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Date of meeting	**Monday, 26th September, 2011**
Time	**7.00 pm**
Venue	**Committee Room 1. Civic Offices, Merrial Street, Newcastle-under-Lyme, Staffs ST5 2AG**
Contact	Julia Cleary

NEWCASTLE UNDER LYME
BOROUGH COUNCIL

Civic Offices
Merrial Street
Newcastle-under-Lyme
Staffordshire
ST5 2AG

Audit and Risk Committee

AGENDA

PART 1– OPEN AGENDA

1 **MINUTES OF PREVIOUS MEETINGS** **(Pages 1 - 6)**

To consider the minutes of the previous meetings held on 5 and 28 July 2011.

2 **DECLARATIONS OF INTEREST**

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

3 **LEP PRESENTATION**

To receive a presentation from the Council's Executive Director for Regeneration and Development on LEP's

4 **Statement of Accounts 2010/11 and External Auditor's Governance Report** **(Pages 7 - 136)**

5 **Quarterly Report: Adoption of Internal Audit Fundamental Recommendations and Summary of Assurance 1 April to 30 June 2011** **(Pages 137 - 142)**

6 **Internal Audit Progress Report - Quarter 1 2011/12** **(Pages 143 - 152)**

7 **Corporate Risk Management Report for the Period April to June 2011** **(Pages 153 - 160)**

8 **URGENT BUSINESS**

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

Members: Councillors D Richards (Chairman), S Blair (Vice-Chair), Boden, Loades, Waring

Britain in Bloom:
National Winner 2005
Silver Gilt Medal 2009
Regional Winner
2003, 2004, 2008, 2009, 2010
Gold Award Winner
2002 - 2010

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and Snell

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

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AUDIT AND RISK COMMITTEE

5 July 2011

Present:- Councillor Richards in the Chair

Councillors Boden and Loades
Portfolio Holder – Councillor Jones

Also in attendance:- Mr David Jenkins from the Audit Commission

149. * **APOLOGIES**

Apologies were received from Councillors Blair and Waring.

150. * **MINUTES OF PREVIOUS MEETING**

Resolved:- That the minutes of the previous meeting of the Committee held on 18 April 2011 be approved as a correct record.

151. * **AUDIT AND RISK COMMITTEE – PLAN OF WORK 2011/12**

Consideration was given to the proposed plan of work for the Committee during 2011/12 and it was indicated that the training for Members on the Statement of Accounts would be held on 28 July 2011.

In addition, Members considered the issues of 'horizon scanning' and the Local Enterprise Programme (LEP) with a view to these being included in the Work Plan.

Resolved:- (a) That the Work Plan as now amended to include 'horizon scanning' as part of the risk management report be accepted.

(b) That a presentation be given to a future meeting of the Committee on the LEP.

(c) That a letter be sent to all members of the Committee advising them of the training on the Statement of Accounts to be held on 28 July 2011.

152. * **HEALTH AND SAFETY REPORT 2010/11**

Members gave consideration to the annual report of the Corporate Health and Safety Officer which covered the period April 2010 to March 2011.

There were no particular trends or themes emerging in comparison to previous years, but a total of 31 work related accidents had been recorded, 4 of which were reportable to the Health and Safety Executive.

These had resulted in 150 working days being lost with an average of 0.23 days lost per employee.

Details of inspections carried out to date were submitted and it was indicated that the demolition of the western block of the Council's depot in Knutton Lane had been completed and the depot and Fire Service sites were now separated.

Resolved:- That the report be noted and the Corporate Health and Safety Officer be thanked for her work in this matter.

153. * **CIPFA STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT**

A report was submitted on the above matter which provided a framework against which the effectiveness of the Head of Internal Audit (HIA) could be assessed in demonstrating that the Council had good governance arrangements in place.

Resolved:- That the report and action plan be noted.

154. * **QUARTERLY REPORT – ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE (1 JANUARY TO 31 MARCH 2011)**

Consideration was given to a report on outstanding fundamental recommendations and provided Members with assurance opinion on internal controls over Council Services.

In the fourth quarter there were 18 fundamental recommendations due for review, all of which were at their first follow up date and therefore no action was required at this stage.

It was also indicated that all Directorates were showing substantial assurance.

Resolved:- That the action of the officers and levels of assurance be noted.

155. * **INTERNAL AUDIT SECTION ANNUAL REPORT 2010/11**

The Committee received a report regarding the Annual Report of the Internal Audit Section for the 2010/11 financial year.

The Audit Plan for the year had been approved on 8 February 2010 and had accounted for 629 audit days.

A good level of productivity had been maintained at 76% whilst 93% of audits had been completed compared to the number planned and 93% of the Audit Plan.

The percentage of Internal Audit recommendations implemented by the Officers had increased to 83% against a target of 95%. There were no high or medium risk recommendations that were considered as not receiving adequate management attention.

Resolved:- That the Internal Audit Section Annual Report for 2010/11 be received.

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

The Committee received a report summarising an assessment that had been carried out on the effectiveness of the system of Internal Audit for 2010/11.

This was the fifth review that had taken place and involved updating the 2009/10 self assessment and formulating a revised action plan for work to be completed during the forthcoming financial year.

Resolved:- That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2010/11 together with the action plan be agreed.

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

The Committee received a report summarising an assessment that had been carried out on the effectiveness of the Audit Committee for 2010/11.

The results of the self assessments showed that the Audit Committee was effective and could be relied upon when considering the Annual Governance Statement for 2010/11.

Resolved:- That the report outlining the findings from the review of the effectiveness of the Audit Committee for 2010/11 be agreed.

158. * **ANNUAL GOVERNANCE STATEMENT**

The Committee considered a report recommending that the Annual Governance Statement for 2010/11 be approved for inclusion in the financial statements presented at the meeting.

The Council was responsible for ensuring that its business was conducted in accordance with the law and proper standards and that public money was safeguarded, properly accounted for and used economically, efficiently and effectively.

In order to achieve this, the Council was responsible for putting in place proper arrangements for risk management.

The governance framework comprised the systems, processes, culture and value by which the authority was directed and controlled and activities through which it accounted to, engaged with and led the community. It enabled the authority to monitor the achievement of its strategic objectives and to consider whether those objectives would lead to the delivery of appropriate, cost effective services.

The governance framework had been in place for the year ended 31 March 2010 and up to the date of approval of the Statement of Accounts.

The Annual Governance Statement had been produced combining findings from a Corporate Governance Review, Assurance Statements from Executive Directors informed by Corporate Service Managers, the work of Internal Audit and various corporate working parties and comments from external auditors and other review agencies.

Resolved:- That the Annual Governance Statement for 2010/11 be referred to the Chair of the Overview and Scrutiny Co-ordinating Committee for comments prior to the next meeting of this Committee.

159. * **ANNUAL REVIEW OF THE CORPORATE RISK MANAGEMENT STRATEGY AND ACTION PLAN**

Consideration was given to a revised Risk management Strategy, Policy Statement and Action Plan.

The risk management process adopted by the Council assisted in the identification of those key risks that potentially threatened the delivery of the corporate priorities of the Council and also delivery of operational and service objectives.

The Strategy had been changed and developed to reflect a new nationally driven regime in terms of inspection and other changes in the environment.

Resolved:- (a) That the documents covering the revised Risk Management Strategy for 2011/12 together with the Risk Management Policy Statement be noted.

(b) That the revised Risk Management Strategy, Policy Statement and Action Plan be approved.

(c) That training on Risk Management issues be provided for Members.

D J RICHARDS
Chair

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AUDIT AND RISK COMMITTEE

28 July 2011

Present:- Councillor Richards in the Chair

Councillors Blair, Boden, Snell and Waring

217. * **DRAFT STATEMENT OF ACCOUNTS 2010/11**

The Committee received a report regarding the submission of the draft Statement of Accounts 2010/11 for scrutiny and approval by the Audit and Risk Committee and the approval of the financing of capital expenditure.

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

The Statement of Accounts was still in draft form and subject to external audit. As soon as this audit had been completed any comments would be incorporated and the Statement resubmitted to the Committee for approval.

The budget for the General Fund for 2010/11 had originally been set in February 2010 and amounted to a net total of £17,866,650. The eventual out-turn for the year showed an adverse variance of £87,019, the sum of which had been transferred from the Budget Support Fund to cover the adverse variance. The reasons for this position were considered.

Members were also reminded that of the £2.5m plus £9192 interest accrued from the money invested with the Heritable Bank some £1,514,577 had been received from the Administrator to date.

Resolved:- (a) That the draft Statement of Accounts for 2010/11 be noted.

(b) That the financing of capital expenditure incurred during 2010/11, as set out in Appendix B to the Executive Management Team's report be approved.

218. * **ANNUAL GOVERNANCE STATEMENT**

Consideration was again given to the Annual Governance Statement which had been considered at the previous meeting of the Committee.

Resolved:- That the Annual Governance Statement for 2010/11 be approved.

D J RICHARDS
Chair

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STATEMENT OF ACCOUNTS 2010/11 AND EXTERNAL AUDITOR'S GOVERNANCE REPORT

Submitted by: **Head of Finance**

Portfolio **Resources and Efficiency**

Ward(s) affected **All indirectly**

Purpose of the Report

To approve the statement of accounts, receive the Audit Commission's Governance Report for 2010/11 and to agree the Letter of Representation to the Auditor.

Recommendations

(a) That the Statement of Accounts 2010/11 be approved and signed by the person presiding at the meeting.

(b) That the Annual Governance Report for 2010/11 be received.

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

Reasons

It is a statutory requirement, contained in the Accounts and Audit Regulations 2011, that the Council produces a Statement of Accounts detailing its financial transactions for the year and its position at the year end and that this is approved by a Committee no later than 30 September in the year following that to which the Statement relates.

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

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

1. **Background**

1.1 The Committee received a report on 28 July in relation to the draft Statement of Accounts and the Outturn position for 2010/11. The report explained the changes arising from new Accounts and Audit Regulations, which meant that the 2010/11 Statement of Accounts does not have to be formally approved by a Council Committee until 30 September 2011 (previously this was 30 June). However, it was felt that members needed an earlier update on the position for 2010/11, which was the reason for this earlier report. The report set out information in relation to the outturn position and the main features of the Statement of Accounts, such as the balance sheet position, reserves levels and income and expenditure for the year. It also explained the changes which have been made to the format and contents of the Statement as a result of the implementation of International Financial Reporting Standards. A copy of this report is attached at **Appendix A.**

1.2 The Committee now needs to formally receive the Statement of Accounts for 2010/11 for scrutiny and approval. Accordingly a copy of the Statement is appended at **Appendix B** for your consideration.

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

1.4 The purpose of the report is primarily to allow the auditor to bring to the attention of the Committee any material mis-statements in the accounts for 2010/11, which your officers have declined to amend and any significant material mis-statements in the accounts submitted for audit which have been amended, together with any material weaknesses in internal control or areas of uncertainty. The report also contains the auditor's opinion on the Council's arrangements for achieving Value for Money.

2. **Statement of Accounts 2010/11**

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

2.2 None of these agreed amendments change the amount of the negative variance on the General Fund Revenue Account (£87,019) reported to you in July.

2.3 There are no changes which are significant enough to alter the content of the previous report, apart from a small amendment to the split between long and short term investments of £0.124m, where long term increases by this amount and short term is reduced correspondingly. Accordingly, the previous report attached at Appendix A should continue to be referred to for an explanation of the main features of the 2010/11 Statement.

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

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

3. **Annual Governance Report**

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

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

3.3 The Governance Report refers to two suggested amendments which it is not proposed to make to the Statement of Accounts. The reasons for this stance are set out in the Letter of Representation contained in the Governance Report.

4. General Fund Outturn

4.1 When you considered the outturn position in July, you requested further information concerning significant areas where the negative variance reported to you in relation to income shortfalls had been offset, to arrive at the final negative variance of £87,019. Accordingly, the position is set out below.

4.2 To recap, the major income shortfalls were as shown in the following table:

	Variance
	£000s
Local Land Charges	210
Cremation Fees	59
Lancaster Buildings Rents	230
Planning Applications Fees	44
Car Parking Income	234
Markets Stalls Income	50
Total	827

4.3 These were offset as follows:

	Variance £000s	£000s
Income Shortfalls, as previously reported		827
Allowance for Income Shortfall		-200
Other Adverse Variances		
Loss of Grant - LABGI	50	
Concessionary Fares - Payments to operators	77	
Salaries not capitalised	65	
Recruitment costs for Chief Executive	25	
		217
Offsetting Positive Variances		
Employees (no pay rise/unfilled vacancies)	-460	
Interest Payable	-74	
Building Control contribution to Partnership	-25	
Community Development - Contributions to external bodies	-43	
Guildhall - Running costs	-45	
Write-back of Provisions contributions	-147	
		-794
Other Minor Variances		37
Out-Turn		87

5. **Letter of Representation**

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

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

5.3 Members need to consider whether they agree that the 2 amendments suggested by the auditor are, in fact, not to be made for the reasons set out in the Letter before deciding to approve it.

6. **International Financial Reporting Standards (IFRS)**

6.1 As Members of the Committee will be aware from previous reports, this is the first Statement of Accounts which has been compiled in accordance with IFRS principles. This entailed a considerable amount of preparation work, including the restatement of the balance sheet as at 1 April 2009, and the restatement of the entire 2009/10 accounts to present the accounts in the required format and with the content adhering to IFRS principles.

6.2 Implementation of IFRS was one of the challenges/tasks included in the Financial Management Section service plan and was also a goal included in the Corporate Plan 2010/11 to 2012/13, under the priority heading of "Transforming our Council to achieve excellence". Now that the Statement of Accounts has been audited, with few amendments, and bearing in mind the positive comments contained in the auditor's Annual Governance Report, it can be seen that this implementation has been carried out successfully and the corporate and service plan goals have been achieved.

6.3 The IFRS Working Group which was set up to oversee the implementation process has accordingly been stood down.

7. **Equality Impact Assessment**

There are no equality issues arising from the report.

8. **Financial and Resource Implications**

8.1 The adverse variance on the General Fund Revenue Account of £87,019 has been met by a transfer from the Budget Support Fund.

9. **Previous Reports**

9.1 Report to Audit and Risk Committee 28 July 2011 "Draft Statement of Accounts 2010/11"; Reports to Audit and Risk Committee in relation to IFRS: 24 February 2009, 8 February 2010, 15 November 2010, 18 April 2011.

10. **List of Appendices**

Appendix A - Report to Audit and Risk Committee 28 July 2011
Appendix B - Statement of Accounts 2010/11
Appendix C - Governance Report 2010/11
Appendix D - Letter of Representation

11. **Background Papers**

Report to Audit and Risk Committee 28 July 2011 “Draft Statement of Accounts 2010/11”; Reports to Audit and Risk Committee in relation to IFRS: 24 February 2009, 8 February 2010, 15 November 2010, 18 April 2011; Governance Report 2010/11 produced by the External Auditor appointed by the Audit Commission; Letter of Representation 2010/11.

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DRAFT STATEMENT OF ACCOUNTS 2010/11

Submitted by: Head of Finance

Portfolio: Resources and Efficiency

Ward(s) affected: All

Purpose of the Report

To submit the draft Statement of Accounts 2010/11 for consideration by the Audit and Risk Committee and to gain approval for the financing of capital expenditure. The report highlights the key issues which are contained in these accounts including a commentary on the General Fund outturn, the Collection Fund and the Balance Sheet and to note the position regarding the Council's reserves.

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

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

Recommendations

(a) That the contents of the draft Statement of Accounts for 2010/11 be noted.

b) That the financing of capital expenditure incurred during 2010/11, as set out in Appendix A 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 2010/11 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. The Statement is produced in a standardised form in line with CIPFA (the Chartered Institute of Public Finance and Accountancy) guidelines.

1.2 As reported to you at your meeting on 18 April, the 2011 Regulations no longer require the Statement of Accounts to be approved by 30 June (as was the case for previous statements up and including the one for 2009/10). Instead the Regulations state that approval must be given by 30 September. There were two practical reasons for making this change. The first, specific to 2010/11, was that this would give more time to complete the accounts, having regard to the changes and complexity involved in converting to an International Financial Reporting Standards (IFRS) compliant format (see later paragraphs). The second was that the government felt that it was better to gain approval of the Statement of Accounts once, following its audit by the external auditor. Detailed scrutiny of the statement would take place at that stage. Members would, therefore, know that the Statement was not subject to changes required as a result of audit findings, and could focus their scrutiny on what the information in the Statement showed about the Council's financial position and what this meant for the Council going forward.

1.3 The Regulations require (as previously) 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.

1.4 The annual statutory audit commenced on 4 July 2011 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 ample time for the audit to be concluded and any amendments required to be made and a final version of the Statement of Accounts produced for submission to your committee for scrutiny and approval at the meeting scheduled for 26 September 2011.

1.5 Although it is no longer necessary to gain approval of the statement of accounts until September, it is felt that members will want to receive a report on the outturn position for 2010/11 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 2010/11 outturn and year end financial position and any ongoing financial implications arising there from.

1.6 From previous reports that you have received, you will be aware that the 2010/11 Statement of Accounts will be the first to be prepared in an IFRS compliant format. This means that there are numerous changes to the layout and contents compared to the previous Statement. The primary statements are now the Statement of Movement in Reserves, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement. Because the adoption of IFRS has required many changes in accounting practices and to the format and contents of the Statement of Accounts, the comparative figures for the previous accounting period, 2009/10 and balances as at 31 March 2010, have been restated to conform to IFRS. This means that some figures and the Statements and Notes which contain them are not directly comparable to those shown in the published 2009/10 Statement of Accounts.

1.7 Training will be provided by the Audit Commission's Audit Manager for Newcastle Borough Council for committee members prior to commencing the main business on your agenda. This is aimed at giving an understanding of the background to the implementation of IFRS and the main changes to the Statement of Accounts.

1.8 Elsewhere on your agenda the Annual Governance Statement is being re-submitted to you for approval. Whilst the Accounts and Audit Regulations 2011 no longer require this to be included in the Statement of Accounts, they require it to be published, so it is intended to continue to include it in the published Statement of Accounts.

1.9 It is also required that the financing of capital expenditure incurred in the year be approved. Accordingly, Appendix B sets out the expenditure for 2010/11 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, Business Rates and Formula Grant from the Government.

2.2 The budget for the General Fund for 2010/11 was originally set in February 2010 and amounted to a net total of £17,866,650. The eventual outturn for the year was an adverse variance against this figure, of £87,019.

