an *internal audit* strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	✓ ✓			3 3	
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) How the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) How Internal Audit's work will identify and address local and national issues and risks? (d) How the service will be provided, i.e. internally, externally, or a mix of the two? (e) -The resources and skills required to deliver the strategy?	 ✓ ✓ ✓ ✓ ✓			 3 3 3 3 3	
7.1.3	Has the strategy been approved by the audit committee?	✓			2	Approved 28/02/13 by Audit and Risk Committee.

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
7.2	**Audit Planning**					
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?	✓			4	
7.2.1	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	✓				
7.2.1	Are stakeholders consulted on the audit plan?	✓			21	All Executive Directors and Heads of Services are consulted on Plan, before and have opportunity to discuss this once completed.
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	✓			3	Audit Plan aims to cover all services provided by Council and Audits referenced to each Directorate. See Audit Plan attached to Strategy under 3
7.2.3	Does the plan:					
	(a) cover a fixed period of no longer than one year?	✓			3 & 4	.
	(b) outline the assignments to be carried out?	✓			3 & 4	
	(c) prioritise assignments?	✓			3 & 4	
	(d) estimate the resources required?	✓			3 & 4	
	(e) differentiate between assurance and other work?		✓		3 & 4	
	(f) allow a degree of flexibility?	✓				
7.2.4	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?	✓				There was no requirement to realign the plan in 2012-13

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
7.2.4	Has the plan been approved by the audit committee?	✓			12	
7.2.5	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	✓				
8	**Undertaking Audit Work**					
8.1	**Planning**					
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	✓ ✓			23 23 & 32	Audit Briefs are e-mailed to each Director and relevant Heads of Services, 5 working days prior to start of Audit not always signed and returned email acknowledgement that the document has been read/opened is retained. Audit protocol allows for the audits to be discussed and objectives agreed prior to the audit brief being issued.
8.1.1	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	 ✓ ✓ ✓ ✓ ✓			 23 23 23 23 23	Completed examples of Audit briefs can be found on any Internal Audit files.
8.2	**Approach**					
8.2.1	Is a risk-based audit approach used?	✓			4	Audit risk methodology reviewed as part of every audit and risk model updated accordingly.

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	✓				Any areas of weakness identified as part of audit or drawn to manager's attention at the time, and always prior to report being issued.
8.2.4	Does the audit approach include a quality review process for each audit?	✓			24	Audit checklists are completed for each audit and used for quality control purposes by Audit Manager.
8.3	**Recording Audit Assignments**					
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	✓				Audit Manual – CIPFA electronic copy and various paper folders. These can be viewed in office.
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	✓				See various working files.
8.3.2	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	 ✓ ✓ ✓			24	See various audit files Control sheets – used for each test and completed by auditors, these sheets summarise sample sizes and findings etc. The control sheets document the exact tests completed, where and who the information can be obtained from.
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	✓			25	
8.3.3	Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, Freedom of Information Act, etc., and any organisation requirements?		✓			Only audit staff have access to electronic files. Audit reports do not contain disclaimer/notes re DP/FOI.
8.3.3	Is there an access policy for audit files and records?		✓			Access restricted to these who need to see them. Where audit is completed that covers all Directorates, individual "unique" reports are produced for each Director with issues just relevant to their service.

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
9	**Due Professional Care**					
9.2	**Responsibilities of the Individual Auditor**					
9.2.1	Are there documents that set out the requirements on all audit staff in terms of:					
	(a) being fair and not allowing prejudice or bias to override objectivity?	✓			9, 26 & 27	Declaration of interests/confidentiality, Employees Handbook and Employees Code of Conduct
	(b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict?	✓			9	
	(c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?	✓			26	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?	✓				Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest?	✓			6 & 7	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed?	✓			6 & 7	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?	✓			9	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(h) disclosing any non-compliance with these standards?	✓			9	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
	(i) not using information they gain in the course of their duties for personal use?	✓			9	Audit Manual, Audit Code of Practice and Anti Fraud and Anti Corruption Framework & Fraud Response Plan.
9.3	**Responsibilities of the Head of Internal Audit**					

