Borough of Tamworth

Marmion House,
Lichfield Street, Tamworth,
Staffordshire B79 7BZ.

Enquiries: 01827 709 709
Facsimile: 01827 709 271

AUDIT AND GOVERNANCE COMMITTEE

23 June 2011

Dear Councillor

A Meeting of the Audit and Governance Committee will be held in **Committee Room 1 - Marmion House on Thursday, 30th June, 2011 at 6.00 pm.** Members of the Committee are requested to attend.

Yours faithfully

A G E N D A

NON CONFIDENTIAL

1 Apologies for Absence

2 Minutes of the Previous Meeting (Pages 1 - 2)

3 Declarations of Interest

To receive any declarations of Members' interests (personal and/or personal and prejudicial) in any matters which are to be considered at this meeting.

When Members are declaring a personal interest or personal and prejudicial
interest in respect of which they have dispensation, they should specify the nature of such interest. Members should leave the room if they have a personal and prejudicial interest in respect of which they do not have a dispensation.

4 Annual Audit Fee 2011/12 Letter (Pages 3 - 6)

Report of the Audit Commission

5 Annual Governance Statement & Code of Corporate Governance (Pages 7 - 36)

Report of the Head of Internal Audit Services

6 Draft Accounting Policies 2010/11 (Pages 37 - 68)

Report of the Deputy Director Corporate Finance, Exchequer & Revenues

7 Regulation of Investigatory Powers Act 2000 (Pages 69 - 70)

Report of the Solicitor to the Council and Monitoring Officer

People who have a disability and who would like to attend the meeting should contact Democratic Services on 01827 709267 or e-mail committees@tamworth.gov.uk preferably 24 hours prior to the meeting. We can then endeavour to ensure that any particular requirements you may have are catered for.

To Councillors

MINUTES OF A MEETING OF THE

AUDIT & GOVERNANCE COMMITTEE

HELD ON 26th May 2011

PRESENT: Councillors – Mrs M Gant, R Cook, S Doyle, S Munn, and P Seekings.

Officers – John Wheatley, Corporate Director Resources, Stefan Garner, Deputy Director Finance Exchequer and Revenues, Angela Struthers, Head of Internal Audit Services, Lara Allman, Democratic & Election Services Assistant.

Visitors - Audit Commission - James Cook, Joan Barnett.

… **APPOINTMENT OF CHAIR**

It was moved by Councillor R Cook and seconded by Councillor S Munn that Councillor M Gant be appointed Chair

RESOLVED: That Councillor M Gant be appointed Chair.

… **APPOINTMENT OF VICE CHAIR**

It was moved by Councillor M Gant and seconded by Councillor R Cook that Councillor S Doyle be appointed Vice Chair

RESOLVED: That Councillor S Doyle be appointed Vice Chair.

... **APOLOGIES**

Jane Hackett, Solicitor to the Council and Monitoring Officer

… **MINUTES**

The minutes of the meeting held on 31st March 2011 were approved and signed as a correct record subject to amendment.

… **DECLARATIONS OF INTEREST**

There were no declarations of interest.

… **COMMUNICATION WITH THE AUDITOR TAMWORTH BOROUGH COUNCIL AUDIT 2011/11**

The report of the Audit Commission was considered.

Resolved: That the contents of the Report be endorsed

... **INTERNAL AUDIT QUARTERLY REPORT 2010/11**

The report of the Head of Internal Audit Services informed members on the outcome of Internal Audit's review of the internal control, risk management and governance framework in the 4th quarter of 2010-11 and provided members with assurance of the ongoing effective operation of an internal audit function and enable any particularly significant issues to be brought to the Committee's attention.

Resolved: That the internal audit quarterly report be endorsed.

… **COUNTER FRAUD & CORRUPTION 2010/11**

The report of the Head of Internal Audit Services on the counter fraud and corruption work completed to date was completed.

Resolved: That the counter fraud and corruption report be endorsed.

… **VIREMENTS UPDATE**

The Deputy Director Corporate Finance, Exchequer and Revenues advised Members that following presentation to the committee on 21st October of 2 higher level virements processed during the first half of the 2010/11 financial year, no higher level virements had been processed during the second half of the financial year. Following changes to financial guidance at the meeting on 31st March, this provided an opportunity for members to review the level and timing of virement monitoring reports.

Resolved: That a half yearly report of virements be brought to Committee highlighting the virements authorised by Chief Officers and Heads of Service that are above the previous virement limit of £25,000.

Chair…………………………………………………

30th June 2010

8 April 2011

Tony Goodwin
Acting Chief Executive
Tamworth Borough Council
Marmion House
Lichfield Street
Tamworth
Staffordshire
B79 7BZ

Direct line 0844 798 6689
Direct fax 0121 733 7183
Mobile 0796 853 5804
Email j-cook@audit-commission.gov.uk

Dear Tony

Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Tamworth Borough Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- The audit of financial statements
- Value for money conclusion
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

Audit Commission, 1st Floor, No.1 Friarsgate, 1011 Stratford Road, Solihull, B90 4BN
T 0844 798 7173 **F** 0121 733 7183 www.audit-commission.gov.uk

The scale fee for Tamworth Borough Council is £109,250. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, shown in the table below. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	**£109,250**	**£115,000**
Certification of claims and returns	**£31,500**	**£31,500**

I will issue a separate audit plan in March 2012. This will detail the risks identified to both the financial statements audit and the VFM conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Deputy Chief Executive & Corporate Director (Resources). I will then prepare a report outlining the reasons the fee needs to change for discussion with the Audit & Governance Committee.