3. **The General Fund Outturn**

3.1 As mentioned above, the out-turn in respect of the General Fund Revenue Account was £87,019 worse than the original estimate. As a proportion of the budget the deficit represents a little under 0.5%. It was known in advance that 2010/11 would once again be a difficult year for the Council financially, owing to the continuation of the economic recession which would particularly have an impact on some of its income sources. This was indeed the case. A number of areas of income, largely ones that are sensitive to the state of the local and national economy, were particularly affected as shown in the following table:

	Budget	**Outturn**	**Variance**
	£000s	£000s	£000s
Local Land Charges	388	178	210
Cremation Fees	663	604	59
Lancaster Buildings Rents	317	87	230
Planning Applications Fees	421	377	44
Car Parking Income	1,195	961	234
Markets Stalls Income	259	209	50
Total	3,243	2,416	827

Several of these areas were additionally affected by particular circumstances relating to 2010/11. Bereavement Services income was depressed owing to closure of the crematorium whilst replacement of cremators took place, Lancaster Buildings was disrupted by refurbishment works, now completed, and the extensive repair works at the Midway car park will have had an effect on income.

Part of this shortfall has been covered by the provision included in the budget for income loss of £200,000 and otherwise largely by favourable variances on other budget heads.

The outturn reflects the monitoring statements provided to members throughout the year, which from period 7 (October) onwards indicated a negative variance of between £30,000 and £51,000.

3.2 An amount of £87,019 has been transferred from the Budget Support Fund to cover the negative variance.

3.3 As can be seen in Note 22 to the Accounts, the balance on the Budget Support Fund now stands at £1.093m, a reduction of £0.535m from the 1 April 2010 balance. This movement comprises:

- £0.468m transferred from the Fund to support the 2010/11 budget, in accordance with the budget setting resolution of February 2010;
- £0.087m transferred from the Fund to make good the negative variance;
- net transfers of £0.020m into the Fund in respect of budget underspendings carried forward from one year to another.

3.4 £368,000 is to be used from the Budget Support Fund to support the 2011/12 Budget which was approved on 23 February 2011.

3.5 Experience to date in the current year is that income continues to be depressed and that the levels allowed for in the 2011/12 budget may not be achieved. Until the country emerges from the recession this is likely to be an ongoing situation. The regular budget monitoring reports provided by the Cabinet Portfolio Holder for Resources and Efficiency will keep members updated as the year proceeds.

3.6 The report you received in relation to the 2008/09 accounts referred to the Council's frozen investment with Heritable Bank. At that time the amount frozen was £2,509,192, comprising £2,500,000 capital and £9,192 interest accrued from the date of deposit to the date the bank went into administration. CIPFA issued a recommendation to Councils with frozen investments in Heritable that they should make provision for the amount deemed to be at risk, based on a possible timetable (five payments between July 2009 and July 2013) for repayment of 80 per cent of the frozen funds and non-payment of the remaining 20 per cent. CIPFA also supplied a model to be used to calculate the amount to be provided for, which includes notional interest payable on the frozen funds over the four year period (which is in fact unlikely to be paid). Applying this calculation gave an amount of £795,202 in respect of the Council's investment. Provision was made for this amount in the 2008/09 accounts by way of an impairment charge. The actual experience of repayments made by the Administrator during 2009/10 was better than anticipated by them and in the original CIPFA model. In fact almost 35 per cent of the frozen amount had been repaid as at 31 March 2010. As a result CIPFA issued a revised model, allowing for a further 50 per cent to be repaid, to be used to calculate the amount of the impairment provision, taking account of the improved position. The resultant recalculation allowed the impairment provision to be reduced by £155,085 in 2009/10. CIPFA have issued a further revised impairment calculator to reflect the position at 31 March 2011. This results in the amount of impairment required to be made remaining virtually unchanged (an increase of £1,837) and this adjustment has accordingly been made in the 2010/11 accounts. As at 15 July 2011 £1,514,577 has been received from the Heritable Bank Administrator, which represents 60.4% of the amount frozen.

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. Revised Building Control Regulations now permit the publication of jointly delivered services to be published in this way rather than separated out into the elements relating to each individual partner for publication in those partners' Statements. Overall the Partnership made a small surplus of £2,305 in respect of fee earning activities, which complies with the Regulations which require that a break-even position should be achieved over a number of years.

4. **The General Fund as shown in the Statement of Accounts**

4.1 The transactions of the General Fund are shown in the Statement of Accounts in the Comprehensive Income and Expenditure Statement (CI&ES) and the Movement in Reserves Statement. Further detail of the reserves movements is given in notes 7, 8 and 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 not changed from its opening balance of £1.750m. This still represents the minimum balance required, calculated by means of a risk based assessment, to safeguard against foreseeable variations in relation to the General Fund Revenue Budget.

4.2 The CI&ES shows a surplus of £17.608m for the year. At first sight this may seem strange but it should be remembered that this is the balance before transfers to and from reserves are taken into account, via the Movement in Reserves Statement. All of this balance has been reversed out by net transfers to reserves as shown in the Movement in Reserves Statement. These transfers are either to meet the cost of expenditure contained in the Cost of Services, to meet the deficit of £0.087m 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.

4.3 In addition, the position as shown in the CI&ES differs from that shown in the old style Income and Expenditure Account in that it now includes the surplus or deficit on revaluation of fixed assets and actuarial gains or losses on pensions assets and liabilities, which were previously shown in a separate Statement, the Statement of Total Recognised Gains and Losses, which no longer exists under the IFRS regime. Both of these items are subject to significant volatility, as can be seen from the pensions amount changing from a positive value of £27.025m in 2009/10 to a negative sum of £9.610m in 2010/11. This is largely due to the Pensions Fund actuary adjusting his calculations to take account of changes to pension increases announced in the Chancellor's budget statement, which result in a large negative amount being credited to the General Fund Revenue Account. All of the balance of (£17,608m) has been reversed out by net transfers from reserves as shown in the Movement in Reserves Statement.

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

5. **The Collection Fund**

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

5.2 This is a somewhat technical account but the key issue is to see if the account is in surplus or deficit and to what extent. In collecting income the Borough Council has to make an assessment of how much will ultimately be collected. The Collection Fund had an accumulated surplus of £126,525 as at 31 March 2011 - this will be deducted from the amounts that will be collected in 2011/12 and will be used in calculating how much Council Tax will be levied in 2012/13.

5.3 As can be seen the Fund achieved a surplus of £414,880 for the year. This was mainly due to the precepting authorities reimbursing the Fund for past deficits, in proportion to the amount of their precept for the year, as they are required to do by the legislation governing the operation of the Collection Fund, the total amount of these payments being £106,105, of which the Borough Council's share was £15,150. This continues the trend towards a surplus situation which became apparent in 2009/10.

6. **The Balance Sheet**

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

- There are Net Tangible Fixed Assets of £58.086m which consist of Plant, Property and Equipment, Investment Properties and Assets Held for Sale. Notes 12 and 13 to the Statement of Accounts show an analysis of the first two classes of asset, together with a summary of movements during 2010/11. The main reasons for the increase in the fixed assets balance are: the construction of the Jubilee 2 project and to a lesser extent the fitting of an additional replacement cremator and the construction of burial facilities at Audley.

- Investments (long and short term) amounted to £18.573m and have reduced by £6.154m compared to 31 March 2010. In particular, this reflects the use of capital receipts to finance projects in the capital programme (£7.129m). Owing to the current situation in the financial markets, the emphasis is now on short term investments as a means of reducing the risk of exposure to default by organisations with whom money has been placed, so all of the Council's current investments are short term (£18.361m). The amount of £0.212m shown in the Balance Sheet as long term relates to an element of the Heritable Bank investment which, according to the CIPFA Accounting Code has to be classified as long term.

- The amount owed to the Council by its short term debtors (after a deduction for the estimated amount which might be at risk of non-payment) is £9.423m. Further analysis of this amount is shown in Note 17 to the Statement of Accounts. Short Term Debtors have decreased by £1.084m compared with 31 March 2010. The main reason for this decrease is the amount overpaid to the Department of Communities and Local Government in respect of the National Non Domestic Rates Pool, which was £4.337m at 31 March 2009 and is £3.104 at 31 March 2011, a reduction of £1.233m. 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 overpayment will be refunded in 2011/12.

- The balance shown as a Long Term Debtor of £1.971m relates to the balance owing to the Council in respect of properties let on finance lease terms (£1.729m), the outstanding loan to Kidsgrove Town Council in respect of works to the Victoria Hall Kidsgrove (£0.232m) and a small balance relating to Housing Act mortgages. The balance in relation to property leases arises as a result of the implementation of IFRS which has resulted in some of the council's leases being reclassified as finance leases rather than operating leases. This requires part of the amount remaining to be paid over the lease term to be shown in this way.

- The amount the Council owes to its creditors is £10.918m. Further analysis of this amount is shown in Note 20 to the Statement of Accounts. Creditors have increased by £1.786m compared to 31 March 2009. The main reason for this is Housing Benefit Grant from the government in respect of rent allowances, where £2.785m more has been overpaid to the Council, again as a result of payments being based on estimates made before the year commences. This is counterbalanced by a decrease in the balance owing to sundry creditors for supplies of goods and services of £0.750m.

- Cash at bank and held by collectors, cashiers and as petty cash floats has changed from an in hand position of £0.376m at 31 March 2010 to £0.774m at 31 March 2011 . This is mainly as a result of a reduction in the actual year end bank balance shown on the bank statements of some £0.421m, reflecting differing cash flow positions at the respective year-ends.

- The Liability relating to Defined Benefit Pension Schemes decreased from £68.703m to £46.698m. This decrease is mirrored by an decrease in the Pensions Reserve balance. The decrease arises from the changes in actuarial assumptions referred to earlier in paragraph 4.3. 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 £16.342m. Note 22 to the Accounts shows a full analysis of all these reserves. The main items, with their balances at 31 March 2011, are:

- Capital Receipts Reserve (£5.985m)
- LSVT (Large Scale Voluntary Transfer - Housing) Fund (£2.269m)
- Special Projects (Economic Development) Fund (£0.883m)
- Capital Grants Unapplied (£1.935m)
- Budget Support Fund (£1.093m)
- Contingency Reserve Fund (£0.114m)
- Insurance Fund (£0.338m)
- New Initiatives Fund (£0.201m)

- ICT Development Fund (£0.800m)
- Renewal and Repairs Fund (£0.096m)
- RENEW Reserve (£0.142m)
- Equipment Replacement Fund (£0.157m)
- Standards Fund (£0.95m)

7.2 Generally the level of reserves has reduced compared with their opening balances at the beginning of 2010/11.

7.3 The first three of the above reserves are fully committed to financing the current capital programme, whilst the majority of the balance on the Capital Grants Unapplied Reserve is either already committed to finance current schemes or is earmarked for future schemes. The ICT Development Fund is also committed to finance new or replacement ICT software and hardware.

7.4 The Organisational Development and Change Management Funds (with a combined opening balance £0.316m) have been fully used during 2010/11 and the Contingency Reserve balance has reduced from £0.540m to £0.114m. This is largely due to funding redundancy and actuarial strain pensions fund payments in relation to staff leaving the Council's employment as a result of restructurings following the budget service reviews. 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 2012/13. Some may require "topping up", either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund needs to be reviewed to ensure that it is adequate to maintain property assets in a fit state.

7.7 Unusable Reserves total £13.290m. These were established as a result of the need to enable various accounting transactions and are not available for use to meet expenditure, either revenue or capital.

8. **List of Appendices**

Appendix A - Statement of Accounts 2010/11 (Draft) **NOT INCLUDED IN THIS APPENDIX**
Appendix B - Financing of Capital Expenditure

APPENDIX B

STATEMENT
OF
ACCOUNTS
2010/11

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 2010/11. 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 2011.

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

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2011 and the requirements of the 2010/11 "Code of Practice on Local Authority Accounting" published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The format of the Statement of Accounts has changed fundamentally from that of recent years. This is because International Financial Reporting Standards (IFRS) became applicable to the compilation and publication of local authority accounts with effect from the financial year 2010/11 and the 2010/11 Code has been re-written to reflect the consequent changes, which are considerable. The purpose of adopting IFRS is that financial statements produced anywhere in the world, based on IFRS principles, will be directly comparable. IFRS is also the standard already used in the compilation of the government's own accounts and by public bodies such as the National Health Service and those of most commercial organisations in this country.

One immediately noticeable effect arising from the change is that the length of the Statement has increased significantly, particularly since IFRS requires more extensive notes to the accounts. The primary statements are now the Statement of Movement in Reserves, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

Because the adoption of IFRS has required many changes in accounting practices and to the format and contents of the Statement of Accounts, the comparative figures for the previous accounting period, 2009/10 and balances as at 31 March 2010, have been restated to conform to IFRS. This means that some figures and the Statements and Notes which contain them are not directly comparable to those shown in the published 2009/10 Statement of Accounts. Note 43 sets out the main areas where restatements have been made, summarising the nature of the changes and the ways in which the financial data has been amended.

Under the provisions of Section 15/16 of the Audit Commission Act 1998 and the Accounts and Audit Regulations 2011, the accounts were made available for inspection between 4 July and 29 July 2011, as advertised in the local press.

The accounts were approved by the Audit and Risk Committee on 26 September 2011 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 2010/11 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 have been re-issued by the relevant bodies to conform to IFRS requirements. There have been no changes in accounting policies other than those arising from the adoption of IFRS.

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 2010/11 and its financial prospects for future years.

The Borough Council's Accounts for the year 2010/11 are set out in the following pages and consist of the following: -

<u>Page</u>

Statement of Responsibilities	–	Setting out the Council and Executive Director – Resources and Support Services responsibilities in relation to financial administration and accounting.
Movement in Reserves Statement	–	Showing movements in reserves split between usable and unusable reserves. The Statement also reconciles the outturn on the Comprehensive Income and Expenditure Statement to the General Fund Balance established by the relevant statutory provisions that specify the net expenditure the Council needs to take into account when setting local taxes.
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.
Balance Sheet	–	Which sets out the financial position of the Council on the 31 March 2011. 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.
Cash Flow Statement	–	Summarising the total cash movement of the Council's transactions.
Notes to the Accounts	–	To provide explanation and analysis of items contained in the above accounting statements.
	–	Note 1 sets out the accounting policies which have been employed in compiling the Council's accounts.
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.
Audit Opinion	–	The External Auditor's opinion on the Accounts.

(e) Accountability/Financial Reporting

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

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

(f) Economic Downturn and Public Expenditure Reductions

The current recession affecting the British economy has continued to have an adverse effect upon the Council's finances, in common with other local authorities. In particular this 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. Income in relation to the last two of these was also affected by improvement and repair work being carried out to two major properties, Lancaster Buildings and the Midway multi-storey car park. Interest rates continue to be at extremely low levels with a consequent effect on investment income, which is much reduced compared to that of a few years ago. 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.

The continuing poor state of the nation's finances, resulting in the need to achieve significant reductions in public expenditure, led the government to cease payment of a number of specific revenue grants. These were in relation to the Local Authority Business Growth Incentive (LABGI), part of the Area Based Grant and Planning Delivery Grant. Altogether the value of the grants lost amounted to some £295,000.

(g) General Fund Revenue Budget Outturn

The outturn position in relation to the General Fund Revenue Budget was an adverse variance of £87,019, i.e the net budget was £17.867m and the outturn was £17.954m.

This was in line with budget monitoring predictions of a final outturn close to the original budget for the year. The difficult operational conditions arising from the factors outlined in the previous paragraph meant that 2010/11 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.

As a proportion of the budget the deficit represents a little under 0.5%.

The deficit was met by a transfer from the Budget Support Fund.

(h) Financial Summary 2010/11

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?

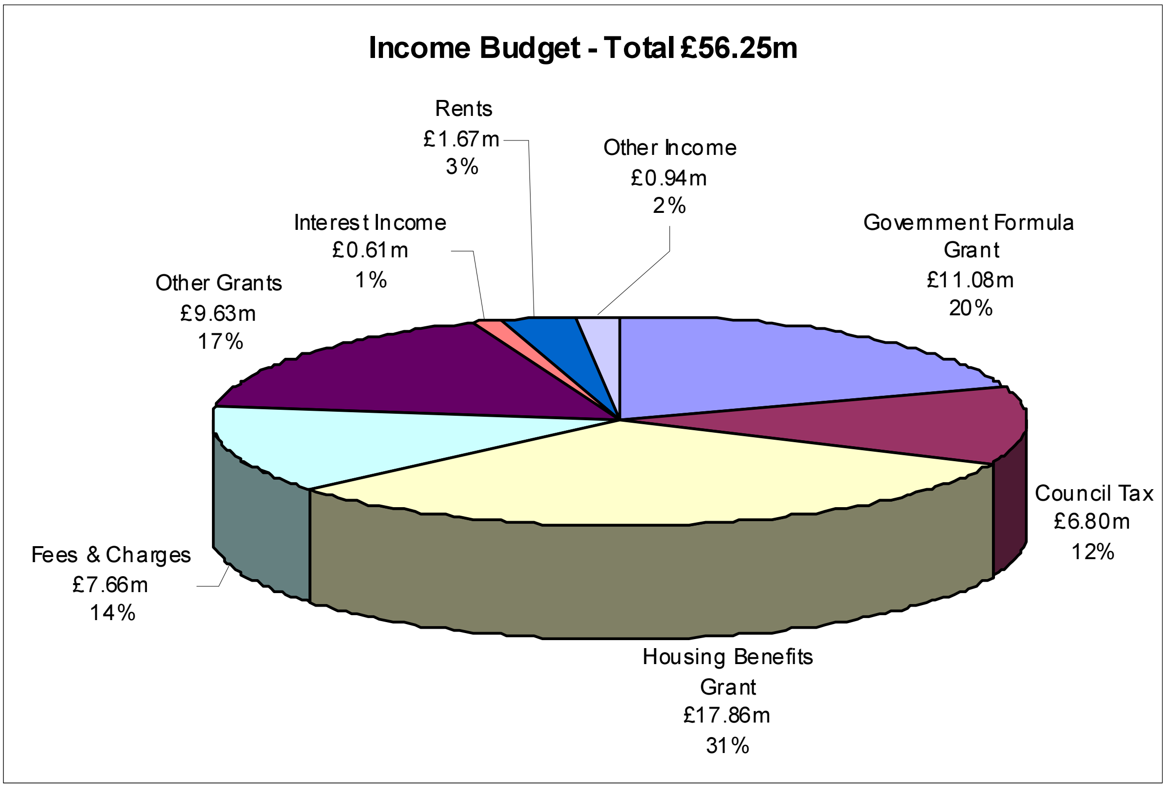
Local authorities receive income from the Government in the form of grants, from households in the form of Council Tax and from consumers in respect of fees and charges.

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 2010/11, the Borough Council received a formula grant allocation of £11.079m.