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
9.3.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained?	✓			9 & 24	File review process, Audit Checklists and Control Evaluation Sheets.
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	✓			6 & 7 28	Anti Fraud and Anti Corruption Framework & Fraud Response Plan Whistle blowing Policy.
10	**Reporting**					
10.1	**Principles of Reporting**					
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	✓				See Audit files.
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	✓				See Audit files.
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	✓				See Audit files.
10.1.5	Are there laid-down timescales for reports to be issued?	✓			32	Covered in the Audit Protocol Document
10.2	**Reporting on Audit Work**					
	Do the reporting standards include:					
10.1.4	(a) format of the reports?	✓				Standard template for Regularity/Systems – stored electronically under Audit Documentation/Templates.
10.1.4	(b) quality assurance of reports?	✓			24	
10.2.2	(c) the need to state the scope and purpose of the audit?	✓				
10.2.1	(d) the requirement to give an opinion?	✓				

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
10.1.4	(e) process for agreeing reports with the recipient?		✓			No formally defined process.
10.2.1	(f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	✓				
10.2.3	Does the audit reporting process include discussion and agreement of reports?	✓				
10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	✓				
10.2.5	Are areas of disagreement recorded appropriately?	✓				These would be notes in management comments on action plan in the report.
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	✓				
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	✓			23	
10.2.6	(a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	✓ ✓			 23	
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that: (a) recommendations that have a wider impact are reported to the appropriate forums? (b) risk registers are updated?	 ✓	 ✓			 High risk recommendations will be added to the operational risk assessments for the specific service area and monitored through GRACE as part of the normal risk review process. There is a process in place for monitoring, reviewing and updating risk registers.

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
10.3	**Follow-up Audits and Reporting**					
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	✓				Executive Directors and Heads of Service receive copies of outstanding recommendations on a monthly basis. These outstanding recommendations also form the basis of the monthly assurance statements issued for all Directors.
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	✓			1	TOR 8-High Risk recommendations where target date changed twice or more is reported to Audit and Risk Committee. Where a High Risk recommendation has been changed just once these are reported to Chair and Vice Chair of the Committee for their consideration.
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	✓				A revised opinion is given as part of each follow-up
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	✓			4	Previous audit experience is one of the factors used to determine the risk score for each area on the plan.
10.4	**Annual Reporting and Presentation of Audit Opinion**					
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control?	✓			13	
10.4.2	Does the Head of Internal Audit's annual report: (a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment? (b) disclose any qualifications to that opinion, together with the reasons for the qualification?	✓ ✓			13	
	(c) present a summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies?	✓			13	

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
	(d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control? (e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets? (f) comment on compliance with the standards of the Code? (g) communicate the results of the internal audit quality assurance programme?	✓ ✓ ✓ ✓			13 13 13 13 & 29	
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	✓				Regular reports go to Audit and Risk Committee.
11	**Performance, Quality and Effectiveness**					
11.1	**Principles of Performance, Quality and Effectiveness**					
11.1.1	Is there an audit manual?	✓				CIPFA model plus shared Audit Documentation Area
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	 ✓ ✓				CIPFA Audit Manual plus hybrid of paper files and electronic folders.
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	✓				

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	✓ ✓			29 30	A satisfaction survey is sent to all involved in audit following issue of final report. The Audit Manager sends an annual survey to each Executive Director, Head of Service and Business Manager.
11.2	**Quality Assurance of Audit Work**					
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	✓				Yes, this is done as far as possible; however, given size of team this is not always practical.
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff is supervised appropriately throughout all audits?	✓				Regular informal updates obtained by audit manager. Due to size of team – advantage in that communication is good.
11.2.3	Does the supervisory process cover: (a) monitoring progress? (b) assessing quality of audit work?	✓ ✓			24	
	(c) coaching staff?	✓				Advice and support given where necessary or where staff ask for support. Closer mentoring given to trainee Audit Technicians within the section.
11.2	**Performance and Effectiveness of the Internal Audit Service**					
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	✓			31	PI's are produced and monitored on a quarterly basis.
11.3.2	Does the performance management and quality assurance framework include as a minimum:					