I propose to review the Council's arrangements to secure financial resilience; and prioritising of resources within tighter budgets to support the VFM conclusion. I will issue a detailed project plan before work begins.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
James Cook Engagement Lead	j-cook@audit-commission.gov.uk 0844 798 6689	James is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of Audit Committee and issuing the auditor's report.
Joan Barnett Engagement Manager	j-barnett@audit-commission.gov.uk 0844 798 3963	Joan manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director Resources.
Mat Berrisford Team Leader	m-berrisford@audit-commission.gov.uk 0844 798 6676	Mat has experience of auditing the financial statements of large local authorities. He will lead the on-site team in delivering the audit.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk).

Yours sincerely

James Cook
Engagement Lead

cc John Wheatley, Deputy Chief Executive & Corporate Director (Resources)

cc Cllr Maureen Gant, Chair of the Audit Committee

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Audit Committee.

Table 1

Planned output	Indicative date
Audit plan	March 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

AUDIT & GOVERNANCE COMMITTEE

30th June 2011

Report of the Head of Internal Audit Services

ANNUAL GOVERNANCE STATEMENT & CODE OF CORPORATE GOVERNANCE

Purpose

To inform Members of the Committee of the process followed in producing a Corporate Annual Governance Statement and revised Code of Corporate Governance in accordance with statutory requirements, and to approve the proposed draft Statement and Code of Corporate Governance.

Executive Summary

The Authority is required to produce a public Annual Governance Statement (AGS) in accordance with the Accounts and Audit Regulations 2009 (as amended). The AGS must be published with the Authority's Annual Statement of Accounts. The AGS is a document which sets out the arrangements within the Authority for ensuring:

1. That there is a sound and robust governance framework, that the framework is regularly reviewed; and
2. It is expected that any instances of significant shortfalls in governance issues/arrangements are referred to within the AGS.

The Accounts and Audit (Amendment) (England) Regulations 2011 require that the Statement should be considered by a Committee of the Council – the Audit and Governance Committee are charged with this function.

Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) sets out the process by which the outcomes of the various arrangements within the Authority forming part of the governance framework should be brought together to inform the AGS. The guidance provides a model "Assurance Gathering Process" setting out the typical expected control arrangements and gives examples of the sorts of evidence which may be available within an authority to show that these controls are in place.

Relevant officers responsible for/involved in the main assurance processes have followed a process in accordance with CIPFA's guidance to enable the model "Assurance Gathering Process" document to be completed. Members should also note that the AGS is informed by other processes such as the annual accounts closedown process, managers assurance statements, members governance questionnaire, external audit reviews and inspections and the Head of Internal Audit Services Annual Audit Report.

In June 2009, CIPFA launched its "Statement on the Role of the Chief Finance Officer in Public Service Organisations" and during 2010 launched a similar document "The Statement on the Role of the Head of Internal Audit in Local Government". Both statements support CIPFA's work to strengthen governance and financial management across public services. Both of the CIPFA's statement sets out five principles that define the core activities and behaviours of the role of the Chief Finance Officer and that of the head of Internal Audit and the governance requirements needed to support them. For each principle, the statement sets out the governance arrangements required within an organisation to ensure that Chief Finance Officers and Heads of Internal Audit are able to operate effectively and perform their core duties and responsibilities. CIPFA recommends that organisations should use these statements as a framework to benchmark their existing arrangements, and that they should report publicly on compliance to demonstrate commitment to good practice in both governance and financial management. We have benchmarked our arrangements to the Statements and comply with the Statements. This compliance is reflected in the Annual Governance Statement.

The proposed AGS arising from these processes is attached as **Appendix 1** for Members consideration. It should be noted that the AGS only includes significant governance issues.

The significant governance issue identified is:

Issue	Proposed Actions
Medium Term Financial Strategy Keep the medium term financial strategy under continuous review to ensure it addresses the changing economic circumstances	The Medium Term Financial Strategy is under continuous review to take account of current circumstances and that planned savings are implemented/achieved.

Other actions requiring attention have been identified through the assurance gathering process and as such will form an action plan (**Appendix 3**). These actions will be entered onto the Covalent Performance Management System to aid monitoring and review. Interim reporting of actions completed will be presented to the Audit & Governance Committee and Cabinet.

To achieve good governance, the Authority should be able to demonstrate that it is complying with the core and supporting principles contained in the guidance and should therefore develop and maintain a local code of governance appropriate to its circumstances and comprising the requirements for best practice as set out in the CIPFA/SOLACE guidance. As such the code has been reviewed and is attached as **Appendix 2**.

The Authority can demonstrate that it complies with the core and supporting principles and complies with best practice.

Policy, Capital & Revenue Budget – Background

There are no direct financial implications arising from this report.

Implications of this report

There are considered not to be any new or changed staffing, financial, community/performance planning, sustainable development, community safety, equal opportunities or human rights implications directly as a result of this report. The report reflects developments in highlighted areas for improvement. Where specific developments are proposed to involve a significant implication in any of the above aspects, members will be advised accordingly.

Risks are as identified in the body of the report.

This report does not seek a Key Decision.

Recommendation

a) That the Committee endorse the process followed and the attached document setting out the current position within the Authority on the various sources of assurance and evidence be considered and approved by the Committee;
b) That the proposed AGS be agreed by the Committee as appropriate for presentation to the external auditor and for inclusion in the Annual Statement of Accounts ; and
c) That the proposed Code of Corporate Governance be agreed.

"If Members would like further information or clarification prior to the meeting please contact Angela Struthers, Head of Internal Audit Services on ext 234."

Background Papers – Managers Assurance Statements, Compliance with the Code of Corporate Governance review document , review of compliance to the Statements on the Role of the Chief Finance Officer in Public Service Organisations and the Role of the Head of Internal Audit in Local Government, Code of Practice for Internal Audit in Local Government in the UK review document.

ANNUAL GOVERNANCE STATEMENT 2010 - 11

1 SCOPE OF RESPONSIBILITY

Tamworth Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* A copy of the code is on our website at www.tamworth.gov.uk . This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 (as amended) in relation to the publication of an annual governance statement.