Local residents pay Council Tax. This is a property based charge and the amount payable depends on the value band that the property is placed into by the Valuation Office.

Owners of businesses and properties pay the National Non-Domestic Rate (NNDR) set by Central Government, again based on values set by the Valuation Office. These "business rates" are collected by the Borough Council and paid over to the Government, who then redistribute the national pool to each local authority as part of their total formula grant income.

The gross income to pay for its services which was included in the Borough Council's Revenue Budget for 2010/11 was £56.25m, made up as follows:-



What we planned to spend

The Council set an original Net Revenue Budget for 2010/11 of £17.867m on 24 February 2010.

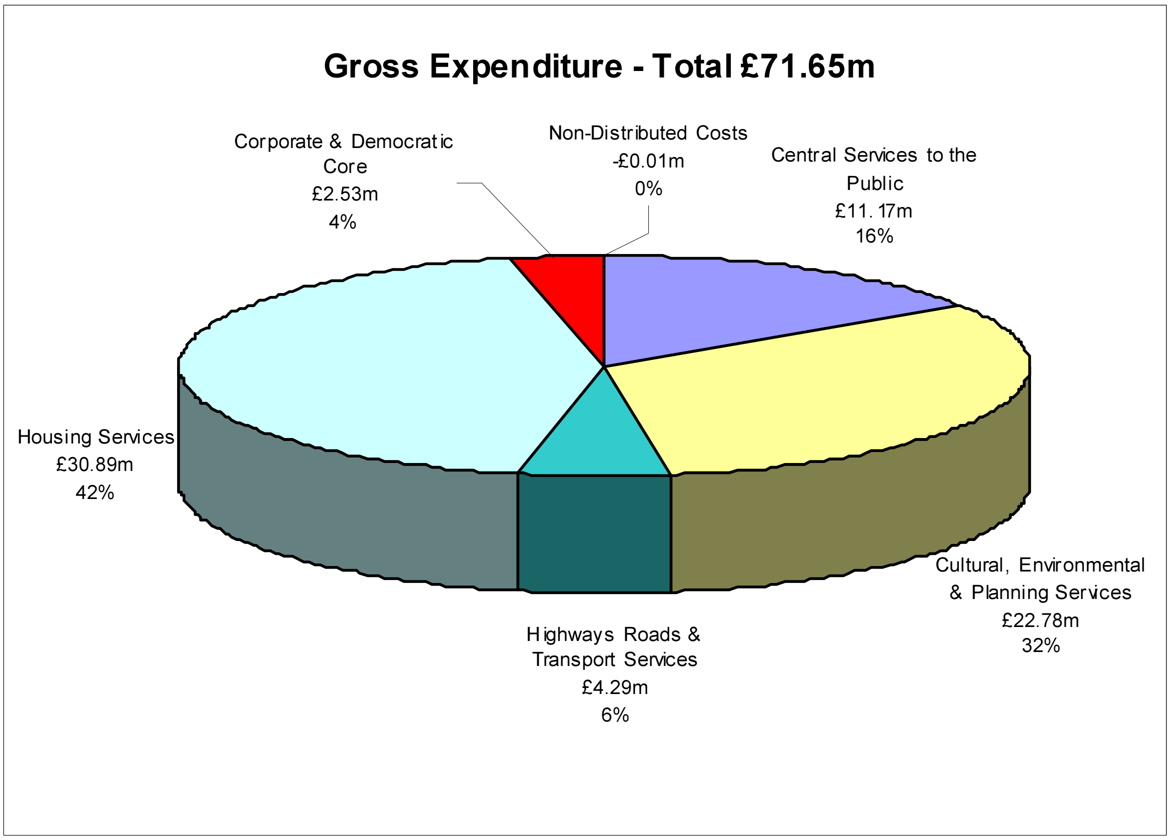
What we actually spent

Actual net expenditure was £17.954m. As mentioned earlier, this represents an adverse variance compared to the original budget of some £87,000.

This amount has been transferred from the Budget Support Fund. The balance on the Fund, as at 31 March 2010 is £1.093m, as against its balance at 1 April 2010, which was £1.628m. In addition to the transfer from the Fund of £87,000 some £0.020m was transferred to it to meet 2010/11 commitments carried forward. £0.468m of the Fund was also used, to provide general support for the budget in accordance with the approved budget for 2010/11.

How the money was spent

The Comprehensive Income and Expenditure Statement (page) summarises the resources that have been generated and consumed in providing services and managing the Council during 2010/11. It shows that Gross Expenditure for the year was £71.65m across defined service areas prescribed by CIPFA to facilitate comparison between councils.



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

Capital Expenditure

Capital expenditure includes expenditure such as the acquisition, construction, repair and maintenance of fixed assets.

Notes 12, 13, 14 and 34 to the accounts show the Council's capital spending for 2010/11 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 2011.

There are a number of sources of funds which may be available to finance the Council's capital expenditure.

In 2010/11 and previous years the major source of finance has been unapplied capital receipts. These have arisen from sales of land, property and the sale of its housing stock a number of years ago.

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

Some of the funds which the Council holds in reserves may be used to finance capital expenditure. Significant specific reserves which can be used for this purpose are the New Initiatives, Special Projects (Economic Development) 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) 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 2011/12 to 2015/16.

The original forecast shortfall for 2011/12 was £2.7m. On 23 February 2011 the Council set a balanced budget without any increase in council tax. This was mainly due to efficiency savings of £2.1m. The majority of these were identified through a review of the Council's services focussing on particular areas where it was felt savings could be achieved.

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

Work has taken place to meet the challenge posed by the consequential need for budget reductions, in particular the completion of a comprehensive review of all services to identify savings, to take effect in the 2011/12 and 2012/13 budgets. The Council has also instituted a Transformation Programme to effect improvements to working practices and to make optimum use of new technology, which should have a beneficial effect on its budgets through reducing overall costs.

Capital

The capital programme approved on 23 February 2011 provided for total capital spending of £21.639m 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 low levels, the Special Projects (Economic Development) Fund being exhausted whilst the remaining balance on the ICT Development

Fund is earmarked for funding ICT system replacement and enhancement rather than general capital investment. Resources will, therefore, be insufficient to support a future programme of capital investment of any significant size.

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

The Council has recognised the need to continually monitor and review its capital programme and resources. The "Capital Programme Review Group" which meets every month sets the overall Capital Strategy and Asset Management Plan 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) 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.

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 2011 is £1.75m. In addition the Budget Support Fund has been built up over recent years from such surpluses and is available for supporting future years' revenue budgets.

It can be seen from the details shown in Note 22 that the Organisational Development and Change Management Funds have been exhausted and the balance on the Contingency Reserve has reduced from £0.540m to £0.114m. This is due to meeting the costs of redundancy payments and actuarial strain payments to the Pension Fund in respect of staff affected by service restructuring and the abolition of some posts, following the implementation of the service review programme. The balance of the Contingency Reserve remains above the minimum level of £100,000 required by the Council's Balances and Reserves Strategy.

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 85% of the deposit, plus interest accrued to the date the bank went into liquidation, would be repaid. As at 31 March 2011 just over 50% of the amount deposited has been repaid and a further £156,863 (representing a little over 6%) has since been received in 2011/12.

(k) Assets and Liabilities Acquired

Land has been acquired for burial facilities at Audley. Apart from this there have been no significant assets or liabilities acquired.

(l) Pensions Scheme Liability

The Liability relating to Defined Benefit Pension Schemes decreased from £68.703m to £46.698m. This decrease is mirrored by a decrease in the Pensions Reserve balance. These amounts are required to be included in the Borough Council's accounts as a result of the application of International Accounting Standard19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy.

(m) Audit of the Accounts

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

Tony Corcoran
District Auditor, Audit Commission
Opus House
Priestley Court
Stafford Technology Park
Beaconside
Stafford
ST18 0LQ

(n) Further Information

Further information about the Accounts is available from:

Kelvin Turner
Executive Director - Resources and Support Services
Civic Offices
Merrial Street
Newcastle,
Staffs ST5 2AG

A Summary Financial Statement for 2010/11 is also available, being included in the Council's Annual Report which can be accessed via the Council's website: www.newcastle-staffs.gov.uk.

(o) Comments

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

Kelvin Turner

Executive Director - Resources and Support Services

(p) Approval of Statement of Accounts

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

The Statement of Accounts was approved at a meeting of the Audit and Risk Committee on 26 September 2011

Signed: (Chair of the Audit and Risk Committee) Dated: 26 September 2011

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 2011.

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 2011 and its income and expenditure for the year ended 31 March 2011.

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 2009 Carried Forward	(1,750)	(12,873)	(17,810)	(1,456)	(33,889)	(11,597)	(45,486)
Movement in Reserves during 2009/10					-		-
Surplus or (Deficit) on Provision of Services	7,298				7,298		7,298
Other Comprehensive Income & Expenditure					-	26,164	26,164
Total Comprehensive Income & Expenditure	**7,298**	**-**	**-**	**-**	**7,298**	**26,164**	**33,462**
Adjustments between accounting basis and funding basis (Note 7)	(5,540)		6,298	(254)	504	(504)	-
Net Increase/Decrease before transfers to Earmarked Reserves	1,758	-	6,298	(254)	7,802	25,660	33,462
Transfers to/from Earmarked Reserves (Note 8)	(1,758)	3,688			1,930	(1,930)	-
Increase/Decrease in Year	**-**	**3,688**	**6,298**	**(254)**	**9,732**	**23,730**	**33,462**
Balance at 31 March 2010 Carried Forward	(1,750)	(9,185)	(11,512)	(1,710)	(24,157)	12,133	(12,024)

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2010 Carried Forward	(1,750)	(9,185)	(11,512)	(1,710)	(24,157)	12,133	(12,024)
Movement in Reserves during 2010/11					-		-
Surplus or (Deficit) on Provision of Services	(5,446)				(5,446)		(5,446)
Other Comprehensive Income & Expenditure					-	(12,162)	(12,162)
Total Comprehensive Income & Expenditure	**(5,446)**	**-**	**-**	**-**	**(5,446)**	**(12,162)**	**(17,608)**
Adjustments between accounting basis and funding basis (Note 7)	7,530		5,526	(224)	12,832	(12,832)	-
Net Increase/Decrease before transfers to Earmarked Reserves	2,084	-	5,526	(224)	7,386	(24,994)	(17,608)
Transfers to/from Earmarked Reserves (Note 8)	(2,084)	2,513			429	(429)	-
Increase/Decrease in Year	**-**	**2,513**	**5,526**	**(224)**	**7,815**	**(25,423)**	**(17,608)**
Balance at 31 March 2011 Carried Forward	(1,750)	(6,672)	(5,986)	(1,934)	(16,342)	(13,290)	(29,632)

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.

2009/10 Gross Expenditure	2009/10 Gross Income	2009/10 Net Expenditure		2010/11 Gross Expenditure	2010/11 Gross Income	2010/11 Net Expenditure
£000	£000	£000		£000	£000	£000
10,950	9,562	1,388	Central Services to the Public	11,174	9,674	1,500
22,972	5,299	17,673	Cultural, Environmental, Regulatory & Planning Services	22,769	5,439	17,330
2,864	1,575	1,289	Highways & Transport Services	4,295	1,565	2,730
28,239	26,553	1,686	Housing Services	30,895	28,058	2,837
2,530	56	2,474	Corporate & Democratic Core	2,531	14	2,517
676	-	676	Non-Distributed Costs	58	-	58
-	-	-	Past Service Gains - change from RPI to CPI for pensions increases (Note 5)	(13,420)	-	(13,420)
68,231	**43,045**	**25,186**	**Cost of Services**	**58,302**	**44,750**	**13,552**
459	652	(193)	Other Operating Expenditure (Note 9)	1,479	1,638	(160)
5,183	2,376	2,807	Financing & Investment Income & Expenditure (Note 10)	7,827	7,268	559
-	20,502	(20,502)	Taxation and non-specific Grant Income (Note 11)		19,397	(19,397)
		7,298	**(Surplus) or Deficit on Provision of Services**			**(5,446)**
		(861)	Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets			(2,552)
		27,025	Actuarial Gains/Losses on Pensions Assets/Liabilities			(9,610)
		26,164	**Other Comprehensive Income & Expenditure**			**(12,162)**
		33,462	**Total Comprehensive Income & Expenditure**			**(17,608)**

Balance Sheet

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

Balance Sheet

01/04/2009 £000	31/03/2010 £000		Notes	31/03/2011 £000	31/03/2011 £000
		Property, Plant & Equipment	12		
22,036	23,800	Land & Buildings		26,227	
1,111	1,082	Infrastructure		1,053	
4,040	6,594	Vehicles, Plant, & Equipment		6,568	
5,237	5,701	Community Assets		7,085	40,933
32,424	37,177				
12,934	13,534	Investment Property	13		13,053
80	79	Intangible Assets	14		187
4,000	4,000	Assets Held for Sale	19		4,100
5,164	676	Long Term Investments	15		336
2,269	2,120	Long Term Debtors			1,971
56,871	**57,586**	**Long Term Assets**			**60,580**
31,107	24,051	Short Term Investments	15		18,237
41	45	Inventories	16		36
7,925	10,507	Short Term Debtors (Net of Bad Debt Provisions)	17		9,423
878	356	Cash and Cash Equivalents	18		774
39,951	**34,959**	**Current Assets**			**28,470**
(8,481)	(9,132)	Short Term Creditors	20		(10,918)
(92)	(54)	Short Term Borrowing	15		(65)
(1,101)	(376)	Deposits			(237)
-	-	Bank Overdrafts			-
(9,674)	**(9,562)**	**Current Liabilities**			**(11,220)**
(563)	(514)	Provisions	21		(317)
		Other Long Term Liabilities			
(40,157)	(68,703)	Net Pensions Liability		(46,698)	
(560)	(1,023)	Deferred Liabilities		(1,009)	(47,707)
(40,717)	(69,726)				
(382)	(719)	Capital Grants Receipts in Advance	32		(174)
(41,662)	**(70,959)**	**Long Term Liabilities**			**(48,198)**
45,486	**12,024**	**Net Assets**			**29,632**
		Usable Reserves	22		
1,750	1,750	General Fund Balance		1,750	
12,873	9,185	Other Usable Reserves		6,672	
17,810	11,512	Capital Receipts Reserve		5,986	
1,456	1,710	Capital Grants Unapplied Account		1,934	
33,889	24,157	Total Usable Reserves			16,342
		Unusable Reserves	23		
6,442	6,918	Revaluation Reserve		9,470	
43,608	47,993	Capital Adjustment Account		48,908	
1,991	1,871	Deferred Capital Receipts Reserve		1,753	
(40,157)	(68,703)	Pensions Reserve		(46,698)	
(25)	(3)	Collection Fund Adjustment Account		49	
(262)	(209)	Accumulated Absences Account		(192)	
11,597	(12,133)	Total Unusable Reserves			13,290
45,486	**12,024**	**Total Reserves**			**29,632**

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.

2009/10 £000		2010/11 £000	Note
7,298	Net (Surplus) or Deficit on the Provision of Services	(5,446)	
(7,715)	Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash movements	(527)	19
1,048	Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	1,920	19
631	Net Cash Flows from Operating Activities	(4,053)	24
(6,246)	Investing Activities	(597)	25
6,138	Financing Activities	4,232	26
523	Net Increase or Decrease in Cash and Cash Equivalents	(418)	
(879)	Cash and Cash Equivalents at the beginning of the Reporting Period	(356)	
(356)	**Cash and Cash Equivalents at the end of the Reporting Period**	**(774)**	18

Notes to the Accounts

1. Accounting Policies

(i) General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, 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 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

(ii) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

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

(iii) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with the Council's own bank which are repayable without penalty on notice of not more than 24 hours.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

(iv) Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance. See Note 5 for details of any exceptional items.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

(vi) Charges to Revenue for Non-Current Assets

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

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

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

(vii) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements or other form of leave, e.g. time off in lieu earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

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

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

- The liabilities of the Staffordshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bonds, specifically the iBoxx Sterling Corporates AA over 15 years index with recently re-rated bonds removed).
- The assets of Staffordshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
  - contributions paid to the Staffordshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

(viii) Events After the Balance Sheet Date

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

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

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

(ix) Financial Instruments

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

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

Short Term Investments

Short term investments include:

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

Available-for-Sale Assets

The only available-for-sale assets are a small amount of government stock. Interest payments are fixed in amount, therefore, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Available for sale assets are maintained in the Balance Sheet at fair value. Values are based on the market price

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

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Instruments Entered Into Before 1 April 2006

The Council has entered into a financial guarantee that is not required to be accounted for as a financial instrument. This guarantee is reflected in the Statement of Accounts to the extent that a contingent liability note 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, and
- the grants or contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as 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 (eg 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) Inventories

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

(xiv) 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 re-valued 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.

(xv) 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, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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 (eg 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 (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 (eg 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.

(xvi) 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 2010/11 (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.

(xvii) 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 (ie 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 (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in 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 (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie 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 (ie 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.

(xviii) 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 (eg 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 disclosed in a note 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 disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

(xix) 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.

(xx) 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.

(xxi) 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 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Authority, which will need to be adopted fully by the authority in the 2011/12 financial statements.

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Authority, in this case, heritage assets. As is set out above, full adoption of the standard will be required for the 2011/12 financial statements. However, the Council is required to make disclosure of the estimated effect of the new standard in these (2010/11) financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the Balance Sheet in the 2011/12 financial statements.

Heritage assets are assets that are held principally for their contribution to knowledge or culture. The heritage assets held by the authority are the collections of assets and artefacts either exhibited or stored in the museum.

These assets are currently valued at insurance value, as at 31 March 2007, with the valuation being deemed a proxy for historical cost and classified as community assets within Property, Plant and Equipment in the Balance Sheet.

The Code will require that heritage assets are measured at valuation in the 2011/12 financial statements (2010/11 comparative information). It is, therefore, intended in future to use the up to date insurance valuation each year to represent the value at which these assets are to be included in the balance sheet. It is not anticipated that this will result in a significantly different value to that already included in the balance sheet.

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 2011 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

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

5. Material Items of Income and Expense

Where items are not disclosed on the face of the Comprehensive Income and Expenditure Statement, the Accounting Code of Practice requires the nature and amount of material items to be set out in a note. The following material transactions occurred in 2010/11:

Investment properties disposed of gave rise to £1.254m in capital receipts, whilst the carrying value of these assets was £1.123m. These transactions are contained within the line "other operating expenditure" in the Comprehensive Income and Expenditure Statement. The amounts concerned were reversed out via the Movement in Reserves Statement so they have no overall effect.