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
	(a) a comprehensive set of targets to measure performance:	✓				
	(i) which are developed in consultation with appropriate parties?	✓				
	(ii) which are included in service level agreements, where appropriate?		✓		32	This is set out in the Audit Protocol Document
	(iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress?	✓			11	Quarterly reports to Audit and Risk Committee
	(b) user feedback obtained for each individual audit and periodically for the whole service?	✓			29	
	(c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?	✓			3	
	(d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?	✓				Reason for this review.
	(e) an action plan to implement improvements?	✓			3	
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	✓				Monitored and reviewed annually.
11.3.1	Do the results of the performance management and quality assurance programme evidence that the internal audit service is:					
	(a) meeting its aims and objectives?		✓			This is currently being reviewed as part of performance accountability framework which are being developed corporately
	(b) compliant with the Code?		✓			

Ref	Adherence to the Standard	Y	P	N	Evidence	Notes
	(c) meeting internal quality standards?		✓		32	Audit Protocol document
	(d) effective, efficient, continuously improving?		✓			SCAG Benchmarking
	(e) adding value and assisting the organisation in achieving its objectives?		✓			SCAG Benchmarking.
11.3.4	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	✓			13	
11.3.5	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	✓				Audit and Risk Committee will receive report on this review. This is presented to the July committee and forms part of the overall evidence package in support of the completion of the Annual Governance Statement.

Appendix B

Internal Audit – Self Assessment against Code of Audit Practice Checklist 2012/2013

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APPENDIX C

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

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

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APPENDIX D

SELF ASSESSMENT AGAINST CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT ACTION PLAN FOR 2013-14

Ref	Actions	Person Responsible for Implementation	Timescale
All	With effect from 1 April 2013 the CIPFA Code of Practice for Internal Audit in Local Government has been replaced with a new set of standards. The Public Sector Internal Audit Standards (PSIAS) have been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) to ensure a consistent set of standards for Internal Auditors irrespective of the sector in which they work. There have been a few changes that will be required to be undertaken in terms of working practices; however the main changes seem to be in relation to the terminology used. CIPFA have produced an application note designed to assist/clarify the standards that have been produced. This guidance note will be used during the course of 2013/14 to ensure that Internal Audit is compliant with the new standards that have been produced. The new checklist will be completed to demonstrate compliance with the PSIAS and this will be used as part of the evidence for the production of the Annual Governance Statement for 2013-14	Audit Manager	31 March 2014

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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

EXECUTIVE MANAGEMENT TEAM'S REPORT TO THE AUDIT & RISK COMMITTEE

Date 15 July 2013

HEADING **ANNUAL GOVERNANCE STATEMENT**

Submitted by: Audit Manager

Portfolio Finance and Resources

Ward(s) affected All

Purpose of the Report To recommend that the Annual Governance Statement 2012/13 be approved for inclusion in the financial statements.

Recommendations

A That Members approve the Annual Governance Statement 2012/13 (AGS)

Reasons

To seek members approval of the Annual Governance Statement 2012/13 based upon their satisfaction that it is based upon relevant and reliable evidence.

1. Background

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

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

1.3 Under the Accounts and Audit Regulations 2011 the Council is required to publish an AGS with the financial statements and emphasise the importance of embedding internal control, including the process of risk management throughout the Council. In response the Council produced an Annual Governance Statement for 2012/13 covering corporate governance, financial and other key control issues.

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

1.5 The AGS includes the following headings:

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

2. **Issues**

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

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

2.3 Section 5 of the AGS identifies those areas, following the review of internal controls for the financial year 2012/13 that need addressing. Action plans where not already in place will be drawn up by your officers to address the issues highlighted.

3. **Options Considered** (if any)

Not to complete an AGS would be in breach of the legislation already outlined in the background. Completion of the Statement is best practice and demonstrates the transparency of the Council's Governance arrangements for 2012/13.

4. **Proposal**

The statement is provided as Appendix A.