2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

3 THE GOVERNANCE FRAMEWORK

The Council operates a number of processes that constitute, or contribute to the operation of the governance framework, including:

3.1 The Tamworth Strategic Partnership (TSP) provides the leadership and strategic direction necessary to achieve the shared priorities and objectives of Tamworth. The TSP Board is made up of members of various relevant organisations and task and finish groups are in place.

3.2 From the corporate vision and priorities, service areas produce annual business plans to identify and monitor performance targets and actions;

3.3 Executive meetings of CMT and Cabinet are held on a regular basis;

3.4 Performance management arrangements in place ensure that progress on business plans and achievement of corporate objectives are monitored on a quarterly basis;

3.5 Annual financial statements are published in accordance with a prescribed timetable;

3.6 Council wide and service specific quality promises are in place and made available to the public through publication on the website and through publications available at all council establishments;

3.7 The Tell Us complaints procedures are available to all members of the public through council establishments and the website. Complaints are monitored and reported on, on a monthly basis;

3.8 The Anti Fraud and Corruption Strategy and guidance notes and Confidential Reporting Policy were revised in February 2009 and made available to staff and members through availability on the Intranet; staff were issued and accepted these policies through a computerised policy management system. Members of the public can access the documents through the Council's website. The Anti fraud and Corruption Strategy identifies the Council's commitment to Counter Fraud;

3.9 Value for money is measured through participation in benchmarking exercises. A Value for Money working group has been established with membership across all service areas to improve value for money and the identification of savings;

3.10 The quality of services is measured through performance indicators and service delivery milestones which are monitored through the Covalent performance management system;

3.11 The Constitution sets out a clear statement of respective roles and responsibilities of the executive, non executive, scrutiny and officer functions. The Constitution is reviewed on an annual basis;

3.12 The Scheme of Delegation is reviewed on an annual basis;

3.13 There is a code of conduct in place for members and a member/officer protocol;

3.14 Standing Orders, Financial Regulations and Financial Guidance were updated in March 2011 and are reviewed on a regular basis;

3.15 The Audit & Governance Committee undertakes the core functions of an Audit Committee as identified in *CIPFA's Audit Committee – Practical*

Guidance for Local Authorities. The Audit & Governance Committee have completed a self assessment of their effectiveness during 2010/11;

3.16 There is a Governance Working Group in place which reviews Governance documents;

3.17 The operation of statutory officer roles, ie Head of Paid Service (the Chief Executive), Section 151 Officer (Corporate Director - Resources) and Monitoring Officer (Solicitor to the Council) to ensure compliance with laws and regulations. The Monitoring Officer's role is to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and Section 151 Officer, the Monitoring Officer will report to the full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered;

3.18 The Statutory Officers are members of the Corporate Management Team (CMT);

3.19 The financial management of the Authority is conducted in accordance with the financial rules set out in Part 4 of the Constitution and within Financial Regulations and Guidance. The Council has designated the Corporate Director - Resources as the responsible financial officer in accordance with Section 151 of the Local Government Act 1972. The Council has in place a four-year Medium Term Financial Strategy (Capital & Revenue), updated annually, to support the medium-term aims of the Corporate Plan;

3.20 The Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2010);

3.21 The Authority's internal audit arrangements conform to the requirements of the CIPFA Statement of the Role of the Head of Internal Audit;

3.22 The role of scrutiny is continuously being developed;

3.23 Records of decisions made at Committee meetings are available on the website;

3.24 A Members register of interests is available to the public through the website;

3.25 A Members induction scheme is in place and individual training needs are identified;

3.26 Local induction programme is completed for officers. Personal development reviews are completed annually and reviewed six monthly. Job descriptions and person specifications are in place with all job descriptions reviewed in 2005 as part of the Job Evaluation process. Job descriptions are regularly reviewed as part of the PDR process. An annual staff AGM takes place;

3.27 Training for Councillors is provided on Governance and other issues;

3.28 Committee meetings are open to the public unless there are confidential items;

3.29 Consultation Strategy 2009/2011 is in place;

3.30 There is a Standards Committee in place to promote and ensure high standards of conduct for members;

3.31 Tamworth Listens is an annual consultation process used to inform corporate priorities;

3.32 A Partnership Guidance Policy is in place.

A review against the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2010) has been completed and the authority's financial management arrangements conform to this.

4 REVIEW OF EFFECTIVENESS

Tamworth Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Senior Managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and the comments made by the External Auditors and other review agencies and inspectorates.

This review is an ongoing process, and during the year various activities, including the following, have been undertaken as part of this review:-

4.1 The Local Code of Corporate Governance is reviewed on an annual basis and an action plan is adopted to deal with any issues;

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

4.3 Review of existing policies as appropriate, production and approval of new or revised policies and procedures;

4.4 Further development and embedding of risk management;

4.5 The continued extension of management review processes (eg Transforming Tamworth and Support Services Review) by which the effectiveness of processes, resource use, and necessary improvement, is considered;

4.6 Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate an audit plan which is approved by the Audit & Governance Committee, and from which the annual workload is identified. The reporting process for Internal Audit requires a report on each audit to be submitted to the relevant service manager, Assistant Director and Corporate Director. The report includes recommendations for improvements that are included within an action plan and require agreement or rejection by service managers. The process includes follow-up within 6 months of the implementation of agreed actions to address recommendations;

4.7 The Head of Internal Audit Services provides a quarterly and annual opinion statement to the members charged with governance – the Audit & Governance Committee;

4.8 The Internal Audit Section is subject to regular inspection by the Council's External Auditors who place reliance on the work and its quality carried out by the section;

4.9 The Authority has access to various Anti Fraud networks and participates in the National Fraud Initiative.

4.10 Managers are required to provide statements of assurance with regard to the adequacy of internal controls in their areas of responsibility, which are reflected in this Statement where necessary;