The Defined Benefit Pension Scheme includes past service gains amounting to £13.420m in respect of the changes to pension increases introduced in the Chancellor's budget statement.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director - Resources and Support Services on 30 June 2011. 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 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2010/11	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of Items debited or credited to the Comprehensive Income & Expenditure Statement:				
Charges for the Depreciation and Impairment of Non-Current Assets	(5,313)			5,313
Revaluation Losses on Property, Plant & Equipment	(198)			198
Movements in the market value of Investment Properties	721			(721)
Amortisation of Intangible Assets	(63)			63
Capital Grants and Contributions applied	687			(687)
Revenue Expenditure Funded from Capital under Statute	(1,634)			1,634
Amounts of Non-Current Assets written-off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(1,123)			1,123
Value of Donated Assets	100			(100)
Capital element of Finance Leases where Council is the lessor	(117)			117
Non Depreciated element of asset disposals	(39)			39
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment	125			(125)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement	484		(484)	
Application of Grants to capital financing transferred to the Capital Adjustment Account			121	(121)
Grant brought forward transferred to Revenue (re REFCUS)	(139)		139	

(continued on next page)

2010/11	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	1,575	(1,575)		
Use of the Capital Receipts Reserve to finance new capital expenditure		7,129		(7,129)
Contribution from the Capital Receipts Reserve to finance the payments to the government capital receipts pool	(1)	1		
Principal Repayments re Long Term Debtor (Loan)		(29)		29
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	12,395			(12,395)
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	53			(53)
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	17			(17)
Total Adjustments	**7,530**	**5,526**	**(224)**	**(12,832)**

2009/10	Usable Reserves			
	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	(5,391)			5,391
Revaluation Losses on Property, Plant & Equipment	(105)			105
Movements in the market value of Investment Properties	(214)			214
Amortisation of Intangible Assets	(80)			80
Capital Grants and Contributions applied	1,185			(1,185)
Revenue Expenditure Funded from Capital under Statute	(734)			734
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	(162)			162
Capital element of Finance Leases where Council is the lessor	(117)			117
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement	396		(396)	
Application of Grants to capital financing transferred to the Capital Adjustment Account			142	(142)
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	652	(652)		
Use of the Capital Receipts Reserve to finance new capital expenditure		6,978		(6,978)
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				
Transfer from Deferred Capital receipts Reserve upon receipt of cash				
Principal Repayments re Long Term Debtor (Loan)		(29)		29

(continued on next page)

2009/10	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£000	£000	£000	£000
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:				
Statutory provision for the financing of capital investment	477			(477)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(1,521)			1,521
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	22			(22)
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	53			(53)
Total Adjustments	**(5,540)**	**6,298**	**(254)**	**(504)**

8. Transfers to/from Earmarked Reserves

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

		Transfers Out 2010/11	Transfers In 2010/11	Net Movement 2010/11
		£000	£000	£000
Contingency Reserve Fund		(415)	-	(415)
Budget Support Fund		(599)	64	(535)
Conservation and Heritage Fund		(30)	39	9
ICT Development Fund		(77)	-	(77)
Equipment Replacement Fund		(54)	107	53
Insurance Fund		(446)	155	(291)
Museum Purchases Fund		(5)	2	(3)
Maintenance Contributions		(55)	-	(55)
Mayors Charities Reserve		(32)	27	(5)
New Initiatives Fund		(120)	-	(120)
Organisational Development Fund		(153)	-	(153)
RENEW Reserve		(28)	-	(28)
Renewals & Repairs Fund		(649)	445	(204)
Change Management Fund		(163)	-	(163)
Standards Fund		(2)	-	(2)
LABGI Reserve		-	-	-
Deposit Guarantee Scheme Reserve		(2)	4	2
Planning Delivery Grant Reserve		(235)	-	(235)
LSVT Capital Fund		-	138	138
Total	**-**	**(3,065)**	**981**	**(2,084)**

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.

9. Other Operating Expenditure

2009/10 £000		2010/11 £000
296	Parish Precepts	351
-	Levies	-
1	Payments to the government Housing Capital Receipts Pool	1
165	Gains/Losses on the disposal of Non-Current Assets	(89)
(655)	Capital income not arising from asset sales	(423)
(193)	**Total**	**(160)**

10. Financing and Investment Income and Expenditure

2009/10 £000		2010/11 £000
63	Interest Payable and similar charges	66
2,949	Pensions Interest Cost and Expected Return on Pensions Assets	1,834
(1,373)	Interest Receivable and similar income	(607)
1,168	Income and Expenditure in relation to Investment Properties and changes in their fair value	(734)
-	Other Investment Income	-
2,807	**Total**	**559**

11. Taxation and Non Specific Grant Income

2009/10 £000		2010/11 £000
(7,001)	Council Tax income	(7,191)
(8,840)	Non Domestic Rates	(9,674)
(2,832)	Non-Ringfenced Government Grants	(1,499)
(1,829)	Capital Grants and Contributions	(1,033)
(20,502)	**Total**	**(19,397)**

12. Property, Plant and Equipment

Movements on Balances

Movements in 2010/11	Land & Buildings	Infrastructure assets	Vehicles, Plant, Furniture & Equipment	Community Assets	Total Property , Plant & Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2010	25,308	1,339	12,290	5,950	44,887
Additions	4,802	34	1,345	559	6,740
Deletions					-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	1,142			1,135	2,277
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,289)	(33)	(238)	(152)	(3,712)
Derecognition - Disposals			(1,692)		(1,692)
Derecognition - Other					-
Assets reclassified (to)/from Held for Sale					-
Other Movements in Cost or Valuation				(42)	(42)
At 31 March 2011	**27,963**	**1,340**	**11,705**	**7,450**	**48,458**
Accumulated Depreciation & Impairment					
At 1 April 2010	(1,508)	(258)	(5,695)	(249)	(7,710)
Depreciation Charge	(470)	(29)	(1,094)	(116)	(1,709)
Depreciation written-out to the Revaluation reserve					-
Depreciation written-out to the surplus/deficit on the Provision of Services					-
Impairment losses/reversals recognised in the Revaluation Reserve					-
Impairment losses/reversals recognised in the surplus/deficit on the Provision of Services					-
Derecognition - Disposals			1,653		1,653
Derecognition - Other	241				241
Other movements in Depreciation/Impairment					-
At 31 March 2011	**(1,737)**	**(287)**	**(5,136)**	**(365)**	**(7,525)**
Net Book Value					
As at 31 March 2010	23,800	1,081	6,595	5,701	37,177
As at 31 March 2011	26,226	1,053	6,569	7,085	40,933

Movements in 2009/10	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 2009	23,013	1,339	8,612	5,391	38,355
Additions	3,605	17	4,151	608	8,381
Deletions					-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	314			6	320
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,593)	(17)	(202)	(55)	(1,867)
Derecognition - Disposals	(31)		(327)		(358)
Derecognition - Other					-
Assets reclassified (to)/from Held for Sale					-
Other Movements in Cost or Valuation			56		56
At 31 March 2010	**25,308**	**1,339**	**12,290**	**5,950**	**44,887**
Accumulated Depreciation & Impairment					
At 1 April 2009	(977)	(229)	(4,571)	(154)	(5,931)
Depreciation Charge	(599)	(29)	(1,325)	(95)	(2,048)
Depreciation written-out to the Revaluation reserve					-
Depreciation written-out to the surplus/deficit on the Provision of Services					-
Impairment losses/reversals recognised in the Revaluation Reserve					-
Impairment losses/reversals recognised in the surplus/deficit on the Provision of Services					-
Derecognition - Disposals	9		201		210
Derecognition - Other	59				59
Other movements in Depreciation/Impairment					-
At 31 March 2010	**(1,508)**	**(258)**	**(5,695)**	**(249)**	**(7,710)**
Net Book Value					
As at 31 March 2009	22,036	1,110	4,041	5,237	32,424
As at 31 March 2010	23,800	1,081	6,595	5,701	37,177
As at 31 March 2010	23,800	1,081	6,595	5,701	37,177

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 2011, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £5.596m. Similar commitments at 31 March 2010 were £0.501m. The major commitments are:

- Jubilee 2 project - £5.213m
- Ecohomes Phase 2/Solar Panels - £0.120m
- Midway Multi-storey car park repairs - £0.544m
- Audley Burial facilities - £0.032m

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, and equipment are based on historic cost.

The significant assumptions applied in estimating the fair values are:

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

Valuations over the five year rolling period were as follows:

	Land & Buildings	Vehicles, plant, Furniture & Equipment	Community Assets	Infrastructure Assets	Total
	£000	£000	£000	£000	£000
Carried at Historical Cost	9	9,626	6,316	1,340	17,291
Valued at Fair Value as at:					-
31 March 2007	5,520	486			6,006
31 March 2008	664				664
31 March 2009	10,094				10,094
31 March 2010	3,439				3,439
31 March 2011	8,237	1,593	1,134		10,964
Total Cost or Valuation	**27,963**	**11,705**	**7,450**	**1,340**	**48,458**

13. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2009/10 £000		2010/11 £000
1,285	Rental Income from Investment Property	906
(486)	Direct Operating Expenses arising from Investment Property	(606)
799	**Net Gain/(Loss)**	**300**

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:

2009/10 £000		2010/11 £000
12,934	Balance at start of the Year	13,534
	Additions:	
-	Purchases	
-	Construction	
2,078	Subsequent Expenditure	208
(15)	Disposals	(1,123)
(1,463)	Net Gains/(Losses) from Fair Value Adjustments	513
	Transfers:	
-	To/(From) Inventories	
-	To/(From) Property, Plant & Equipment	
- -	Other Changes	(79)
13,534	**Balance at end of the Year**	**13,053**

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 £x charged to revenue in 2010/11 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:

2009/10 £000		2010/11 £000
	Balance at start of Year:	
1,197	Gross Carrying Amounts	1,276
1,117	Accumulated Amortisation	1,197
80	Net Carrying Amount at start of Year	79
79	Additions	170
-	Disposals	
(80)	Amortisation for the period	(63)
-	Other Changes	
79	Net Carrying Amount at end of the Year	186
	Comprising:	
1,276	Gross Carrying Amounts	1,446
(1,197)	Accumulated Amortisation	(1,260)
79		**186**

15. Financial Instruments

Categories of Financial Instruments

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

01 April 2009		31 March 2010			31 March 2011	
Long Term	Current	Long Term	Current		Long Term	Current
£000	£000	£000	£000		£000	£000
				Investments		
5,160	31,107	672	24,051	Loans and Receivables	336	18,237
4	-	4	-	Available for Sale Financial Assets	-	-
5,164	31,107	676	24,051	**Total Investments**	336	18,237
	8,230		10,781	**Debtors ***	-	9,665
	92		54	**Borrowings**	-	65
	8,481		9,132	**Creditors**	-	10,918
	878		356	**Cash and Cash Equivalents**		774

* Debtors includes Long Term Debtors of £242k (31/03/11), £274k (31/03/10), £305k (01/04/09)

Income, Expense, Gains and Losses:

Financial Liabilities measured at Amortised Cost	Financial assets: Loans & Receivables	Financial Assets: Available for Sale	Total		Financial Liabilities measured at Amortised Cost	Financial assets: Loans & Receivables	Financial Assets: Available for Sale	Total
£000	£000	£000	£000		£000	£000	£000	£000
7	-	-	7	Interest Expense included in Surplus or Deficit on the Provision of Services	1			1
7	-	-	7	Total expense in Surplus or deficit on the Provision of	1	-	-	1
-	(812)	-	(812)	Interest Income	-	(262)		(262)
-	(90)	-	(90)	Interest Income Accrued on Impaired Financial Assets	-	(62)		(62)
-	(902)	-	(902)	Total income in Surplus or deficit on the Provision of	-	(324)	-	(324)
7	(902)	-	(895)	Net Gain (Loss) for the Year	1	(324)	-	(323)

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:

01 April 2009		31 March 2010			31 March 2011	
Carrying Amount	Fair Value	Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000	£000	£000		£000	£000
				Liabilities		
92	92	54	54	Financial Liabilities	65	65
8,481	8,481	9,132	9,132	Creditors	10,918	10,918
				Assets		
36,271	36,271	24,727	24,727	Loans and Receivables	18,573	18,573
8,230	8,230	10,781	10,781	Debtors *	9,665	9,665
878	878	356	356	Cash and Cash Equivalents	774	774

* Debtors includes Long Term Debtors of £242k (31/03/11), £274k (31/03/10), £305k (01/04/09)

16. Inventories

2009/10				2010/11		
Fuel	ICT Consumables	Total		Fuel	ICT Consumables	Total
£000	£000	£000		£000	£000	£000
23	18	41	**Balance Outstanding at start of Year**	27	18	45
339	66	405	Purchases	397	34	431
(332)	(58)	(390)	Recognised as an expense in the Year	(379)	(36)	(415)
(3)	(8)	(11)	Written-off Balances	(13)	(12)	(25)
27	**18**	**45**	**Balance Outstanding at Year end**	**32**	**4**	**36**

17. Debtors

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
870	5,102	Central Government Bodies	3,527
2,352	1,588	Other Local Authorities	1,230
6	4	NHS Bodies	3
-	-	Public Corporations and Trading Funds	-
4,697	3,813	Other Entities and Individuals	4,662
7,925	**10,507**	**Total**	**9,423**

18. Cash and Cash Equivalents

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

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
120	100	Cash held by the Council	97
758	256	Bank Current Accounts	677
878	**356**	**Total**	**774**

19. Cash Flow Statement - Analysis of Adjustments

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

2009/10 £000		2010/11 £000
635	Increase/(Decrease) In Creditors	(2,748)
725	Decrease in Deposits	140
(2,878)	Decrease in Debtors	(5,157)
4	Increase/(Decrease) in Stocks	(9)
49	Decrease in Provisions	197
(5,391)	Charges for the Depreciation and Impairment of Non-Current Assets	(5,313)
(105)	Revaluation Losses on Property, Plant & Equipment	(198)
(214)	Movements in the market value of Investment Properties	721
(80)	Amortisation of Intangible Assets	(63)
-	Value of Donated Assets	100
1,185	Capital Grants and Contributions applied	687
(117)	Capital element of Finance Leases where Council is the lessor	(117)
-	Non Depreciated element of asset disposals	(39)
(1,521)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	12,395
(162)	Amounts of Non-Current Assets written-off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(1,123)
155	Impairment of Investment	-
(7,715)		**(527)**

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

2009/10 £000		2010/11 £000
396	Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement	484
-	Grant brought forward transferred to Revenue (re REFCUS)	(139)
652	Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	1,575
1,048		**1,920**

20. Creditors

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
2,978	774	Central Government Bodies	3,504
1,332	1,294	Other Local Authorities	884
4	5	NHS Bodies	1
-	1,320	Public Corporations and Trading Funds	1,320
4,167	5,739	Other Entities and Individuals	5,209
8,481	**9,132**	**Total**	**10,918**

21. Provisions

	Insurance Claims Provision £000	Planning Appeals Provision £000	Employee Benefits £000	Total £000
Balance at 1 April 2009	276	25	262	563
Additional provisions made in 2009/10	20	-	209	229
Amounts used in 2009/10	(16)	-	(262)	(278)
Unused amounts reversed in 2009/10	-	-	-	-
Balance at 1 April 2010	280	25	209	514
Additional provisions made in 2010/11	-	-	192	192
Amounts used in 2010/11	(33)	-	(209)	(242)
Unused amounts reversed in 2010/11	(127)	(20)	-	(147)
Balance at 31 March 2011	**120**	**5**	**192**	**317**

The Insurance Claims Provision has been created to meet the costs of claims which are likely to be settled but where the actual settlement date is uncertain.

The Planning Appeals Provision has been created to meet the costs of planning appeals where it is likely that a payment will have to be made but where the timing of the payment is uncertain.

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.

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 2009	Transfers Out 2009/10	Transfers In 2009/10	Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
Capital:							
Capital Receipts Reserve	17,810	(6,982)	684	11,512	(7,133)	1,606	5,985
LSVT Capital Fund	2,131	-	-	2,131	-	138	2,269
Special Projects (Economic Development) Fund	883	-	-	883	-	-	883
Capital Grants Unapplied	1,456	(390)	644	1,710	(405)	630	1,935
Both Revenue and Capital:							
Equipment Replacement Fund	511	(490)	123	144	(94)	107	157
Renewals & Repairs Fund	269	(814)	845	300	(649)	445	96
ICT Development Fund	1,492	(237)	-	1,255	(455)	-	800
New Initiatives Fund	767	(446)	-	321	(120)	-	201
LABGI Reserve	1,130	(1,130)	-	-	-	-	-
Planning Delivery Grant Reserve	-	(252)	682	430	(235)	-	195
Revenue:							
General Fund Balance	1,750	-	-	1,750	-	-	1,750
Insurance Fund	966	(419)	82	629	(446)	155	338
Contingency Reserve Fund	1,074	(534)	-	540	(426)	-	114
Organisational Development Fund	336	(183)	-	153	(153)	-	-
Budget Support Fund	2,407	(785)	6	1,628	(599)	64	1,093
Conservation and Heritage Fund	66	(22)	-	44	(30)	39	53
Museum Purchases Fund	87	(6)	1	82	(5)	2	79
Maintenance Contributions	205	(125)	100	180	(55)	-	125
Mayors Charities Reserve	18	(21)	19	16	(32)	27	11
RENEW Reserve	250	(80)	-	170	(28)	-	142
Change Management Fund	163	-	-	163	(163)	-	-
Standards Fund	100	(3)	-	97	(2)	-	95
Deposit Guarantee Scheme Reserve	18	(3)	4	19	(2)	4	21
Total	**33,889**	**(12,922)**	**3,190**	**24,157**	**(11,032)**	**3,217**	**16,342**

Note 8 sets out the movements on Usable Reserves involving transactions with the General Fund Revenue Account.

The nature and purpose of these reserves is as set out below:

Usable Capital Receipts contains the balance of unapplied capital receipts arising from the disposal of fixed assets.

The LSVT Capital Fund was originally established to receive the principal element of the internal leasing charges made by the ICT Leasing Fund to service revenue accounts. The Fund is available to finance capital expenditure.

The Special Projects (Economic Development) Fund comprised monies originally provided from Revenue. Its intended purpose is to finance capital expenditure.

The Capital Grants Unapplied Reserve contains the balance of unused grants and contributions which are available for use, i.e. they either have no conditions attached to them or any conditions have been met.

The Equipment Replacement Fund is maintained to provide for the replacement of certain items of equipment, such as the crematorium cremators and printing equipment.

The ICT Development Fund is to be used to meet the costs of new IT requirements.

The New Initiatives Fund has been established to fund new initiatives, both capital and revenue, not currently provided for in the Council's budgets.