5. **Reasons for Preferred Solution**

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

6. **Outcomes Linked to Corporate Priorities**

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

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

7. **Legal and Statutory Implications**

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

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

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

10. **Major Risks**

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

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

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

Appendix A: Annual Governance Statement 2012/13

14. **Background Papers**

Executive Directors, Corporate and Service Managers - Assurance Statements
Corporate Governance Reviews
Audit Commission Annual Audit and Inspection Letter 2011-12
CIPFA/SOLACE guidance – Delivering Good Governance in Local Government

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT 2012/13

1.0 Scope of responsibility

1.1 Newcastle-under-Lyme Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Newcastle-under-Lyme Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

1.3 Newcastle-under-Lyme Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Code is on the Council's website at http://www.newcastle-staffs.gov.uk/corporategov or can be obtained from the Audit Manager. This statement explains how Newcastle-under-Lyme Borough Council complies with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of a Statement on Internal Control.

2.0 Delivering Good Governance in Local Government: Framework

2.1 The purpose of the governance framework

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

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing and embedded process designed to identify and prioritise the risks to the achievement of Newcastle-under-Lyme Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at Newcastle-under-Lyme Borough Council for the year ended 31 March 2013 and up to the date of approval of the Statement of Accounts.

3.0 The governance framework

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

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

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

The Corporate Plan (due to become the Council Plan from 2013/14 onwards) sets out the vision for the council and the associated corporate priorities inform the overall business planning process for the organisation in terms of resource allocation and performance management. These priorities were originally drawn from the Borough's Sustainable Community Strategy, produced under the auspices of the Newcastle Partnership. The Strategy is still in place, but the Partnership's priorities have now changed to focus on encouraging economic growth and tackling vulnerability. The Borough Council has refreshed its Council Plan to take account of these developments, and has also developed a number of supporting strategies focused on Economic Development, Stronger and Safer Communities and Health and Well-Being. This strategic framework is supplemented by the developing Co-operative Strategy of the Council, which builds on the new corporate priority of "becoming a co-operative council which delivers high-quality, community-driven services".

The Council has developed targets against which progress is monitored throughout the year through the performance management framework. This framework has been reviewed and, from April 2013, will focus more clearly on outcomes. Targets and indicators have been matched to 18 outcomes and the Plan is focused and organised on and around outcomes.

Individual service plans are still completed as part of the corporate planning process - they demonstrate how each service contributes to the overall delivery of the Council's vision and corporate priorities, as well as being focused on outcomes. Service Plans are translated and communicated to employees via the Appraisal Process, Team Briefings and the Core Brief via Heads of Service and Business Managers. This process and the overall governance arrangements for the Authority are undertaken annually. The Council also communicates via the website and the Reporter Newspaper for the wider community.

Service quality and being able to demonstrate that services are providing the best value for money are key requirements of the Service Plans and value for money is a key outcome for the council. Managers are required to evidence clearly that the service they provide is making best use of available resources. Benchmarking exercises are undertaken by service areas and also corporately as a means of demonstrating value for money; but the organisation needs to learn more from best practice examples found elsewhere and also needs to understand and reflect customer needs more effectively. This process has been taken forward as part of the budget setting process for 2013/14, where functions were prioritised based on a range of different criteria including budget and customer feedback.

The Council continues to monitor the delivery of its services, including ensuring that resources

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

follow priorities (see above) and that customers are satisfied with services being delivered.

In addition to engagement and consultation work, the council and its partners across all sectors seek to work together against the key partnership priorities as part of the Newcastle Partnership. A number of projects have been developed, framed by the Council's key strategic areas. Partners have also continued to develop service delivery approaches which are in line with citizen requirements and which meet the expectations of citizens. The review of the Partnership's Community Engagement Strategy is ongoing and is being further developed against a background of the Government's localism agenda and the Council's desire to become a co-operative organisation. Locality Action Partnerships continue to be reviewed in order to ensure that they are fit for purpose in delivering positive change for their communities.

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

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

The Council is putting in place a programme of 'channel choice' to increase access to it services by providing greater choice in the ways that customers can contact us, linked to customer preferences and needs

The Council has achieved the Customer Service Excellence award in Customer Services for the third consecutive year

The Third Sector Commissioning Framework continues to demonstrate the Council's commitment to collaborative working, and is being supplemented by a local review of grant based funding. The Council is also a part of the countywide Public Sector Commissioning in Partnership process (the only district or borough council in Staffordshire to do so).