4.11 The Authority receives reports from the Audit Commission in relation to its governance and internal control, and considers and takes action on their recommendations as appropriate;

4.12 Internal Audit complete a self assessment against the CIPFA Code of Internal Audit Practice and comply with the Code;

4.13 Annual Ombudsman's report is presented to the Audit & Governance Committee;

4.14 CMT meet on a fortnightly basis and part of the remit is to address matter on performance;

4.15 VFM working group in place which looks at areas of improvement. Various services completing benchmarking to aid performance improvement. Audit Commission VFM profile tool being used to allow high level analysis of comparative spend and performance;

4.16 The CMT acts as the Risk Management Group and risk management performance is reported to the Audit & Governance Committee;

4.17 The Civil Contingencies Working Group meets bi monthly to develop the business continuity plan within the Authority. The Assistant Director – Business Processes is chair of the and liaises with other authorities within Staffordshire co-ordinated through the Civil Contingencies Unit of Staffordshire Fire Service which aims to help all authorities in Staffordshire in having robust BCM arrangements and promote BCM to the Business and voluntary sectors in compliance with the Civil Contingencies Act;

4.18 A Security Management Group is in place which reviews security issues, IT policy and operating standards;

4.19 Treasury Management Strategy and Policies are presented to the Audit & Governance Committee for scrutiny.

5 SIGNIFICANT GOVERNANCE ISSUES

The Council is satisfied that the governance framework generally provides a reasonable assurance of effectiveness. However, there are a small number of issues that are significant enough to be highlighted, and will be subject to close monitoring until the Council is able to assure itself that the actions proposed to deal with them have been successfully concluded. Other minor issues highlighted through the assurance gathering process have been noted with planned actions to address these issues. Monitoring of the completion of these issues will be completed through reporting to the Audit & Governance Committee.

The significant issues and proposed actions are:

Issue	Proposed Actions
Medium Term Financial Strategy Keep the medium term financial strategy under continuous review to ensure it addresses the changing economic circumstances	The Medium Term Financial Strategy is under continuous review to take account of current circumstances and that planned savings are implemented/achieved.

Signed:

D Cook, Leader A Goodwin, Chief Executive

on behalf of the members and senior officers of Tamworth Borough Council

Date:

TAMWORTH BOROUGH COUNCIL

CODE OF CORPORATE GOVERNANCE 2011/12

Introduction

Governance is about how Local Government Bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, and culture and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

The core principles of good governance are:

- Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of Members and Officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

Each of these core principles is strengthened by supporting principles.

Tamworth Borough Council is committed to ensuring that the principles of good corporate governance are embedded within its culture and applied within a defined management process which is transparent to all stakeholders. By making explicit our high standards of self-governance we aim to provide a lead to potential partners, to the public, private or voluntary services and to our citizens. In order to meet this commitment we aim to observe the Code (attached **Appendix A)**.

Appendix A

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

Supporting principle 1.1: Exercising strategic leadership by developing and clearly communicating the Authority's purpose and vision and its intended outcome for citizens and service users.

We will

- Develop and promote the Authority's purpose and vision through robust mechanisms which will be clearly articulated and disseminated;
- Review on a regular basis the Authority's vision for the local area and its implications for the authority's governance arrangements;
- Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners;
- Publish an Annual Report or similar documentation a timely basis to communicate the Authority's activities and achievements, its financial position and performance. The Annual Report will include statements explaining our responsibility for the financial statements, confirming that we will comply with relevant standards and codes of corporate governance and on the effectiveness of our system of good governance;
- Put in place proper arrangements for the independent review of our financial and operational reporting processes.

Supporting principle 1.2: Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning.

We will

- Set standards and targets for performance in the delivery of services on a sustainable basis and with reference to equalities policies;
- Put in place sound systems for providing management information for performance measurement purposes;
- Monitor and report performance against agreed standards and targets and develop comprehensive and understandable performance plans;
- Put in place arrangements to allocate resources according to priorities;
- Foster effective relationships and partnerships with other public sector agencies and the private and voluntary sectors, and consider alternative means of service delivery where it is efficient and effective to do so, to

meet the need of the local community, and put in place processes to ensure that they operate effectively in practice;

- Respond positively to the findings and recommendations of external auditors and statutory inspectors and put in place arrangements for the effective implementation of agreed actions.

Supporting principle 1.3: Ensuring that the Authority makes the best use of resources and that tax payers and service users receive excellent value for money.

We will

- Decide how value for money is to be measured and make sure that the Authority or Partnership has the information needed to review value for money and monitor performance effectively;
- Measure the environmental impact of policies, plans and decisions.

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

Supporting principle 2.1: Ensuring effective leadership throughout the Authority and being clear about Executive and Non-executive functions and of the roles and responsibilities of the scrutiny function.

We will

- Have in place clearly documented protocols of the respective roles and responsibilities of the Executive and of the Executive's members individually and the Authority's approach towards putting this into practice;
- Ensure that the respective roles and responsibilities of other Authority Members, Members generally and of Senior Officers are clearly defined.

Supporting principle 2.2: Ensuring that a constructive working relationship exists between Authority Members and Officers and that the responsibilities of members and officers are carried out to a high standard.

We will

- Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision making of the Authority, taking account of relevant legislation, and ensure that it is monitored and updated when required;

- Make the Chief Executive responsible and accountable to the Authority for all aspects of operational management;
- Develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained;
- Make the Corporate Director - Resources (the S151 Officer) responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control to ensure compliance with all applicable statutes, regulations and relevant statements of best practice and will ensure that public funds are properly safeguarded and are used economically, efficiently and effectively, and in accordance with the statutory and other authorities that govern their use;
- Make the Solicitor to the Council (Monitoring Officer) responsible to the Authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

Supporting principle 2.3: Ensuring relationships between the Authority, its partners and the public are clear so that each knows what to expect of the other.