The Housing and Planning Delivery Grant Reserve receives the grant paid to the Council. It is to be used to finance planning related activities of both a revenue and capital nature.

The Insurance Fund is used to meet the cost of the insurance cover required by the Council and any excesses for which the Council is liable.

The Contingency Reserve Fund is used to finance expenditure in respect of contingencies that may arise in the future, for example redundancy payments consequent upon service reviews.

The Renewals and Repairs Fund is maintained for the repair and maintenance of Council-owned buildings, structures and fixed plant. It is funded through a contribution from the General Fund revenue account, based on the estimated frequency and amount of future expenditure on repairs and maintenance for each building or structure, or item of fixed plant.

The Organisational Development Fund was used to meet costs arising from the implementation of the Single Status arrangements for employees and other organisational developments

The Budget Support Fund has been created by crediting to it surpluses arising on the General Fund Revenue Account. It is to be used to support the revenue budget. It is also used to enable budget provision to be carried forward to future years by appropriating to it unspent balances where a commitment exists.

The Conservation and Heritage Fund exists to provide grants to the owners of buildings of historical significance to enable them to be maintained in a state of good repair.

The Museum Purchases Fund was established by a small bequest which has been added to by contributions from revenue account and proceeds from the sale of exhibits surplus to requirements. It is to be used to purchase exhibits for the museum and to conserve and enhance the display of existing exhibits.

Maintenance Contributions are received from developers of housing and other schemes and are to be used to fund the maintenance of open spaces taken over from those developers.

The Mayors Charities Reserve represents the balance on the Mayors Charities activity.

The RENEW Reserve is to be used to meet revenue costs arising from the Council's participation in the Housing Market Renewal Pathfinder for North Staffordshire (RENEW).

The Change Management Fund was used to support the Council's change management programme.

The Standards Fund is used to ensure that the Council meets its responsibilities under the Ethical and other standards frameworks

The Deposit Guarantee Reserve has been created to hold the unspent balances relating to the Guarantee Scheme for landlord deposits in respect of homeless persons.

23. Unusable Reserves

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

	Balance at 1 April 2009	Transfers Out 2009/10	Transfers In 2009/10	Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
Capital:							
Revaluation Reserve	6,442	(389)	865	6,918	-	2,552	9,470
Capital Adjustment Account	43,608	(7,148)	11,533	47,993	(9,330)	10,245	48,908
Deferred Capital Receipts Reserve	1,990	(119)	-	1,871	(118)	-	1,753
Revenue:							
Pensions Reserve	(40,157)	(28,546)	-	(68,703)	-	22,005	(46,698)
Collection Fund Adjustment Account	(25)	-	22	(3)	-	52	49
Accumulated Absences Account	(262)	(209)	262	(209)	(192)	209	(192)
Total	**11,596**	**(36,411)**	**12,682**	**(12,133)**	**(9,640)**	**35,063**	**13,290**

The nature and purpose of these reserves is as set out below:

The Revaluation Reserve records the accumulated gains on the fixed assets held by the Council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). It is also debited with amounts equal to the part of depreciation charges on assets that has been incurred only because the asset has been revalued. On disposal, the Revaluation Reserve balance for the asset disposed of is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the current value of fixed assets carried in the balance sheet is greater because they are carried at revalued amounts rather than depreciated historical cost. It was established with a nil balance on 1 April 2007.

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

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

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg 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:

2009/10 £000		2010/11 £000
(805)	Interest Received	(282)
59	Interest Paid	64

25. Cash Flow Statement - Investing Activities

The cash flows for investing activities include the following items:

2009/10 £000		2010/11 £000
8,213	Purchase of property, plant and equipment, investment property and intangible assets	7,694
101,182	Purchase of short and long term investments	46,900
(784)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,522)
(113,039)	Proceeds from short and long term investments	(53,084)
(1,818)	Other receipts from investing activities	(585)
(6,246)	**Net Cash Flows from Investing Activities**	**(597)**

26. Cash Flow Statement - Financing Activities

The cash flows for financing activities include the following items:

2009/10 £000		2010/11 £000
(6,000)	Cash receipts of short and long term borrowing	(10)
477	Cash payments for the reduction of the outstanding liabilities relating to finance leases	125
6,037	Repayments of short- and long-term borrowing	-
5,624	Other payments for financing activities	4,117
6,138	**Net Cash Flows from Financing Activities**	**4,232**

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 2010/11	Chief Executive	Resources & Support Services ***	Operational Services	Regeneration & Development	Corporate Items	Total
	£000	£000	£000	£000	£000	£000
Fees, Charges and other service income	(1,041)		(3,921)	(4,127)	(908)	(9,997)
Government Grants	(12)		(30)	(1,519)	(35,294)	(36,855)
Total Income	**(1,053)**	**-**	**(3,951)**	**(5,646)**	**(36,202)**	**(46,852)**
Employee Expenses	565		3,218	931	27	4,741
Other Service Expenses	1,250		8,123	1,806	36,728	47,907
Support Service Recharges	2,114		2,857	5,502	3,335	13,808
Total Expenditure	**3,929**	**-**	**14,198**	**8,239**	**40,090**	**66,456**
Net Expenditure	2,876	-	10,247	2,593	3,888	19,604

Directorate Income and Expenditure 2009/10 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	(618)		(3,561)	(4,169)	(846)	(9,194)
Government Grants	-		(167)	(1,359)	(33,828)	(35,354)
Total Income	**(618)**	**-**	**(3,728)**	**(5,528)**	**(34,674)**	**(44,548)**
Employee Expenses	156		3,062	928	1	4,147
Other Service Expenses	776		8,245	2,260	35,269	46,550
Support Service Recharges	1,678		2,091	5,714	3,065	12,548
Total Expenditure	**2,610**	**-**	**13,398**	**8,902**	**38,335**	**63,245**
Net Expenditure	1,992	-	9,670	3,374	3,661	18,697

*** All services under this Directorate 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.

2009/10 £000		2010/11 £000
18,697	Net Expenditure in the Directorate Analysis	19,604
-	Net Expenditure of Services and Support Services not included in the Analysis	
5,690	Amounts in the Comprehensive Income & Expenditure Statement not reported to management in the Analysis	(6,352)
799	Amounts included in the Analysis not included in Cost of Services in the Comprehensive Income & Expenditure Statement	300
25,186	**Cost of Services in Comprehensive Income & Expenditure Statement**	**13,552**

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.

2010/11	Directorate Analysis	Services & Support services not in Analysis	Amounts not reported to Management for decision making	Amounts not included in Comp Inc & Exp Acct	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges and other Service Income	(9,997)	(198)		942		(9,253)		(9,253)
Interest and Investment Income	-					-	(608)	(608)
Income from council tax	-					-	(7,191)	(7,191)
Government Grants and Contributions	(36,855)	(302)				(37,157)	(11,173)	(48,330)
Capital Income							(1,456)	(1,456)
Total Income	**(46,852)**	**(500)**	**-**	**942**	**-**	**(46,410)**	**(20,428)**	**(66,838)**
Employee Expenses	4,741	10,359		(3)		15,097		15,097
Other Service Expenses	47,907	2,742		(274)		50,375		50,375
Support Service Recharges	13,808			(365)	(13,536)	(93)		(93)
Depreciation, Amortisation and Impairment		935	7,010			7,945		7,945
Non-Distributed Costs			(13,361)			(13,361)		(13,361)
Interest payments						-	66	66
Precepts and Levies						-	351	351
Payments to Housing Capital Receipts Pool						-	1	1
Gain or Loss on disposal of fixed assets						-	(89)	(89)
Investment Properties (net)						-	(734)	(734)
Pensions Interest Cost/Return on Assets						-	1,834	1,834
Total Expenditure	**66,456**	**14,036**	**(6,351)**	**(642)**	**(13,536)**	**59,963**	**1,429**	**61,392**
Surplus or Deficit on the Provision of Services	**19,604**	**13,536**	**(6,351)**	**300**	**(13,536)**	**13,553**	**(18,999)**	**(5,446)**

2009/10 Comparative Figures	Directorate Analysis	Services & Support services in Analysis	Amounts not reported to Management for decision making	Amounts not included in Comp Inc & Exp Acct	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges and other Service Income	(9,194)	(322)		1,332		(8,184)		(8,184)
Interest and Investment Income							(1,373)	(1,373)
Income from council tax						-	(7,001)	(7,001)
Government Grants and Contributions	(35,354)	(238)				(35,592)	(11,673)	(47,265)
Capital Income						-	(2,483)	(2,483)
Total Income	**(44,548)**	**(560)**	**-**	**1,332**	**-**	**(43,776)**	**(22,530)**	**(66,306)**
Employee Expenses	4,147	10,220		(3)		14,364		14,364
Other Service Expenses	46,550	2,976		(241)		49,285		49,285
Support Service Recharges	12,548			(289)	(13,184)	(925)		(925)
Depreciation, Amortisation and Impairment		548	5,261			5,809		5,809
Non-Distributed Costs			429			429		429
Interest payments						-	63	63
Precepts and Levies						-	296	296
Payments to Housing Capital Receipts Pool						-	1	1
Gain or Loss on disposal of fixed assets						-	165	165
Investment Properties (Net)						-	1,168	1,168
Pensions Interest Cost/Return on Assets						-	2,949	2,949
Total Expenditure	**63,245**	**13,744**	**5,690**	**(533)**	**(13,184)**	**68,962**	**4,642**	**73,604**
Surplus or Deficit on the Provision of Services	**18,697**	**13,184**	**5,690**	**799**	**(13,184)**	**25,186**	**(17,888)**	**7,298**

28. Trading Operations

The Council operates the following Trading Operations:

Markets

2009/10		2010/11
£000		£000
(197,371)	Turnover	(210,142)
286,616	Expenditure	291,952
89,245	**(Surplus)/Deficit**	**81,810**

The expenditure and income of trading operations is incorporated into the Cost of Services included in the Comprehensive Income and Expenditure Statement.

29. Members' Allowances

In 2010/11 a total of £313,834 was paid to members in respect of allowances and expenses (£289,664 in 2009/10).

30. Officers' Remuneration

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

2010/11 Senior Officers - salary between £50,000 and £150,000 per year					
Post Holder Information	Salary (£)	Benefits in Kind (£)	Total Remuneration excluding employer's pension contributions 2009/10 (£)	Employer Pension Contributions (£)	Total Remuneration including employer's pension contributions 2009/10 (£)
Chief Executive *	84,743	1,779	86,522	18,389	104,911
Executive Directors:					
Regeneration & Development	83,993	2,392	86,385	19,799	106,184
Resources & Support Services	83,993	0	83,993	18,226	102,219
Operational Services	80,491	2,457	82,948	17,466	100,414
Heads of Service:					
Central Services	52,314	2,457	54,771	11,352	66,123
Leisure and Cultural Services	52,314	2,457	54,771	11,352	66,123
Assets & Regeneration	52,314	2,320	54,634	11,352	65,986
Operations	50,935	2,457	53,392	11,053	64,445

2009/10 Senior Officers - salary between £50,000 and £150,000 per year					
Post Holder Information	Salary (£)	Benefits in Kind (£)	Total Remuneration excluding employer's pension contributions 2009/10 (£)	Employer Pension Contributions (£)	Total Remuneration including employer's pension contributions 2009/10 (£)
Chief Executive **	112,426	3,245	115,671	23,047	138,718
Executive Directors:					
Regeneration & Development	82,242	2,320	84,562	18,135	102,697
Resources & Support Services	83,993	0	83,993	17,219	101,212
Operational Services	80,490	1,229	81,719	16,500	98,219
Heads of Service:					
Central Services	50,935	2,457	53,392	10,442	63,834
Assets and Regeneration	50,993	2,320	53,313	10,454	63,767
Operations	50,245	2,457	52,702	10,300	63,002
Leisure and Cultural Services	50,935	0	50,935	10,442	61,377

* 2010/11-This includes salary of £73,140 and Returning Officers fees for the General and Borough Council Elections in respect of the previous Chief Executive for the period 01/04/10-24/09/10 and the current Chief Executive for the period 01/01/11-31/03/11.
** 2009/10 – This includes salary of £99,736 and Returning Officer fees for the European and County Council elections and Borough Council by-elections.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

2009/10 Number of Employees		2010/11 Number of Employees
1	£50,000 - £54,999	3

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:

2009/10 £000		2010/11 £000
125	Services in accordance with Section 5 of the Audit Commission Act 1998	125
28	Statutory Inspection Fees under Section 10 of the Local Government Act 1999	-
29	Fees for Grant Certification under Section 28 of the Audit Commission Act 1998	28
-	Fees for any other services	
182		**153**

32. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2010/11

2009/10 £000		2010/11 £000
	Credited to Taxation and Non Specific Grant Income	
630	Regional Housing Grant	400
290	Waste and Resources Action Programme Grant	-
63	Contribution from Renew North Staffordshire	-
385	Advantage West Midlands (AWM) contribution	117
25	North Staffordshire Primary Care Trust contribution	500
10	Aspire Housing contribution	-
117	Planning Obligations Contributions (Section 106 contributions)	100
140	Staffordshire County Council contribution	-
162	Newcastle-under-Lyme College contribution	45
-	REFCUS grants transfer adjustment	(139)
7	Other Contributions	10
1,829	**Total**	**1,033**
	Credited to Services	
24,231	Housing Subsidy - Rent Allowance	25,631
961	Housing Subsidy - Housing Benefit Administration Grant	849
160	Housing Subsidy - Housing Benefit Verification Framework Grant	106
8,273	Council Tax Benefit Grant	8,500
2,040	Revenue Support Grant	1,405
8,840	National Non-Domestic Rates Grant	9,674
480	Disabled Facilities Grant	508
682	Planning Delivery Grant	-
512	Regional Housing Grant	864
362	Concessionary Travel Initial Grant	365
135	Regional Choice Fund Grant	36
71	Area Based Grant	94
38	Local Authorities Business Growth Initiative Grant (LABGI)	-
56	Free Swimming Grant	24
71	Homelessness Directorate Grant	71
125	Safer Communities Grant	-
-	Contaminated Land Grant	26
110	Waste and Resources Action Programme Grant	37
45	Local Public Service Agreement Grants (via Staffs County Council)	52
-	Waste Infrastructure Grant (via Staffs County Council)	40
136	Other Grants	48
100	Contribution - Newcastle-Under-Lyme College - Pitch Maintenance	-
74	Contributions towards Community Safety Service (e.g from Police, Fire Service, Staffs County Council)	90
187	Other Contributions	80
47,689	**Total**	**48,500**

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:

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
		Capital Grants Receipts in Advance	
38	38	Free Swimming Grant	38
24	24	Safer Communities Grant	24
-	5	Other Grants	5
-	500	Primary Care Trust contribution re Jubilee 2 Project	-
313	145	Planning Obligations Contributions (Section 106 contributions)	100
7	7	Other Contributions	7
382	**719**	**Total**	**174**

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 (eg 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 2011 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 2010/11 is shown in Note 29. During 2010/11, transactions with Aspire Housing totalled £16,389,779 (net). 3 members sit on the board of this organisation. Contracts were entered into in full compliance with the council's standing orders. In addition, the Council paid grants totalling £240,152 to voluntary organisations in which 17 members had positions on the governing body. In addition transactions with the Victoria Theatre totalled £114,991 (net) where 1 member sits on its Board and transactions with the Staffordshire Fire Authority totalled £131,603 (net) where 1 member sits on its Board. Details of such transactions are recorded in the Register of Members' Interest, open to public inspection at the Council's Civic Offices during office hours.

Officers

During 2010/11 no related party transactions occurred involving officers of the Council.

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 second part of this note.

2009/10 £000		2010/11 £000
(334)	*Opening Capital Financing Requirement*	129
	Capital Investment	
8,282	Property, Plant and equipment	6,464
2,078	Investment Properties	209
79	Intangible Assets	170
1,840	Revenue Expenditure Funded from Capital under Statute	3,081
	Sources of Finance	
(7,113)	Capital Receipts	(7,129)
(2,432)	Government Grants and Other Contributions	(2,255)
(1,794)	Sums set aside from revenue	(429)
(477)	Minimum Revenue Provision	(125)
129	*Closing Capital Financing Requirement*	115
	Explanation of Movements in Year	
940	Assets acquired under Finance Leases	111
(477)	Minimum Revenue Provision	(125)
463	*Increase/(Decrease) in Capital Financing Requirement*	(14)

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:

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
-	-	Other Land and Buildings	-
447	998	Vehicles, Plant, Furniture and Equipment	616
447	**998**		**616**

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:

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
		Finance Lease Liabilities (net present value of minimum lease payments):	
340	113	Current	144
14	673	Non-current	596
4	231	Finance Costs payable in future years	177
358	**1,017**	**Minimum Lease Payments**	**917**

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

01 April 2009		31 March 2010			31 March 2011	
Minimum Lease Payments	Finance Lease Liabilities	Minimum Lease Payments	Finance Lease Liabilities		Minimum Lease Payments	Finance Lease Liabilities
£000	£000	£000	£000		£000	£000
340	3	113	62	Not later than one year	144	58
14	1	673	169	Later than one year and not later than five years	596	119
-	-	-	-	Later than five years	-	-
354	**4**	**786**	**231**		**740**	**177**

Operating Leases

The Council has acquired a number of items of vehicles and equipment by entering into operating leases, with typical lives of 4 years.

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2010 £000		31 March 2011 £000
37	Not later than one year	37
72	Later than one year and not later than five years	35
-	Later than five years	-
109		**72**

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

2009/10 £000		2010/11 £000
36	Minimum Lease Payments	44
36		**44**

Council as Lessor

Finance Leases

The Council has leased out 13 properties on a finance lease basis, with terms remaining from 12 to 125 years.

The Council has a total gross investment in these leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the properties when the leases come to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the properties acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
		Finance Lease Debtor (net present value of minimum lease payments):	
329	329	Current	329
15,659	15,353	Non-current	15,024
12,839	12,663	Unearned Finance Income	12,473
28,827	**28,345**	**Gross Investment in the Lease**	**27,826**

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

01 April 2009		31 March 2010			31 March 2011	
Minimum Lease Payments	Finance Lease Liabilities	Minimum Lease Payments	Finance Lease Liabilities		Minimum Lease Payments	Finance Lease Liabilities
£000	£000	£000	£000		£000	£000
519	189	519	189	Not later than one year	519	189
2,447	894	2,447	894	Later than one year and not later than five years	2,410	881
25,861	11,756	25,379	11,580	Later than five years	24,897	11,403
28,827	**12,839**	**28,345**	**12,663**		**27,826**	**12,473**

Operating Leases

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

- for the provision of community services, such as sports facilities and community centres
- to gain income from its investment properties
- for economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2010 £000		31 March 2011 £000
654	Not later than one year	531
1,592	Later than one year and not later than five years	1,231
2,310	Later than five years	2,140
4,556		**3,902**

36. Impairment Losses

During 2010/11 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 2010/11 was £3.603m (2009/10 £3.342m).