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

There are four Overview and Scrutiny Committees that reflect each of the Council's Corporate Priorities. The Scrutiny Process is reviewed (including external review) to ensure it challenges policy development and decision making in a robust, constructive and purposeful way while developing a partnership with external agencies and authorities, it reflects the voice and concerns of the public and its communities and makes an impact on the delivery of public services.

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

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

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

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

The issue of how Members and Officers work together was one of the main areas of focus for the Local Government Association (LGA) Corporate Peer Challenge team. The team visited the Council in October 2012 to undertake a 'health check' of the council in order to provide reassurance that the Council can deliver its future plans through having the right levels of capacity and achieving the maximum levels of performance. In addressing the issue of Member/Officer relationships and working, the Peer Challenge team identified the areas of leadership, governance, decision-making and capacity as key to achieving successful outcomes as covered by this Core Principle. In leadership terms, the team advocated greater visibility for Members and enhanced levels of engagement for all Members of the Council through more effective scrutiny and greater levels of cross-party input into policy development. In addition, the Peer Challenge team argued that the Council should build on good Member/Officer relationships and the ongoing review of the Council's Constitution to develop enhanced levels of pre-decision scrutiny and improved processes at Full Council meetings. Finally, Member development and support was seen as crucial by the Peer Challenge team in terms of developing the 'modern councillor' – one who is able to be an advocate for their community and who uses technology to deal with issues in a timely manner. These identified issues have been collected into an action plan for the Council and significant improvements in the conduct of meetings, together with a greater role for scrutiny in terms of decision making and policy development are beginning to be seen in key areas such as the development of the Co-operative Council.

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

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

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

Members receive training on an annual basis in respect of Ethical Standards. Specific training was delivered to officers in relation to Procurement, which covered the principles set out in the Council's Standing Orders and Financial Regulations and also incorporated the principles of the Bribery Act. It has however, been acknowledged that a formal training programme for employees needs to be put in place and this will form part of the Workforce Development Plan

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

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

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

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

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

Work has continued during 2012/13 to raise the awareness and profile of Information Security. A programme of mandatory training in respect of Data Protection was rolled out via the Council's e-learning facility STeP. The information Security Policies have been communicated to all staff via the 'core brief' from Executive Management Team. In addition all employees are encouraged to report any concerns they have, such concerns or security incidents can be logged via an on-line form on the council's intranet. The Council has introduced Policy Management software as a means of communicating and informing staff of its core policies on a regular basis to ensure continued awareness and compliance.

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

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

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

The Head of Central Services has the statutory role of Monitoring Officer to ensure that the relevant laws and regulations are complied with, whilst the Executive Director (Resources and Support Services) has the statutory responsibility under Section 151 of Local Government Act to ensure the proper administration of the Council's financial affairs. A Statutory Officers Group which comprises, the Monitoring Officer, Section 151 Officer and the Head of Paid Service meets regularly to monitor the key Corporate Governance issues.

The suggested improvements from the independent health & safety audit have been implemented and a further internal audit of the corporate health and safety function has been undertaken, identifying this service as being 'adequately controlled'. The recommendations arsing from this review have in the main now been adopted.

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

In addition, the health & safety policy has been updated. Further training on the use of Target 100 the corporate H&S IT system has been undertaken and the use of the system has been extended to include accident and near miss reporting, risk assessments and action planning for Departments. Toolbox talks detailed in Target 100 are also being used to train staff in Health & Safety and safe working practices. A monthly audit monitoring report is created and reviewed at Corporate Health & Safety committee on the use of the system.

The Authority continues to review and monitor its arrangements in respect of Information Security to ensure continued compliance to the Government's Code of Connection (GCSx) and to enable the smooth transition to the Public Sector Network (PSN) code of connection

The Council has formalised and consolidated its complaints procedures to reflect best practice from the Local Government Office, which is under the corporate remit of the Customer Relations Officer.