We will

- Develop protocols to ensure effective communication between Members and Officers and their respective roles;
- Set out terms and conditions for remuneration of Members and Officers and an effective structure for managing the process, including the effective remuneration panel;
- Ensure that effective mechanisms exist to monitor service delivery;
- Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated;
- When working in partnership, ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and the Authority;
- When working in partnership:
  - ensure that there is clarity about the legal status of the partnership
  - ensure that representatives of organisations both understand and make clear to all other partners the extent of their Authority to bind their organisation to partner decisions.

Core principle 3: Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

Supporting principle 3.1: Ensuring Authority Members and Officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance.

We will

- Ensure that the Authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect;
- Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the Authority, its partners and community are defined and communicated through codes of conduct and protocols;
- Put in place arrangements to ensure that Members and Employees of the Authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.

Supporting principle 3.2: Ensuring the organisational values are put into practice and are effective.

We will

- Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicate these with members, staff, the community and partners;
- Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice;
- Develop and maintain an effective standards committee;
- Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Authority;
- In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively.

Core principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

Supporting principle 4.1: Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny.

We will

- Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the Authority's performance overall and that of any organisation for which it is responsible;
- Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based;
- Put in place arrangements to safeguard Members and Employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice;
- Develop and maintain an effective Audit & Governance Committee which is independent of the Executive and Scrutiny functions;
- Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints.

Supporting principle 4.2: Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs.

We will

- Ensure that those making decisions whether for the Authority or the partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications;
- Ensure that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately.

Supporting principle 4.3: Ensuring that an effective risk management system is in place.

We will

- Ensure that risk management is embedded into the culture if the Authority, with members and managers at all levels recognising that risk management is part of their jobs;
- Ensure that effective arrangements for whistle-blowing are in place for officers, staff and all those contracting with or appointed by the Authority have access.

Supporting principle 4.4: Using their legal powers to the full benefit of the citizens and communities in their area.

We will

- Actively recognise the limits of lawful activity placed on us by, for example, the ultra vires doctrine but also strive to utilise our powers to the full benefit of their communities;
- Recognise the limits of lawful action and observe both the specific requirement of legislation and general responsibilities placed on authorities by public law;
- Observe all specific legislation requirements place upon us, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into our procedures and decision-making.

Core Principle 5: Developing the capacity and capability of Members and Officers to be effective

Supporting principle 5.1: Making sure that Members and Officers have the skills, knowledge, experience and resources they need to perform well in their roles.

We will

- Provide induction programmes tailored to individual needs, and opportunities for Member and Officers to update their knowledge on a regular basis;
- Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Authority.

Supporting principle 5.2: Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.

We will

- Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively;
- Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed;
- Ensure that effective arrangements are in place for reviewing the performance of the Executive as a whole and of individual members and agreeing an action plan which might aim to address any training or development needs.

Supporting principle 5.3: Encouraging new talent for membership of the Authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal.

We will

- Ensure that effective arrangements are in place which are designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Authority;
- Ensure that career structures are in place for members and officers to encourage participation and development.

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

Supporting principle 6.1: Exercise leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.

We will

- Make clear to ourselves, all staff and the community to whom we are accountable and for what;
- Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required;
- Produce an Annual Report on the activity of the Scrutiny function.

Supporting principle 6.2: Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning.

We will

- Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements and ensure that they operate effectively;
- Hold meetings in public unless there are good reasons for confidentiality;
- Ensure that arrangements are in place to enable the Authority to engage with all sections of the community effectively. These arrangements will recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands;

- Establish a clear policy on the types of issues we will meaningfully consult on or engage with the public and service users about including a feedback mechanism for those consultees to demonstrate what has changed as a result;
- On an annual basis, publish a performance plan giving information on the Authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period;
- Ensure that the Authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

Supporting principle 6.3: Making the best use of human resources by taking an active and planned approach to meet responsibility to staff.

We will

- Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making.

TAMWORTH BOROUGH COUNCIL

GOVERNANCE ACTION IMPLEMENTATION PLAN 2011 - 12

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
1	AAL	**Medium Term Financial Strategy** Keep the medium term financial strategy under continuous review to ensure it addresses the changing economic circumstances	H	The Medium Term Financial Strategy is under continuous review to take account of current circumstances and that planned savings are implemented/achieved.	M	Deputy Director – Finance, Exchequer & Revenues	31 July 2011
2	AAL	**Shared Services** Assess the opportunities for closer working with neighbouring Councils, including shared staff and services where appropriate.	M	Part of an on-going process of delivering efficiencies and improving service transformation.	M/L	Corporate Management Team	31 July 2011

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
3	AAL	**Financial Statements** Include the matters arising from the 2009-10- audit in the quality assurance checks on the accounts in future years	M	To be included in the final accounts working process	L	Deputy Director – Finance, Exchequer & Revenues	Completed
4	AAL	**Human Resources** Ensure that payroll details are properly checked to HR records on a regular basis and that evidence of the check is being properly maintained.	M	Independent review to be carried out by Human Resources	L	Assistant Chief Executive	Completed

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
5	AAL	**Fixed Assets** Introduce a systems control to require service managers to confirm continued existence and responsibility for assets	M	Assets to be signed off by Service Managers as at 31 March 2011.	L	Deputy Director – Finance, Exchequer & Revenues	Completed
6	AAL	**Depreciation of CCTV Cameras** Review the asset lives used to depreciate the CCTV cameras	M	To be completed as part of the final account process as agreed with the Audit Commission	L	Deputy Director – Finance, Exchequer & Revenues	30 June 2011

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
7	AAL	**Amortisation of Government Grants Deferred** Ensure that the amortisation of the Government Grants deferred account is consistent with the asset lives being used to calculate depreciation.	M	To be completed as part of the final accounts process as agreed with the Audit Commission.	L	Deputy Director – Finance, Exchequer & Revenues	Completed
8	AAL	**Value For Money** Consider whether any of the good practices from the recent developments in refuse collection and housing repairs arrangements can be applied to other areas of the Council.	M	To be completed as part of the efficiency improvement agenda.	L	Corporate Management Team	31 July 2011