37. Termination Benefits

The Council terminated the contracts of a number of employees in 2010/11, incurring liabilities of £651,061 (£188,421 in 2009/10). The termination benefits consisted of £391,899 redundancy costs together with £246,623 actuarial strain payments and £12,539 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:

2009/10 Local Government Pension scheme £000	2009/10 Discretionary Benefits Arrangements £000		2010/11 Local Government Pension scheme £000	2010/11 Discretionary Benefits Arrangements £000
		Comprehensive Income & Expenditure Statement		
		Cost of Services:		
1,458		Current Service Cost	2,492	
232		Past Service Costs / (Gains)	(13,348)	
16		Settlements and Curtailments	21	
	(443)	Unfunded Benefit Contributions		(437)
		Financing and Investment Income and Expenditure		
6,640		Interest cost	7,552	
(3,691)		Expected Return on Scheme Assets	(5,718)	
4,655	**(443)**	*Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services*	**(9,001)**	**(437)**
		Other Post Employment Benefit charged to the Comprehensive Income & Expenditure Statement		
(27,025)		Actuarial Gains and (Losses)	9,610	
(27,025)	**-**	*Total Post Employment Benefit charged to the Comprehensive Income & Expenditure Statement*	**9,610**	**-**
		Movement in Reserves Statement		
25,504		Reversal of Net Charges made to the Surplus or Deficit on the Provision of Services for Post Employment Benefits in accordance with the Code	2,785	
		Actual amount charged against the General Fund Balance for pensions in the year:		
3,134		Employers' Contributions payable to Scheme	**3,394**	
	(443)	Retirement Benefits payable to pensioners		**(437)**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a gain/(loss) of £(31.627m).

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

2009/10 Funded Liabilities: Local Government Pension scheme	2009/10 Unfunded Liabilities: Discretionary Benefits Arrangements		2010/11 Funded Liabilities: Local Government Pension scheme	2010/11 Unfunded Liabilities: Discretionary Benefits Arrangements
£000	£000		£000	£000
97,997	(424)	Opening Balance at 1 April	149,817	(867)
1,458		Current Service Cost	2,492	
6,640		Interest Cost	7,552	
804		Contributions by Scheme Participants	771	
47,450		Actuarial (Gains) and Losses	(11,889)	
(4,780)	(443)	Benefits Paid	(5,286)	(437)
232		Past Service Costs / (Gains)	(13,348)	
16		Curtailments	21	
-		Settlements	-	
149,817	**(867)**	**Closing Balance at 31 March**	**130,130**	**(1,304)**

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme

2009/10		2010/11
£000		£000
57,416	Opening Balance at 1 April	80,247
3,691	Expected Rate of Return	5,718
20,425	Actuarial Gains and (Losses)	(2,279)
2,691	Employer Contributions	2,957
804	Contributions by Scheme Participants	771
(4,780)	Benefits Paid	(5,286)
-	Settlements	-
80,247	**Closing Balance at 31 March**	**82,128**

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 £6.736m (2009/10: £24.117m).

Scheme History

	2006/07	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000	£000
Present Value of Liabilities:					
Local Government Pension Scheme	(104,356)	(94,260)	(91,548)	(141,527)	(122,343)
Discretionary Benefits	(6,709)	(6,380)	(6,025)	(7,423)	(6,483)
Fair Value of Assets in the Local Government Pension Scheme	82,777	76,068	57,416	80,247	82,128
Surplus/(Deficit) in the Sheme:	(28,288)	(24,572)	(40,157)	(68,703)	(46,698)
Local Government Pension Scheme	(21,579)	(18,192)	(34,132)	(61,280)	(40,215)
Discretionary Benefits	(6,709)	(6,380)	(6,025)	(7,423)	(6,483)
Total	**(28,288)**	**(24,572)**	**(40,157)**	**(68,703)**	**(46,698)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £46.698m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £29.632m. 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 (ie 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 2012 is £2.618m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £437k.

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 1 April 2011.

The principal assumptions used by the actuary have been:

2009/10 Local Government Pension scheme	2009/10 Discretionary Benefits Arrangements		2010/11 Local Government Pension scheme	2010/11 Discretionary Benefits Arrangements
		Long Term expected rate of return on assets in the Scheme:		
7.8%		Equity Investments	7.5%	
5.0%		Bonds	4.9%	
10.6%		Other	10.1%	
		Longevity at 65 for current pensioners:		
20.8		Men	21.2	
24.1		Women	23.4	
		Longevity at 65 for future pensioners:		
22.3		Men	23.3	
25.7		Women	25.6	
3.8%	3.8%	Rate of Inflation	2.8%	2.8%
5.3%		Rate of Increase in Salaries	5.1%	
3.8%	3.8%	Rate of Increase in pensions	2.8%	2.8%
5.5%	5.5%	Rate for Discounting Scheme Liabilities	5.5%	5.5%
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 March 2010 %		31 March 2011 %
79	Equity Investments	78
11	Debt Instruments	11
10	Other Assets	11
100	**Closing Balance at 31 March**	**100**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2006/07 %	2007/08 %	2008/09 %	2009/10 %	2010/11 %
Differences between the expected and actual return on assets	(0.7)	(14.0)	(39.5)	25.5	(2.7)
Experience gains and losses on liabilities	(0.3)	(1.6)	0.2	(0.2)	0.3

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 of £67,919 could be made on the Council.

(b) Insurance Fund

It is estimated that claims totalling circa £60,000 will arise from incidents that had occurred up to 31 March 2011 but have not yet been reported.

(c) VAT

The computations of the Council's 2009/10 and 2010/11 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) Equal Opportunities Claims

A liability may exist to pay compensation to some Council employees in respect of equal pay/back pay claims following the completion of job evaluation in October 2005. At present it is not possible to quantify either the number or the amount of any such claims.

(e) Land Sales Receipts

An agreement exists with a government development agency (in the process of being disbanded) to pay to them (or their successors) all of the proceeds to be received in respect of the sale, when it occurs, of a development site for which the agency provided development funding. Some of the proceeds have already been paid over; the remaining amount may be up too around £3.6m.

(f) 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.

(g) West Midlands Regional Assembly

This body, of which the Council was a member, is in voluntary liquidation. The Council may be liable to make a contribution in respect of the body's outstanding pension liability, amounting to some £54,000.

(h) Local Land Charges Fees

Following a change in the law relating to charging for personal searches, there may be a liability to repay up to £70,000 in fee income.

(i) Other

There is a potential liability arising from possible legal proceedings against the Council. At present it is not possible to quantify this liability but it could exceed £50,000.

40. Contingent Assets

The Council has approved the sale of a number of plots of land for industrial/commercial use. The likely total capital receipt (net of repayment of government grant received towards the laying out of the land concerned) which will accrue to the Council will be around £163,000. There is one outstanding plot remaining to be sold, for which the proceeds are due to be received in 2011/12 and are contingent upon agreement of detailed arrangements with the prospective purchasers.

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 £0.214m 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 2011 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 2011	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2011	Estimated maximum exposure to default and uncollectability at 31 March 2011	Estimated maximum exposure at 31 March 2010
	£000	%	%	£000	£000
	A	B	C	(A X C)	
Deposits with banks & financial institutions	17,158	0%	1.25%	214	294
Heritable Bank	1,415	-	impairment	642	640
Customers (trade debtors)	4,486	-	15%	673	555
				1,529	**1,489**

No credit limits were exceeded during the reporting period and, apart from the frozen investment with Heritable Bank, the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £3.885m of the £4.486m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
346	250	31 to 89 days	549
163	352	90 to 149 days	210
2,903	2,634	Over 150 days	3,126
3,412	**3,236**		**3,885**

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:

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
31,200	23,500	Less than one year	17,158
-	-	Between one and two years	
5,000	-	Between two and five years	
-	1,705	More than five years	1,415
36,200	**25,205**		**18,573**

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its 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 2011, 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	(287)
Impact on Surplus or Deficit on the Provision of Services	(287)

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 liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

42. Building Control Account

NORTH STAFFORDSHIRE BUILDING CONTROL PARTNERSHIP

2010-2011 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.

	2010-11			
	Newcastle & Stoke Partnership			
	Total	***Fee Earning***	***Non-chargeable***	***All other BC Services***
		64%	***25%***	***11%***
	£'000s	£'000s	£'000s	£'000s
Salaries	543	350	135	59
Premises	23	15	6	2
Transport	25	16	6	3
Supplies	15	10	4	2
Central Support	53	27	18	8
Structural Eng	16	16		
Total Expenditure	**675**	**434**	**168**	**73**
Building Regulation Charges	435	435		
Miscellaneous Income	1	1		
Total Income	**436**	**436**	**-**	**-**
Surplus/ (deficit)	**(239)**	**2**	**(168)**	**(73)**

43. Material Differences between amounts presented under the 2009 Code of Accounting Practice and the IFRS based 2010 Code of Accounting Practice.

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRSbased Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required. The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Accruals	-	(262)
Accumulated Absences Account	-	262
31 March 2010 Balance Sheet		
Accruals	-	(209)
Accumulated Absences Account	-	209
2009/10 Comprehensive Income & Expenditure Account		
Central Services to the Public	1,397	34
Cultural, Environmental, Regulatory and Planning Services	18,192	137
Highways & Transport Services	1,290	2
Other Housing Services	1,691	22
Corporate and Democratic Core	2,477	14

Leases

The criteria for classification of leases as either operating or finance leases have been clarified by the adoption of the IFRS based Code. This has meant that certain leases which were formerly classified as operating leases have now been reclassified as finance leases, with consequent changes to the accounting treatment. In addition the Code requires lease type arrangements which are embedded in contracts for services to be identified and classified as either operating or finance leases and to be recognised as such in the Council's accounts.

The government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the council is the lessee) will be unchanged. Where the council is the lessor, the regulations allow it to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

Leases from third parties

The council has a number of leases in relation to vehicles and equipment which were previously classified as operating leases, but under the Code, have been reclassified as finance leases. Also a lease type arrangement in respect of a number of vehicles is embedded within a contract for services which was previously not recognised as a lease. As a consequence the financial statements have been amended as follows:

- The assets obtained by way of finance leases have been recognised together with a corresponding finance lease liability.
- The operating lease charge within Cultural, Environmental, Regulatory and Planning Services has been reduced by the amount that relates to the lease payments.
- A depreciation charge has been included within Cultural, Environmental, Regulatory and Planning Services.
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account and the General Fund has been charged with a Voluntary Revenue Provision (with the credit being made to the Capital Adjustment Account). These transfers are reflected in the balance sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.
- The interest element of the lease payment is charged to the Financing and Investment income and expenditure line in Surplus or Deficit on the Provision of Services.

This has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Property, Plant and Equipment	32,657	447
Finance Lease Liability (Deferred Liability)	-	(560)
Capital Adjustment Account	(43,897)	113
31 March 2010 Balance Sheet		
Property, Plant and Equipment	36,855	998
Finance Lease Liability (Deferred Liability)	-	(1,023)
Capital Adjustment Account	47,140	25
2009/10 Comprehensive Income & Expenditure Account		
Cultural, Environmental, Regulatory and Planning Services	18,192	(145)
Financing and Investment Income and Expenditure	1,794	56

The net change to Cultural, Environmental, Regulatory and Planning Services consists of the removal of the operating lease charge (-£0.533m) and the inclusion of the depreciation charge (+£0.388m).

The net increase in Surplus or Deficit on the Provision of Services (£0.089m) is removed by the transfer of the depreciation charge to the Capital Adjustment Account and the inclusion of the Voluntary Revenue Provision charge of £0.476m. These transfers are shown in the Movement in Reserves Statement.

Leases to third parties

There are a number of leases of property which were previously classified as operating leases, but under the Code, have been reclassified as finance leases. As a consequence the financial statements have been amended as follows:

- The assets leased out by way of finance leases have been derecognised.
- A long term debtor has been created corresponding to the remaining liability of the lessors to make payments to the Council.
- A amount has been credited to deferred capital receipts corresponding to the amount which the Council is due to receive from the lessors.
- Depreciation in respect of one property has been reversed (the others were classified as investment properties, which are not depreciated).
- The balance in the Revaluation Reserve in respect of these properties has been written-off to the Capital Adjustment Account.
- The interest element of the income received from these leases is credited to the Financing and investment Income line in Surplus or Deficit on the Provision of Services. The capital element is credited to the Long Term Debtor account.

This has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Property, Plant and Equipment	32,657	(80)
Investment Properties	15,529	(3,190)
Long Term Debtor	305	1,963
Revaluation Reserve	(7,650)	6
Capital Adjustment Account	(43,897)	3,265
Deferred Capital Receipts	(27)	(1,964)
31 March 2010 Balance Sheet		
Property, Plant and Equipment	36,855	(77)
Investment Properties	16,129	(3,190)
Long Term Debtor	273	1,846
Revaluation Reserve	(8,515)	6
Capital Adjustment Account	(47,140)	3,261
Deferred Capital Receipts	25	(1,846)
2009/10 Comprehensive Income & Expenditure Account		
Cultural, Environmental, Regulatory and Planning Services	18,192	(4)
Fiancing & Investment Income & Expenditure (Investment Properties)	1,794	117

The net change to the Comprehensive Income and Expenditure Statement of £0.113m consists of the crediting of the capital element of the rental payments to the Long Term Debtor rather than here and the reversal of depreciation previously charged in respect of the non-investment property item.

The net increase in Surplus or Deficit on the Provision of Services (£0.113m) is removed by a transfer from the Capital Adjustment Account to mitigate the loss of revenue income involved in crediting the Long Term Debtor with the capital element of the rental payments received. These transfers are shown in the Movement in Reserves Statement.

Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- Grants have been classified as conditional or non-conditional. Conditional grants have been further classified as either ones where the conditions have been met or otherwise. The balances relating to unused unconditional grants or conditional grants where the conditions have been met are held in the Capital Grants Unapplied Account and classified under reserves in the Balance Sheet, as they are available for use by the Council. Otherwise the balance relating to the grant is held in the Capital Grants Receipts in Advance Account under liabilities in the Balance Sheet, since the amounts are potentially still liable to be repaid to the grantor.

This has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Government Grants Deferred Account	1,891	(1,891)
Grants Unapplied Account (liabilities)	1,839	(1,838)
Capital Adjustment Account	43,897	1,891
Capital Grants Receipts in Advance Account (liabilities)	-	382
Capital Grants Unapplied Account (reserves)	-	1,456
31 March 2010 Balance Sheet		
Government Grants Deferred Account	2,553	(2,552)
Grants Unapplied Account (liabilities)	2,429	(2,429)
Capital Adjustment Account	47,140	2,552
Capital Grants Receipts in Advance Account (liabilities)	-	719
Capital Grants Unapplied Account (reserves)	-	1,710
2009/10 Comprehensive Income & Expenditure Account		
Cultural, Environmental, Regulatory and Planning Services	18,192	664
Taxation and Non-specific Grant Income	(18,674)	(908)

There is no change to the General Fund Balance, as capital grant income is transferred out of the General Fund under both the previous and the current accounting policies.

Investment Properties Balance in Revaluation Reserve

Under the Code, any balance held in the Revaluation reserve which relates to upward revaluations of Investment Properties is to be transferred to the Capital Adjustment Account. This reflects the treatment of upward revaluations of Investment Properties under IFRS, which requires the amount of the revaluation to be credited to Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement and then transferred to the Capital Adjustment Account via the Movement in Reserves Statement.

	2009/10 Statements £000	Adjustments Made £000
Opening 1 April 2009 Balance Sheet		
Revaluation Reserve	(7,650)	1,203
Capital Adjustment Account	(43,897)	(1,203)
31 March 2010 Balance Sheet		
Revaluation Reserve	(8,515)	1,592
Capital Adjustment Account	(47,140)	(1,592)

44. Trusts and Other Similar Funds

The following statement summarises the balances and movements during the year of the various Funds for which the Council acts as Sole Trustee (indicated by *) or otherwise assumes a supervisory role. Balances relating to these Funds are not included in the Consolidated Balance Sheet and their transactions are not included in the Consolidated Revenue Account.

Trust & Other Similar Funds

	Balance at 1 April	Expenditure	Income	Balance at 31 March
	£000	£000	£000	£000
Newcastle Almshouses Trust (Accom. For Poor Widows)	(4)	5	20	11
Sports Advisory Council (Advice/Assistance to Sport)	12	28	23	7
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	2	3	28
United Charities - Relief in Sickness Charity (Christmas gifts for elderly)	63	2	5	66
Barracks Trust (management of Barracks and charitable disbursements)	3,050	2,488	51	613
	£3,157	**£2,525**	**£102**	**£734**

Notes

(a) 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 2009 and the carried forward balances are those for 30 September 2010.

(b) A revaluation of the Barracks Trusts assets was undertaken during the financial year; as such the assets were re-valued at £0.55m, a decrease of £2.45m from their previous value of £3m.

(c) The Barracks Trust balance at 1 April, shown as £3,050k, differs from the balance at 31 March 2010 shown in the 2009/10 Statement of Accounts, which was £3,057k. This is because the Trustees amended their accounts by £7k when they were presented to them for approval, which occurred after the compilation of the 2009/10 Statement of Accounts.

Collection Fund

2009/10 £000				2010/11 £000
	Expenditure			
7,015	Precepts and Demands	- Borough Council	7,154	
38,710		- County Council	39,480	
6,622		- Police Authority	6,816	
2,520		- Fire Authority	2,596	
54,867				56,046
	Business Ratepayers			
28,674	- Contribution to National Pool		26,840	
148	- Cost of Collection		142	
28,822				26,982
530	Provision for Bad Debts			730
	Contribution towards Previous Years Surplus/(Deficit)			
(35)	- Re Council Tax		(15)	
-	- Re Community Charge		-	(15)
84,184	**Total Expenditure**			**83,743**
	Income			
29,133	Business Ratepayers		27,553	
47,012	Council Taxpayers		48,145	
76,145				75,698
	Transfers from General Fund			
8,207	- Council Tax Benefit		8,459	
-	- Discretionary NNDR Relief		-	
8,207				8,459
-	Transfer from/(to) Bad Debts Provision			-
84,352	**Total Income**			**84,157**
£168	**Surplus/(Deficit) For The Year**			**£414**
	Collection Fund Balance			
(456)	Balance at Beginning of Year			(288)
168	Surplus/(Deficit) for the Year			414
(£288)	**Balance at end of Year**			**£126**

Precepts

2009/10 £000		2010/11 £000
7,015	Newcastle Borough Council	7,154
38,710	Staffordshire County Council	39,480
6,622	Staffordshire Police Authority	6,816

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 2010/11 was 41.4p, with a reduction for "small businesses" to 40.7p on application (48.5p in 2009/10 - "small business" reduction, 48.1p). The Council is responsible for collecting rates due from the ratepayers in its area and the total amount collected, less certain reliefs and deductions is paid into the NNDR Pool. The Council then receives a share of the pool on the basis of a fixed amount per head of population.