The Council's Anti Fraud and Anti Corruption Framework, together with its Fraud Response plan are reviewed and updated annually to ensure that they remain fit purpose. During the course of 2012/13 these were reviewed against the National Fraud Strategy and the National Fraud Authority Toolkit is being utilised to plan an awareness raising campaign in the forthcoming year.

The Authority's Whistleblowing Policy actively promotes officers, members, contractors and the public to report any concerns they may have in respect of any potential wrong doing. A helpline number is included amongst the A-Z list of Council Services. The policy is also available on the Council's website, in addition to this the Authority subscribes to Public Concern at Work, an independent charity set up to deal with any concerns that the Public may have in respect of any potential fraud, corruption or wrong doing. During 2012-13 the Council has received and dealt with 5 whistleblowing allegations.

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

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

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

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

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

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

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

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

All meetings of the Authority are held in public, unless the Part II requirements of the Local Authorities (Executive Arrangements) (Access to Information) Regulations 2000, are met in terms of confidentiality. Copies of all the minutes and agendas for these meetings are available on the Council's website.

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

The council carried out a number of significant consultation exercises during the year including the first public consultation on the budget for almost a decade. This involved a series of public meetings led by Cabinet members; face-to-face "come and meet" consultations at locations throughout the borough; turning part of the Civic Offices into a living room for a public drop-in coffee morning; the council's website; e-Panel; councillors distributing a "mini" budget Reporter and questionnaire in their wards; press and media coverage; social media channels.

A consultation also began on community centre provision in the borough (this is still continuing); an extensive consultation on Site Allocations: Issues and Options and year-round consultation takes place through Service Level Agreements negotiated between the Research Officer and key services including customer services; recycling and waste; Streetscene.

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

4.0 Review of effectiveness

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

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

4.3 The Audit and Risk Committee effectively monitors the system of internal control, this has been demonstrated through the completion of a self assessment against CIPFA's checklist on 'Measuring the Effectiveness of the Audit Committee'. The Committee receives regular reports on both the Audit and Risk issues and has demonstrated effective challenge to senior officers in instances of non-compliance; it can therefore be relied upon when considering the Annual Governance Statement for 2012/13.

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

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

4.6 Internal Audit can provide a level of assurance that the Council's systems of internal control are operating adequately, from their work in 2012/13. Whilst the Internal Audit Service has identified some material deficiencies in controls, the service is satisfied that based upon assurances from Management, action is now being taken to address the issues raised.

4.7 A self assessment on the effectiveness of the system of internal control has been completed in respect of the financial year 2012/13. The internal review showed that the system of internal control can be relied upon when considering the Governance Statement for 2012/13. This was informed by the completion of the CIPFA checklist on 'Code of Practice for Internal Audit in Local Government 2006'

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

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

4.10 The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council keeps the Constitution under review throughout the year.

4.11 Managers Assurance Statements are produced annually by both Executive Directors and Heads of Service. These statements provide a level of assurance with regards to the adequacy of internal controls within their own Directorate and Service areas.

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

4.13 The Annual Audit and Inspection letter from the Audit Commission gave an unqualified opinion on the 2011/12 accounts. Internal Audit work was relied upon by the Audit Commission. The Letter contained some recommendations which will inform future plans. It recognised improvements and emphasised the need to continue with these.

4.14 The Council has a zero tolerance to Fraud and Corruption, the Anti Fraud and Corruption Framework, Fraud Response Plan and Whistleblowing Policy are in place to help deliver our commitment to protecting public funds and ensuring that all Council activities are carried out in accordance with the principles of openness, honesty and integrity. The commitment to deterring fraud and corruption is actively promoted throughout the organisation. Anyone who has any concerns about any aspect of the Council's work are encouraged to come forward and voice those concerns.

5.0 Significant governance issues

We have been advised on the results of the review of the effectiveness of the governance framework as set out in Section 3 of this Statement and a plan to address weaknesses and ensure continuous improvement is in place. The following issues have been identified as issues that need to be addressed in order to further improve the Council's overall governance arrangements;

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

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

Signed ________________________________ **Councillor Gareth Snell, Leader of the Council**

Signed _________________________________ **John Sellgren, Chief Executive**

Dated ___________________________________

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