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
9	AAL	**Value For Money** Assess whether there are further opportunities to share staff costs and expertise with neighbouring Councils to achieve further efficiencies	M	To be completed as part of the on-going process of delivering efficiencies and improved service transformation.	L	Corporate Management Team	31 July 2011
10	MAS	**Satisfaction Survey** Satisfaction surveys are not issued to service users of Member Services, Legal Services and Public Relations.	L	Satisfaction surveys to be completed for users of Member Services and Legal Services. Customer satisfaction monitoring mechanism with PR service to be implemented.	L	Solicitor to the Council Senior PR Officer	31 January 2012 31 August 2011

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
11	MAS	**Business Continuity** Business continuity plans are not tested on a regular basis within Democratic Services or PR And Communications.	M	Business Continuity testing to be completed Test to ensure that web continuity can be maintained by remote update by TBC and Unified/Alterian	M	Governance Officer Senior PR Officer	31 July 2011 31 December 2011
12	MAS	**Asset Inventory** An asset inventory is not maintained within Legal and Democratic Services.	M	Asset inventory to be completed.	L	Legal and Democratic Services Manager.	31 December 2011

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
13	MAS	**PDR's** PDR's are have not been completed for those with direct report to the Assistant Chief Executive. PDR's have not been completed for all staff within Finance, Exchequer & Revenues	M	To complete PDR's	L	Assistant Chief Executive Deputy Director – Finance, Exchequer & Revenues	31 July 2011 31 September 2011
14	MAS	**Performance Management** Performance measure are not defined and implemented within the PR & Communication Service.	M	Performance measure to be defined and implemented	L	Senior PR Officer Corporate Performance Officer	31 December 2011

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
15	MAS	**Partnerships** Partnerships are not reviewed to Partnership Guidance Policy within the PR & Communication Service.	M	Review partnership working in line with Partnership Guidance Policy.	L	Senior PR Officer Corporate Performance Officer	31 August 2011
16	MAS	**Project Management** Not all senior staff trained in Steps to Success training within the PR & Communication Service.	M	Steps to Success training to be arranged for Senior PR Officer.	L	Senior PR Officer	Completed

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
17	MAS	**Agreed Management Actions** Improvements required as noted in the agreed management actions identified from internal audit reports within the Asset Management and Environmental Management Services.	M	Services Managers to implement agreed management actions identified from internal audit reports.	M/L	Head of Asset Management Head of Environmental Management	31 March 2012 31 March 2012
18	GFA	**Succession Planning** Career structures are not in place for officers and members to encourage participation and development.	M	Succession planning to be discussed with the Head of Organisational Development.	M	Assistant Chief Executive	31 March 2012

Ref	Source	Area	Gross Risk	Remedial action	Residual Risk	Action owner	Implementation date
19	AGS	**Community Engagement** Improve insight about customer/residents needs by developing solutions with partners/neighbouring authorities	M	Council's Insight Strategy to be developed	M	Corporate Performance Officer	31 March 2012 Partially completed – Acorn software has been purchased with Staffs Connects Partnership for Insight purposes.
20	AGS	**Procurement Manual** Procurement manual requires revision and to be available to staff.	M	The Procurement Manual to be revised and made available on the Intranet	L	Procurement Officer	31 March 2012. Some work has been completed as part of the review of Financial Guidance
21	AGS	**Councillor Training and Development** There is no training and development programme for Councillors.	M	A training and development programme for Councillors to be devised and rolled out.	L	HR Advisor – Training & Development	31 March 2012. Partially completed – meeting with Leader of the Council and agreed in principle initial training needs.

AAL	Annual Audit Letter issued January 2011
MAS	Manager's Assurance Statements April 2011
AGS	Annual Governance Statement from last year – actions not shown as complete
GFA	CIPFA/SOLACE Governance Framework Assessment

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Agenda Item 6

AUDIT & GOVERNANCE COMMITTEE

30th June 2011

Report of the Deputy Director Corporate Finance, Exchequer & Revenues

DRAFT ACCOUNTING POLICIES 2010/11

PURPOSE

For Members to consider and approve the draft accounting policies adopted for the production of the 2010/11 Statement of Accounts.

RECOMMENDATION

That the draft Accounting Policies for the 2010/11 Statement of Accounts, detailed at Appendix 1, be approved.

EXECUTIVE SUMMARY

The new Accounts and Audit (England) Regulations 2011 which came into force on 31 March 2011 amends the procedure for approving and publishing the Statement of Accounts. They require that the 2010/11 accounts be approved by the Chief Finance Officer by 30 June 2011. The accounts will then be subject to the normal External Audit review by the Audit Commission.

Although there is now no formal requirement for this Committee to approve the accounts prior to audit, it is considered best practice that members have the opportunity to review the accounts. The 2010/11 Statement of Accounts (subject to audit) are being prepared and will be circulated prior to the meeting.

This Committee will still be required to formally approve the final Statement of Accounts by the 30th September 2011, following the receipt of the External Auditors 'Report to those charged with Governance' on the accounts.

The introduction of IFRS has significantly changed the way that Local Authority accounts are prepared and a large number of areas are subject to different accounting treatments to that under the Statement of Recommended Practice (SORP). There is also a requirement to restate and present the opening & closing balance sheets for 2009/10 together with comparative figures.

Conversion involved a considerable amount of additional work impacting on resources, budgets and other areas such as systems and processes. In addition, IFRS is not just a technical accounting issue for finance staff. Input from staff across the organisation has been required and this will continue through the adoption process.