	2010/11 £	2009/10 £
Non Domestic Rateable Value at year-end	81,549,826	73,290,105

Valuations have increased as a result of the five-yearly revaluation which took effect in 2010/11. At the same time the uniform business rate was reduced.

The government has introduced a Business Rates Deferral Scheme, which permits ratepayers to defer payment of part of the amount due. No adjustment has, however, been made to the debtors balance in respect of the deferred amount as the 2010 Code of Accounting Practice indicates that the full amount should be recorded.

2. Council Tax

Council Tax Income is derived from charges raised according to the value of residential properties which have been classified into eight valuation bands for this purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Staffordshire County Council, Staffordshire Police Authority, Staffordshire Fire Authority and the Borough Council for the forthcoming year and dividing this by the council tax base. The average Band D tax in 2010/11 of £1,450.99 compared with £1,422.37 in 2009/10. 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 2010/11 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)	23,714	19,764	6/9	13,216
Band B (£40,001 - £52,000)	9,809	8,716	7/9	6,779
Band C (£52,001 - £ 68,000)	10,634	9,608	8/9	8,440
Band D (£68,001 - £88,000)	4,286	3,921	9/9	3,896
Band E (£88,001 - £120,000)	2,581	2,352	11/9	2,874
Band F (£120,001 - £160,000)	1,695	1,565	13/9	2,260
Band G (£160,001 - £320,000)	886	798	15/9	1,330
Band H (Over £320,000)	45	22	18/9	41
				38,836
Less adjustment for collection rates (1%)				(388)
Borough Council Tax Base				**38,448**

Council Tax Base analysed over Parished and Unparished Areas of the Borough

Council Tax Base

	Equivalent Band D Dwellings
Newcastle	38,448
Kidsgrove	7,179
Audley	2,651
Loggerheads	1,944
Balterley, Betley & Wrinehill	583
Chapel & Hill Chorlton	197
Keele	337
Madeley	1,510
Maer	249
Silverdale	1,389
Whitmore	797
Total Council Tax Base	**55,284**

3. Precepts

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

2009/10 £000		2010/11 £000
7,015	Newcastle Borough Council	7,154
38,710	Staffordshire County Council	39,480
6,622	Staffordshire Police Authority	6,816
2,520	Staffordshire Fire Authority	2,596
£54,867		**£56,046**

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: £40,292 (£99,282 2009/10)

NNDR: £123,169 (£265,729 2009/10)

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); or
- 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; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Current Service Cost
The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.

Creditors
Amounts owed by the Council for goods and services, where payments have not been made at the end of the financial year.

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include termination of employees' services earlier than expected, for example as a result of discontinuing a segment of the business and termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Debtors
Amounts owed to the Council for goods and services, where the income has not been received at the end of the financial year.

Deferred Liabilities
These are liabilities which by arrangement are payable beyond the next year at some point in the future or are paid off by an annual sum over a period of time, specifically for this Council amounts outstanding in respect of finance leases.

Defined Benefit Pension Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Depreciation
The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Discretionary Benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or The Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Expected Rate of Return on Pension Assets
For a funded defined benefit pension scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Experience Gains and Losses
See Actuarial Gains and Losses

Financial Reporting Standards (FRSs)
Statements prepared by the Accounting Standards Committee. Many of the Financial Reporting Standards (FRSs) and the earlier Statements of Standard Accounting Practice (SSAPs) apply to local authorities and any departure from these must be disclosed in the published accounts.

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

Financial Year
Period of time to which a Statement of Accounts relates. The financial year of the Council runs from 1 April to 31 March.

Fixed Assets
Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.
The classes of fixed assets required to be included in the accounting statements are:
Operational assets
- Other land and buildings (excluding Council Dwellings)
- Vehicles, plant, furniture and equipment
- Infrastructure assets
- Community assets

Non operational assets
- Investment Properties
- Assets Held for Sale

Assets under construction are not shown separately. They are included in the balance relating to the category of operational asset where they will be included when completed.

General Fund Revenue Account
This account records the expenditure and income incurred by the Council in operating its services during the year. It does not record any capital expenditure or income but does include the costs associated with capital expenditure in the form of capital financing costs (mostly related to interest, capital charges for the use of assets by services and depreciation charges).

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfer of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

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:
(a) goods or other assets purchased for resale;
(b) consumable stores;
(c) raw materials and components purchased for incorporation into products for sale;
(d) products and services in intermediate stages of completion;
(e) long-term contract balances; and
(f) finished goods
The Council currently only has inventories in category (b) above.

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:
(a) in respect of which construction work and development have been completed; and
(b) which is held for its investment potential, any rental income being negotiated at arm's length; and
(c) 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:
(a) 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.
(b) 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:

(a) Usable Reserves representing sums set aside to meet future expenditure for specific purposes and which the Council is able to utilise to provide services.
(b) Unusable Reserves which the Council is not able to utilise to provide services. This category of reserves includes reserves which hold unrealisable gains and losses, such as the Revaluation Reserve and reserves which are adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards, for example the Capital Adjustment Account.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employers decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Expenditure
Expenditure on the day-to-day running of the Council, including employee costs, running expenses and capital financing costs.

Revenue Expenditure Funded from Capital under Statute

Expenditure which does not result in the creation of a fixed asset and which is classified as capital for funding purposes but is chargeable to the Income and Expenditure Account (I&E Account) as revenue expenditure. Any grants or contributions towards such expenditure are also chargeable to the I&E Account. An appropriation is made to the I&E Account from the Capital Adjustment Account of the amount of expenditure financed from capital resources. Such expenditure was formerly referred to as deferred charges.

Revenue Support Grant (RSG)
Grant paid to local authorities by Central Government to help finance its general expenditure.

Scheme Liabilities
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement
An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits, the purchase of an irrevocable annuity contract sufficient to cover vested benefits and the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Useful Life
Period over which the local authority will derive benefits from the use of a fixed asset.

Annual governance report

Newcastle under Lyme Borough Council

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Ladies and Gentlemen

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Executive Director (Resources and Support Services) on 12 September 2011 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 10);
- note the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that, after consideration, management are not proposing to adjust in 2010/11 or, if you concur with management and decide not to adjust for this, please set out your reasons in the representation letter (Appendix 4); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4).

Yours faithfully

Tony Corcoran

District Auditor

Date 26 September 2011

Key messages

This report summarises the findings from the 2010/11 audit which is complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
No important weaknesses in internal control	Yes	8

Table 2: **Key messages - value for money**

Value for money		
Proper arrangements to secure value for money	Yes	9

Audit opinion

1 I have completed my audit of Newcastle under Lyme Borough Council's Statement of Accounts for the year ended 31 March 2011.

2 I can confirm that I will be issuing an audit report including an unqualified opinion on the financial statements.

Financial statements

3 This has been a good year for the finance team. The Head of Finance has a good understanding of the requirements of International Financial Reporting Standards (IRFS). During this time there were also uncertainties in relation to your future funding arising from the Comprehensive Spending Review. In my view, your team has performed extremely well, dealing with these challenges while preparing the statement of accounts with a reduction in the number of errors from last year. The finance team have been very constructive in working to address any matters raised. I can report the amendments to the accounts have not led to a change in the amount to be funded by Council Tax Payers through the precept.

4 I have not identified any material misstatements in your accounts and management has agreed to amend the majority of the other non-trifling misstatements identified as part of the audit process. These changes have been detailed in Appendix 2 for completeness.

5 I have also identified two non material misstatements which, after consideration, management are not proposing to adjust in 2010/11 but will review in 2011/12. These are detailed in Appendix 3. I am required to bring this to your attention so that you may consider amending the financial statements. If you concur with management and decide not to adjust for these please set out your reasons in the representation letter.

Value for money

6 I have completed my audit of Newcastle under Lyme Borough Council's Value for Money arrangements for the year ended 31 March 2011.

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

Independence

8 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

9 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

10 I ask the Audit and Risk Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 10);
- note the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that, after consideration, management are not proposing to adjust in 2010/11 or, if you concur with management and decide not to adjust for these, please set out your reasons in the representation letter (Appendix 4); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4).

Financial statements

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

Opinion on the financial statements

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

Key areas of judgement and audit risk

12 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 3: **Key areas of judgement and audit risk**

Issue or risk	Finding
The Council was facing significant uncertainties that could have affected its medium term financial health. Income from fees and charges was reducing and there was uncertainty about future funding streams.	The settlement received by the Council for 2011/12 and 2012/13 although challenging, was as you expected. You have undertaken significant work to re-engineer your services and make significant annual savings that should leave you relatively robustly positioned for the future. Although car park income is below budget, a car park review is being undertaken.
The Council was preparing its accounts in line with the requirements of IFRS for the first time. There was a risk that the transition to IFRS could prove difficult for the Council	You achieved the re-statement of your previous year's accounts effectively. I have carried out a significant number of additional tests to confirm the accuracy of your restatements and ensure the materially correct statement of this year's accounts. I found few errors in your draft accounts.

Issue or risk	Finding
The Council has £2.5m invested with the Heritable, an Icelandic bank that has gone into administration.	Latest reports indicate that a significant proportion of the investment will be returned over the next few years. Over £1m has so far been returned. The Council has sufficient reserves to cope with the anticipated loss and has made appropriate allowances within its Medium Term Financial Strategy.
The Council implemented a new benefits system during the year. There was a risk that this could have an adverse affect on the benefits service or the reliability of the accounting figures produced by the system during the transition period.	We will review the accuracy of benefit payments as part of our review, however work undertaken reviewing the transition between system indicated that the process went relatively smoothly.
You are replacing the old Jubilee Swimming Baths with a new facility. This is a major project with attendant risks to budgets and timescales.	The project is now substantially complete and monitoring indicates that it will be delivered within budget and to expected timescales.

Quality of your financial statements

13 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. I would like to recognise the hard work of the accountancy team in improving the accounts closedown process this year. You produced the accounts within the closedown timescales and statutory deadlines and further improved the working papers. As a result of the improvements, I have found fewer audit differences in the financial statements than last year.

Errors in the financial statements

14 If I have identified any material misstatements which have been corrected by management, auditing standards require that I bring these to your attention in order to assist you in fulfilling your governance responsibilities.

15 There were no material disclosure adjustments to the accounts. There have been a small number of other adjustments to disclosure notes and the classification of some items which have been amended in the final version of the statements presented for approval. These amendments are summarised in Appendix 2.

Unadjusted errors in the financial statements

16 Under auditing standards I am required to bring to the attention of the Audit Committee any misstatements, including omissions or other errors in presentation or disclosure, other than those that are clearly trifling, identified during the course of my normal audit work for which no adjustment has been made in the financial statements.

17 There are no unadjusted audit differences that are material to the financial statements but I have identified two items which, after consideration, management are not proposing to adjust in 2010/11 but will review in 2011/12 and I have detailed them in Appendix 3. I am required to bring this to your attention so that you may consider amending the financial statements. If you concur with management and decide not to adjust for this please set out your reasons in the representation letter.

Recommendation

R1 The Audit and Risk Committee is invited to consider the impact of the unadjusted misstatements in Appendix 3 of the external auditor's 2010/11 Annual Governance Report and either instruct management to amend the financial statements or, if you concur with management and decide not to adjust for these, set out the reasons for not amending the errors in the representation letter.

Important weaknesses in internal control

18 I have not identified any important weaknesses in internal control.

Letter of representation

19 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Value for money

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

20 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

21 I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Table 4: **Value for money conclusion criterion**

Value for money criteria	Results
The organisation has proper arrangements in place for securing financial resilience.	Yes
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	Yes

Appendix 1 Draft independent auditor's report to Members of Newcastle under Lyme Borough Council

Opinion on the Authority accounting statements

I have audited the accounting statements of Newcastle under Lyme Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Authority; and
- the overall presentation of the accounting statements.

I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements.

If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

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

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Authority's responsibilities

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

Auditor's responsibilities

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

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

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Newcastle under Lyme Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Tony Corcoran

Officer of the Audit Commission

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

26 September 2011

Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 5:

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	**Nature of adjustment**	**Dr £000s**	**Cr £000s**	**Dr £000s**	**Cr £000s**
Long Term Investments	£0.124m of Long Term investments incorrectly included in Short Term Investments.			124	
Short Term Investments	As Above.				124

Text Disclosure Amendments and amendments to notes	
Adjusted misstatements	**Nature of adjustment**
Balance Sheet	The balance sheet and balance sheet notes to the accounts needed to include comparative figures for 1.4.09.
Minor errors.	Within the accounts there were a number of minor typographical, transposition and textual errors that have been corrected.
Disclosures	The change in pension fund benefits from RPI to CPI was disclosed as income. This is now disclosed within expenditure as it is a negative past service cost. Upon reviewing the Accounts there were a number of disclosures that needed improving and one table within Note 40 that was incomplete at the start of the audit. These disclosures have now been completed.
Note 44 - Trusts and Other Similar Funds	The Barracks Trust balances had been amended by the Trust and so changed in your accounts. You have provided an explanation for the amendment.
Note 15 - Financial Instruments	Categories of Financial Instruments and the Fair Value of Assets and Liabilities table needed to include £0.242m under Long Term debtors and £0.774m of bank deposits.
Note 39 - Contingent Liabilities	A contingent liability for local land charge fees which may have to be repaid has now been disclosed.
Note 34 - Capital Expenditure and Capital Financing	The Capital Financing Requirement opening and closing position had been calculated incorrectly and has been amended.

Appendix 3 Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit that management has not adjusted the financial statements. I bring this to your attention to help you in fulfilling your governance responsibilities and ask you consider correcting this misstatement. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter. Please refer to the uncorrected error in the representation letter.

Table 6:

		Income and Expenditure Account		Balance sheet	
Unadjusted misstatements	**Nature of adjustment**	**Dr £000s**	**Cr £000s**	**Dr £000s**	**Cr £000s**
Note 20 - Creditors	During sample testing, two accruals were identified that should not have been made. The first accrual was for an item ordered after the year end. The other accrual was for an electricity bill that had already been processed. We have extrapolated the potential error as £0.147m.			13	
CIES - Gross Costs	As above.		13		
Note 17 - Debtors (Central Government Bodies)	As part of the audit of the National Non Domestic Rates Return, we identified an error of £0.063m.			63	
Collection Fund	As above.				63

Source: Audit Commission

Appendix 4 Draft letter of representation

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

Newcastle under Lyme Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Newcastle under Lyme Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Authority's accounts included within the financial statements.

Compliance with the statutory authorities
I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom and International Financial Reporting Standards which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements
The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records
All relevant information and access to persons within the entity have been made available to you for the purpose of your audit, and all the transactions undertaken by the Authority have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. I also confirm that I have disclosed:

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

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

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

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

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

I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- the completeness and appropriateness under the financial reporting framework;
- subsequent events do not require adjustment to accounting estimates and disclosure included within the financial statements; and
- that the selection, and application, of accounting policies are appropriate.

Related party transactions
I confirm that I have disclosed the identity of Newcastle under Lyme Borough Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events
All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Newcastle under Lyme Borough Council
I confirm that the this letter has been discussed and agreed by the Audit and Risk Committee on 26 September 2011

Signed

Kelvin Turner

Executive Director (Resources and Support Services)

26 September 2011

Appendix 5 Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

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

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

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;

- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 6 Action Plan

Recommendations	
Recommendation 1	
The Audit and Risk Committee is invited to consider the impact of the unadjusted misstatements in Appendix 3 of the external auditor's 2010/11 Annual Governance Report and either instruct management to amend the financial statements or, if you concur with management and decide not to adjust for these, set out the reasons for not amending the errors in the representation letter.	
Responsibility	Audit and Risk Committee
Priority	High
Date	26.9.11
Comments	

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

Design and production by the Audit Commission Publishing Team.

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

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

Audit Commission

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www.audit-commission.gov.uk September 2011

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

Newcastle under Lyme Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Newcastle under Lyme Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Authority's accounts included within the financial statements.

Compliance with the statutory authorities
I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom and International Financial Reporting Standards which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements
The effects of uncorrected financial statements misstatements summarised in the schedule to your Annual Governance Report are not material to the financial statements, either individually or in aggregate.

Supporting records
All relevant information and access to persons within the entity have been made available to you for the purpose of your audit, and all the transactions undertaken by the Authority have been properly reflected and recorded in the financial statements.

Irregularities
I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.
I also confirm that I have disclosed:

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

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

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

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

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

I confirm:
- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- the completeness and appropriateness under the financial reporting framework;
- subsequent events do not require adjustment to accounting estimates and disclosure included within the financial statements; and
- that the selection, and application, of accounting policies are appropriate.

Related party transactions
I confirm that I have disclosed the identity of Newcastle under Lyme Borough Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events
All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Items not to be Adjusted
I have considered your view that the accounts should be amended to remove an accrual of £13,150 and have concluded that, in my view, no amendment should be made. I have come to this conclusion on the grounds that the amount concerned is immaterial.

I have also considered your view that the accounts should be amended by the input of an additional accrual to take account of an amendment of £63,000 to the National Non Domestic Rates Return (NNDR3) following its audit. Again, I have concluded that, in my view, no amendment should be made. I have come to this conclusion on the grounds that the amount concerned is immaterial, that this is a timing issue, the return being compiled and audited after the accounts are compiled and in previous years no such amendment has been subsequently made and that the position will be corrected in 2012/13 as part of the process of balancing the Collection Fund Account in relation to NNDR transactions.

Signed on behalf of Newcastle under Lyme Borough Council
I confirm that the this letter has been discussed and agreed by the Audit and Risk Committee on 26 September 2011

Signed

Kelvin Turner

Executive Director (Resources and Support Services)

26 September 2011

QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 APRIL TO 30 JUNE 2011

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

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

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

Recommendation

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

Reasons

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

1. **Background**

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

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

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

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

2. **Issues**

2.1 In the first quarter there were fifteen high risk recommendations were due for review, eight of these were at their first follow up date and therefore no further action is required at this stage. There were seven recommendations that had received a first target date change and these were referred separately to the Chair and Vice Chair of the Committee.

2.2 A copy of the Assurance Summary for June 2011 can be found at **Appendix A**.

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

3. **Reasons for Preferred Solution**

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

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

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

5. **Legal and Statutory Implications**

5.1 The Accounts and Audit Regulations 2010 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices'.

6. **Equality Impact Assessment**

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

7. **Financial and Resource Implications**

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

8. **Major Risks**

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

9. **Key Decision Information**

Not applicable

10. **Earlier Cabinet/Committee Resolutions**

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

11. **List of Appendices**

Appendix A – Audit Recommendations Summary of Assurance for June 2011

12. **Background Papers**

Internal Audit PI and Assurances file

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APPENDIX A

Audit Recommendations
Summary of Assurance

June 2011

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

Opinions are classified as:

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

Full assurance can be given where the Council achieves 95% of all recommendations implemented as the agreed performance measure for 2010/11.

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

High Risk: **(***action that is considered imperative to ensure that the authority is not exposed to high risks; (Implemented within 1 month))*

Medium Risk: *(action that is considered necessary to avoid exposure to significant risks: (Implemented within 3 months))*

By changing the date the risk is not being managed and therefore you may wish to seek additional assurance as to the security of the controls in place.

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INTERNAL AUDIT PROGRESS REPORT – QUARTER 1 2011/12

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1 April to 30 June 2011. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendation

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

Reasons

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

1. **Background**

1.1 The Internal Audit Plan for 2011/12 allows for 491 days of audit work.

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

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

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

2. Issues

2.1 Performance Indicators

The indicators reported below relate to the end of the first quarter (June 2011).

2.2 Number of Recommendations Implemented

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

Up to the end of June 2011 713 recommendations had been made of which 613 have been implemented, 86%, the target is 96% by the year end.

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

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2010/11 is 86%.

Seven satisfaction surveys were returned during the first quarter, the average for these was 85%.

2.4 Progress made against the plan.

This is measured using three indicators:

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

  Productivity at the end of quarter 1 is 81%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 12% of the planned audits had been completed by the end of quarter 1.

- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 11% of the operational audit plan had also been completed against an expectation of 10%.

2.5 Audit reviews completed and final reports issued between 1 April and 30 June 2011

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

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

2.6 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since 1 April 2011. **Appendix A** provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Chief Executives		
Community Safety Crime and Disorder	Adequately controlled	B
Resources & Support Services		
External Data Transfers	Less than adequately controlled	B
Housing Benefits – Quarterly Testing	Well controlled	A
Operational Services		
Jubilee Pool	Adequately controlled	B
Kidsgrove Sports Centre	Adequately controlled	B
Knutton Recreation Centre	Well controlled	B
Regeneration and Development		
Ecohomes Project	Well controlled	A
Guildhall and Civic Refurbishment	Well controlled	A
Corporate Reviews		
Corporate Governance	No opinion given – work completed as part of the Annual Governance Statement	A

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

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

2.7 **Consultancy and non audit projects**

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

- An assessment of the Council's Corporate Governance arrangements was completed which culminated in the production of the Annual Governance Statement which was presented to the Audit & Risk Committee on 28 June and 27 July 2011 respectively for approval alongside the Statement of Accounts. This process involved a number of separate pieces of work being co-ordinated and then an assessment undertaken of the overall governance arrangements for the Council, which resulted in the final statement being produced.
- In addition a total of 10 audit days have been spent undertaking special projects at the request of other Directorates.

3. Options Considered

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

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

4. Proposal

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

5. Reasons for Preferred Solution

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

6. Outcomes Linked to Sustainable Community Strategy and Corporate Priorities

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

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

7. Legal and Statutory Implications

7.1 The Accounts and Audit Regulations 2010 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8. Equality Impact Assessment

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

9. **Financial and Resource Implications**

9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed. This in turn will reduce the risk of financial losses.

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

10. **Major Risks**

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

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

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

11. **Key Decision Information**

Not applicable.

12. **Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 2011/12 (Audit and Risk Committee 31 January 2011).

13. **List of Appendices**

Appendix A - Internal Audit Plan 2011/12: Progress to the end of Quarter 1 – 2011/12.

14. **Background Papers**

Internal Audit Plan & PI's File (GA004/11).
APACE files 2011/12

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Internal Audit Plan 2011/12

Progress to the End of Quarter 1 – 2011/12

Chief Executive's Directorate

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Community Safety Crime and Disorder	B	Adequately controlled	0	3	0	3

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

Community Safety Crime and Disorder

This review looks at the arrangements in place with regards to the Community Safety Partnership. On the whole it was found that controls were operating well, with just a small number of recommendations being made in respect of the completion of office inventories and the updating of risk assessments on Target 100.

Resources and Support Services Directorate

The following areas have been completed in quarter 1

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
External Data Transfers	A	Less than adequately controlled	11	6	1	18
Housing Benefits Quarterly Testing	A	Well Controlled	0	0	0	0

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

External Data Transfers

The audit was undertaken by Fit Business Solutions who are the Councils approved computer audit specialists. The review examined the way that data is transferred outside of the council to ensure that this is done securely and within the confines of relevant legislation such as the Data Protection Act. Findings revealed that there were no formally documented policies and procedures in place with regards to the transfer of data. It was found that in the main data was sent in an encrypted form albeit there were no set standards/protocols in place for officers to follow. The recommendations and action plan from this review is being closely monitored by the Information Security Group and at the time of writing this report good progress had been made in respect of the outstanding actions.

Housing Benefits Quarterly Testing

This review examines a sample of Housing Benefit Claims on a quarterly basis to ensure that applications are being processed correctly. This review supplements the main audit of the Housing Benefits function which is completed annually. From the sample of claims examined no issues were found and as such no recommendations were found.

Operational Services Directorate

Areas Completed in Quarter 1 of the 2011/12 Audit Plan

The following areas have been completed in quarter 1:

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Jubilee Pool	B	Adequately controlled	0	6	2	8
Kidsgrove Sports centre	B	Adequately Controlled	0	8	1	9
Knutton Recreation Centre	B	Well Controlled	0	1	1	2

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

Jubilee Pool, Kidsgrove Sports Centre and Knutton Recreation Centre

A review of all three sports centres was undertaken, the main objectives of these reviews being to ensure compliance with the Councils Standing Orders and Financial Regulations and that all income collected from the centres is banked correctly. On the whole the centres were operating well with good overall controls. Recommendations made were mainly in relation to completion and accuracy of stock records and inventories. In addition there was the requirement for up to date risk assessments to be completed as well as ensuring that booking forms for each of the centres were completed accurately. It can be reported that good progress has been made against the recommendations that were made during the audit.

Regeneration and Development Services

Areas completed in Quarter 1 of the 2011/12 Audit Plan

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

Contract Name	Contractor	Value of Work	Audit Findings
Ecohomes	Staffordshire Housing and Thomas Vale	£1,140,000.00	No problems identified, contract delivered within budget
Guildhall and Civic Refurbishment	Paragon Interiors Ltd	£1,035,217.95	No problems identified, contract delivered within budget

Corporate Reviews

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

In addition work was completed in relation to **Corporate Governance** which culminated with the completion of the Annual Governance Statement for 2010/11

Note on recommendations

Recommendations fall into one of three categories;

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

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

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

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CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD April to June 2011

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

Portfolio: **Customer Services and Transformation**

Ward(s) affected: **All**

Purpose of the Report

To provide an update to Members of the progress made by the Council in enhancing and embedding risk management for the period April to June 2011, including progress made in managing the identified corporate risks.

Recommendations

The Committee is asked to:-

(a) Note the situation regarding the LEP as provided by your Officer.

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

(c) Note the new risks that have been identified between April to June 2011.

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

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

Reasons

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

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

1. **Background**

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

1.2 The council currently reviews its extreme risks at least monthly and its high risks at least quarterly.

1.3 The last review of these risks was reported to your Committee in April 2011.

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

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

2. Issues

2.1 Risk Management Scores

As Members may remember at the last meeting the new risk management strategy was approved subject to minor changes. Since that date the new risk scoring was introduced on 1 July 2011.

The scores that you currently see on **Appendix A** relate to the old 5x5 matrix, as these risks were updated to the end of June 2011. The next report that you see will show these risks as they are scored under the new 3x3 matrix.

2.2 Strategic, Operational, Project and Partnership Risk Registers (Appendices)

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

Appendix A highlights the Council's most significant risks and the newly identified risks.

Further progress has been made towards mitigating these risks during the first quarter in a variety of areas, which has resulted in some risks moving closer to being reclassified (or down-graded). For instance

- A risk relating to the Ryecroft development has reduced in rating as the purchase of the site has taken place with an indentified partner and steps are being taken to identify a development partner
- A risk relating to managing critical information has been reduced in rating due to the last few services being identified as needing electronic document and records maintenance installing
- A risk relating to new business processes not taking information risk into account has been closed as all actions have been completed and due to Prince2 aspects being undertaken throughout projects and business processes (incorporating version control, FOI requests etc)

2.3 Horizon Scanning

As identified from the last meetings minutes, horizon scanning was to be included as part of the report to members. Below is a list of "risks on the horizon" that will need to be considered by both officers and members, but will not necessarily need to be added onto profiles.

- Jackson Reforms – risks associated with the outcome of the Jackson review in respect of insurance claims, one-way costs shifting etc – the potential for more claims to be made against the council and the chances of more being run to court due to the third party not losing out on any costs, and the therefore the costs implications against the council rise. This also takes into account the Legal Aid, Sentencing and Punishment of Offenders Bill, where the council will be liable for uplifts of more costs; the increase in Conditional Fee Arrangements and success fees; the portal scheme for liability claims to be introduced leading to shorter timescales to comply with protocol (currently 90 days to accept/deny liability) which most authorities struggle to do now

- Property and business interruption insurance – are officers involving the risk & insurance officer at the right time to advise of any changes to services that may affect the insurance portfolio – finding that data is incorrect when a claim arises – only notifying of changes upon renewal process, then still not clear of what they really want
- UK fraud – costing in excess of €2.6 billion (although mainly in the private sector) it is increasing in the public sector – absence management, staff, time etc.
- Financial crisis (again) – it seems following recent meetings attended that the financial crisis is here to stay – for at least another 10 years – the USA seems to be going through the recession again; the UK aimed to assist companies
- Professional & official indemnity claims are on the increase both at this council and neighbouring authorities – schemes undertaken where officers follow legal practices & procedures but are now being challenged by Third Parties, and in some cases winning.
- Civil unrest – Syria, Israel, Spain, Chile are all still ongoing disputes, and the impact could be potential financial implications to the council – the UK government bailing out these countries, leading to implications on our own economy, employment and immigration.
- The pension problem – in Europe the pension's crisis has been in the news recently - the sovereign debt being blamed – the Pension Insurance Corporation London warns that defined pension funds could be hit hard of the European sovereign debt crisis creates a re-run of the credit crunch. In the USA the US Congress is proposing a federal approach that could enable states to declare bankruptcy as a way to duck their promises to pensioners and bondholders – could this follow in the UK?
- Changes to the default retirement age - the UK default retirement age is being abolished later this year and there will be potential challenges from an ageing workforce – physical demands for some jobs could produce an increased risk of accidents and health impairment (although the UK Health & Safety Executive reported this year that overall there is no evidence that older workers are more at risk of workplace accidents or injury than their younger counterparts)
- Terrorism – there is an increase in attacks from all sectors, not just the Middle East – there is a tendency to think "it won't happen to us" – there has been an increase in activity/attacks in Northern Ireland; in Norway which had the smallest percentage of terrorism has just seen the worst attack in its history. There is a chance that it comes from "within" society (internal) rather than external attacks.
- Cyber risks – although this has been headline news previously, in recent months "hacktivists" have been working globally to enter companies databases and steal information, whether it be personal data, revenge attacks or just to attack the reputation of these host companies, albeit Google, Sony, PayPal or even the FBI. Although this is global, there is still the potential for this kind of revenge attack to take place at the council due to a disgruntled customer, employee or external company – "they probably aren't interested in me" isn't an excuse – making sure good security for your customers' data is a legal requirement under the Data Protection Act. The above companies will have the same, if not better protection, but they still got in!

  In a report by Detica, commissioned by the UK government, cyber crime is costing the UK alone £27bn a year (the lions share of £21bn is from the private sector).

These risks will potentially affect the council and its practices in the coming months/years, however some are beyond the control of the council – it is normally the knock-on effect through insurance premium increase and fall out of other businesses responses to these risks that can change how we manage our own.

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

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

4. **Legal and Statutory Implications**

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

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

5. **Equality Impact Assessment**

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

6. **Financial and Resource Implications**

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

7. **List of Appendices**

Appendix A – Extreme Risks and Action Plan 2011/12.

8. **Background Papers**

None.

Extreme Risks
Risks that have increased in rating
Risks that have decreased from Extreme to High rating
Risks that have remained the same from last 1/4 report
New risks

	Appendix A Extreme Risks and Action Plan 2011/12 **Risk Identified**	**Profile**	**Action Required to Address Risk** in order to reduce the risk	**Target Date** for action completion	**Risk Category** Strategic, Operational, Project	**Current position / progress** as at 08/09/2011	**Status** as at Dec 10	**Status** as at March 11	**Current Status** as at June 11
1	Due to the nature of the project at the Midway Car Park, there is a risk of increased maintenance expenditure after 20 years of the current repairs as the life expectancy of the parts not currently being repaired will reduce	Midway Car Park - 25 year plan	There is a need to build a contingency into the financial plans of the council to enable these works to be undertaken. Also a planned inspection regime will be designed to take into account any defects/faults that could be repaired for the short term	Jun-11	Project	Works continuing on the Midway following a 6 month break	Extreme	Extreme	Extreme
2	ITC system failure - Systems failure results in breach of business continuity requirements, business impact assessments and potential loss of data / information.	ICT services	Build disaster recovery facility at Kidsgrove Town Hall - hardware and resiliant link to Civic Offices to be put in place and then replication of critical software.	Sep-11	Operational	Test done in Aug 11 to look at replication data - major systems check done but still waiting for data from BIA's. The resiliant link from KTH to Guildhall is working. Still to fine tune the 1GB link from Civic to KTH and KTH to Guildhall	-	-	Extreme
3	A risk has been identified regarding the failure to go ahead with the retail-led development of the Ryecroft	Town Centre Strategic Acquisition	There is a need to complete the refresh of the town centre strategic options appraisal, and to look at the business case regarding the future of the Civic Offices	Nov-11	Operational	Work ongoing	Extreme	Extreme	Moderate

Appendix A

	Extreme Risks and Action Plan 2011/12 **Risk Identified**	**Profile**	**Action Required to Address Risk** in order to reduce the risk	**Target Date** for action completion	**Risk Category** Strategic, Operational, Project	**Current position / progress** as at 08/09/2011	**Status** as at Dec 10	**Status** as at March 11	**Current Status** as at June 11
4	A risk has been identified in respect of critical information being wrongly destroyed, not kept or can't be found	Managing Information Risks	Procedure manuals are to be produced to run alongside the Managing Information policies	Dec-12	Operational	Awaiting for approval of Managing Information policies	Extreme	Extreme	High
5	Failure to secure a development partner to deliver the retail-led development of the Ryecroft	Town Centre Strategic Acquisition	Business case to be prepared along with active pursual of development partner.	Dec-11	Operational	Target date for obtaining development partner is now Nov/Dec 11 due to involvement of Staffs CC as partners and the tendering process for external advisors to be able to build business case	Extreme	High	High
6	Failure to realise a market return on the council's capital investment	Town Centre Strategic Acquisition	A programme to be produced to procure a development partner and to commission a specialist to design and procure any necessary works of improvement	Mar-12	Operational	as above	High	High	High
7	Short term impact on town centre retail businesses	Town Centre Strategic Acquisition	Implementation of town centre street market improvement programme, encourage development of town centre business-led partnership, and actively pursue designation of Newcastle as a business improvement district.	Jun-12	Operational	No change from last report - Target date of street market upgrade amended to integrate with the lead-in time of the Hassall Street closure works and public consultation completed. Informal partnership with Business community established.	High	High	High

	Extreme Risks and Action Plan 2011/12 **Risk Identified**	**Profile**	**Action Required to Address Risk** in order to reduce the risk	**Target Date** for action completion	**Risk Category** Strategic, Operational, Project	**Current position / progress** as at 08/09/2011	**Status** as at Dec 10	**Status** as at March 11	**Current Status** as at June 11
8	A risk has been identified regarding the potential increase in the number of insurance claims in relation to the Midway Car Park if the works are not carried out	Midway Car Park - 25 year plan	No further actions have been identified for this risk, as it will incorporate a number of other further actions throughout the risk profile for the project relating to the maintenance/repair of the car park		Project	Phase 1 of the works complete. Phase 2 due to be commenced in March 11.	High	High	High
9	A risk has been identified in respect of the fabric of the St Giles & St Georges School building deteriorating.	Refurbishment of St Giles & St Georges	Trying to pool resources to enable the best possible scheme, and to establish a lease with the successful organisation to enable benefits to be brought to the community	Sept-11	Project	Prospective tennants undertaking architectual and conditions studies to establish preferred design/uses of the building as well as establishing more precise scheme sales.	High	High	High
10	A risk that as been identified in relation to the relocation of the market to Lower High Street is in respect of the possibility of flooding in that area resulting in financial implications and reputation damage	Relocation of Market	Review the drainage design plan once development is due to start to ensure that it is still fit for purpose	Jun-12	Project	Outcome of public consultation process to capture any necessary and possible further design revisions.	High	High	High

	Extreme Risks and Action Plan 2011/12 **Risk Identified**	**Profile**	**Action Required to Address Risk** in order to reduce the risk	**Target Date** for action completion	**Risk Category** Strategic, Operational, Project	**Current position / progress** as at 08/09/2011	**Status** as at Dec 10	**Status** as at March 11	**Current Status** as at June 11
11	There is a risk that the project would fail to get planning permission to build the Health & Wellbeing Centre	Jubilee2	Planning permission was agreed in relation to the build of Jubilee2, however the further action will be to discharge all the conditions that were put in place with this agreement. Once carried out - which will be throughout the build of the centre - the likelihood of permission changing should reduce to a minimum level	Dec-11	Project	Construction is now underway on the site - conditions are being met where required. Monthly project meetings with the contractor to ensure progress aligned with agreed programme including compliance with planning conditions.	High	High	High
12	Insufficient finance to realise/implement the Carbon Management Programme	Energy Efficiency, Climate Change Strategy and Carbon Management Plan	None identified		Project/Operational			High	High
13	Carbon Trust Programme Board fail to deliver on the Carbon Management Programme	Energy Efficiency, Climate Change Strategy and Carbon Management Plan	None identified		Project/Operational	Risk is still live, however there is new action to identify resources to carry out the delivery of the government targets, which has to be delivered annually		High	High