At the meeting of the Committee on 21st October 2010, Members were presented with a workplan to deliver the accounts for 2010/11. The new reporting requirements meant additional resources had to be channelled to the production of the accounts in order to undertake the increasing completion requirements for 2010/11 and future years.

The draft accounts are the end result of the this workplan and once signed by the Corporate Director Resources, will be issued to the External Auditor on or before 30th June in compliance with the regulations.

IFRS requires Local Authorities to:

- Present the main accounts in a new format;
- Account for some assets and liabilities in a different way;
- Provide more detailed explanations of entries and movements in the accounts and notes;
- Introduce new terminology;
- Apply accounting policies that comply with IFRS.

Some of the accounting policies, on which the accounts will be prepared, need to change and this report provides an overview of changes in accounting policies that will be disclosed in the IFRS compliant financial statements of the Council for the 2010/11 Statement of Accounts.

The Council's accounting policies for 2010/11 are shown in Appendix 1.

The key changes in accounting policy impacting on the Council are outlined below:

KEY CHANGES IN ACCOUNTING POLICY 2010/11

1. Property, Plant & Equipment

a) Component accounting

IFRS places a greater emphasis on recognising components of assets such as roofs, windows etc. Where components of an asset are significant in value in relation to the total value of the asset as a whole, and they have substantially different economic lives, they should be recognised separately. For example, major assets such as the Council's Marmion House Offices are made up of separate elements that have different useful lives.

There is no requirement to apply these changes retrospectively and instead components should be recognised separately as and when they are replaced. Component accounting will have a very limited effect for the 2010/11 accounts.

b) Investment Property

IFRS introduces a definition of investment property that the old SORP did not have. An investment property is defined as a property which is held exclusively for revenue generation or for the capital gains that the asset is expected to generate. In this respect, the asset is not used directly to deliver the Council's services.

Investment properties are initially measured at cost and thereafter at market value.

c) Impairment of Property, Plant and Equipment

All impairments are charged to the revaluation reserve (where there is a balance relating to the specific asset). Where there is an insufficient balance in the revaluation reserve the remainder is charged to the surplus or deficit on the provision of services.

d) Non-Current Assets Held For Sale

IFRS introduces a new classification of non-current assets called 'assets held for sale'. Assets meeting this classification are those where the value of the asset will be recovered mainly by selling the asset rather than through usage.

To be classed as held for sale the asset must meet the following criteria:-

I. Be available for immediate sale in its present condition.
II. Its sale must be highly probable.
III. Management expect the sale to take place within twelve months.

Assets held for sale are to be valued at the lower of their existing balance sheet value or their estimated sale price less costs to sell.

2. Cash and Cash Equivalents

This is an expanded definition of cash to include Cash (bank balances and on demand deposits) with Cash Equivalents. Cash Equivalents are defined as short-term, highly liquid investments where the date of maturity is three months or less from the date of acquisition that are readily convertible to cash and which are subject to an insignificant risk of change in value. Previously, cash equivalents and on demand deposits were treated as Temporary Investments.

3. Government Grants and Other Capital Contributions

Under the current SORP arrangements, grants received by the Council towards capital expenditure are held in a Government/ Capital Contributions account and written off to revenue over the life of the asset the grant was used to purchase.

Under IFRS, all such grants are to be treated as revenue income as soon as any conditions relating to the grant have been met. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors.

4. Leases & Lease Type Arrangements

Leases can be classified as either finance or operating leases. If a lease transfers substantially all the risks and rewards incidental to ownership it will be classified as a finance lease regardless of its legal form.

International Accounting Standard (IAS) 17 specifies key criteria to ascertain whether a lease is to be treated as a finance lease or an operating lease. A comprehensive review of all of the Council's leases (lessee or lessor) has been required in order to identify the accounting treatment under IFRS.

For assets leased under a finance lease, the asset value should be recognised as either an asset or a liability in the Balance Sheet as appropriate and the annual payments consist of an amount of interest plus an amount to clear the relevant debtor or creditor.

Leases that do not meet the definition of finance leases are accounted for as operating leases and the income or expenditure is either credited, or charged to, service revenue accounts on a straight-line basis over the term of the lease
Under IFRS, the land and buildings elements of a lease of land and buildings require separate identification for both lease classification and subsequent valuation. In most cases, the land element of a lease will be an operating lease.

There were no finance leases included in the Council's 2009/10 accounts. The expectation of the changes under IFRS was that more assets would be classified as finance leases.

It should be noted that regulations have been put in place which mitigate the effect of lease re-classifications on the council taxpayer. However, these do not apply to leases let after 1st April 2010 which could mean treatment of the income of a lease as a capital receipt where considered a finance lease.

5. Employee Benefits - Short-term accumulating compensated absences

The Council implemented this requirement early (in 2008/09) and has therefore calculated and accounted for untaken annual leave and lieu time as at 31st March 2009, 2010 and 2011 in line with the requirements of IAS19 (Employee Benefits).

6. Prior Period Adjustments

Arising from the requirement to implement International Financial Reporting Standards (IFRS) for the 2010/11 year, the 2009/10 financial statements have been restated on an IFRS compliant basis so that comparisons can easily be made.

Previously only the correction of fundamental errors was required to be corrected as a prior period adjustment. Under international standards material errors are corrected as prior period adjustments. Disclosure of the effect of new standards not yet adopted is also required.

7. Operating Segments

Under IFRS, the Council is required to identify and disclose information in its financial statements in respect of operating segments. These are components of the Council about which separate financial information is available that is evaluated regularly by the Council's 'Chief Operating Decision Maker' (Cabinet / Council) in deciding how to allocate resources and in assessing performance. This will therefore require the Council to include additional financial information on its activities - analysed by Deputy or Assistant Director.

8. Borrowing Costs

The Council may choose to amend its accounting policy as, under IFRS, borrowing costs in respect of capital expenditure may be capitalised as long as the Council has a policy that allows it to do so. As the Council currently has no plans to borrow to finance capital expenditure there is no need to amend the existing policy but this will need to be kept under review in the future.

Background Information

In the March 2007 Budget Report, the Government announced that IFRS were to be adopted in the Central Government and Health Sectors from the 2008/09 financial year, the first year of the Comprehensive Spending Review 2007. For Local Government, the first year of adoption was announced as 2010/11. The rationale for doing this is to provide “benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice”.

An initial report was considered by the Audit & Governance Committee on 29th April 2009 (also emailed to Members in March 2009) with updates presented to the Committee on 22nd October 2009 and 21st October 2010.

Prior to 2010/11 local authorities were required to prepare their accounts using accounting policies based on UK Generally Accepted Accounting Practice (UK GAAP) and in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the SORP) prepared by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The SORP is based on UK Generally Accepted Accounting Principles (GAAP) but modified for local government where legislative requirements demand different treatments to UK GAAP. This was to ensure that there were arrangements in place to mitigate the potential effect upon Council Tax of certain transactions and to recognise the unusual nature of local authority funding.

There will no longer be a Local Authority SORP produced by CIPFA. For 2010/11, a Code of Practice on Local Authority Accounting has been prepared by CIPFA under the guidance of the Financial Resources Advisory Board (FRAB), which is the independent body responsible for overseeing the development of financial reporting within the UK public sector.

Resource and Value for Money Implications

As contained within the 2010/11 Draft Statement of Accounts.

Legal/Risk Implications

The following top level risks have been identified. The Covalent risk register is updated as required.

Risk No	Likelihood	Impact	Action Required to Manage Risk	Residual Impact
1	Further research reveals the IFRS implementation to be more complex and time consuming than thought initially	**M / H**	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies	**M**
2	Inadequate training	**L / M**	Research available training, ensure all relevant staff attend, training budget to be adequate	**L**
3	Failure to identify all leases	**L / M**	Ensure staff are trained and understand exactly what is required. Explore all sources thoroughly	**L**
4	Key staff leaving	**L / M**	Ensure there are sufficient skills within the team to cover	**L**
5	Incorrect interpretation of IFRS	**M / H**	Adequate training, sufficient resources. We have to comply with the new Code which has been prepared by CIPFA and recently published. Ensure all reasons for actions, inclusions and exclusions, are fully documented.	**M**
6	Guidance by CIPFA changing possibly causing delays	**M / H**	Regular review and rescheduling of project timetable	**M**

Report Author

Stefan Garner, Deputy Director Corporate Finance, Exchequer & Revenues, telephone 01827 709242, email: stefan-garner@tamworth.gov.uk

Background Papers

Implementation of International Financial Reporting Standards – Progress Report, Audit & Governance Committee, 21st October 2010

Implementation of International Financial Reporting Standards – Progress Report, Audit & Governance Committee, 22nd October 2009

Implementing International Financial Reporting Standards (IFRS), Audit & Governance Committee, 29th April 2009

ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31st March 2011. The Accounts and Audit Regulations 2011 require the Authority to prepare an Annual Statement of Accounts 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, 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.

2. ACCRUALS OF INCOME AND EXPENDITURE

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

a) Revenue from the sale of goods is recognised when the Authority 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 Authority.

b) Revenue from the provision of services is recognised when the Authority 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 Authority.

c) Supplies are recorded as expenditure when they are consumed – where considered material, where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

d) 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.

e) 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.

f) 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.

The Council's policy is to review all accruals over £500 to ensure that they are appropriate. Any accruals below this amount are not considered to be material.

3. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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 Authority's cash management.

4. EXCEPTIONAL ITEMS

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

5. 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 Authority'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.

6. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

a) depreciation attributable to the assets used by the relevant service;
b) 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; and
c) amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

7. EMPLOYEE BENEFITS

a) Benefits Payable During Employment

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

b) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority 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 relevant service line in the Comprehensive Income and Expenditure Statement when the Authority 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 or Housing Revenue Account to be charged with the amount payable by the Authority 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.

c) Post Employment Benefits - The Local Government Pension Scheme

The pension costs included in these accounts have been determined in accordance with government regulations and IAS 19. The standard requires the full recognition of the pensions liability (and the movement of its constituent parts) in the Comprehensive Income and Expenditure Statement. These requirements are included within the accounts in accordance with CIPFA recommended practice. Note 38 to the Core Financial Statements on page xx refers.

The employees of the Council may participate in the Local Government Pension Scheme administered by Staffordshire County Council, which provides defined benefits related to pay and service.

The Local Government Pension Scheme (LGPS) is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008:

I. The liabilities of the Staffordshire Local Government Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

II. 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 bond iBoxx Sterling Corporates AA Over 15 Years Index).

III. The assets of Staffordshire Local Government Pension Fund attributable to the Authority 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.

IV. 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 Authority, 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 Authority 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; and
   - contributions paid to the Staffordshire Local Government 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 and the Housing Revenue Account to be charged with the amount payable by the Authority 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 and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

d) Discretionary Benefits

The Authority 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.

e) Pension Estimation Techniques

Staffordshire County Council, the Administering Authority to the Staffordshire County Council Pension Fund instructed Hymans Robertson, an independent firm of actuaries, to undertake pension expense calculations on behalf of Tamworth Borough Council for the purpose of complying with International Accounting Standard 19 'Employee Benefits' (IAS19) for the period ending 31st March 2011.

The calculations have been carried out in accordance with the Pensions Technical Actuarial Standards (TAS) adopted by the Board for Actuarial Standards, which came into effect on 1st April 2011 and TAS D – Data, TAS M – Modelling and TAS R – Reporting.

In order to assess the value of the Fund's liabilities as at 31st March 2011, the value of the Employer's liabilities calculated as at the latest formal valuation has been rolled forward, allowing for the different financial assumptions required under IAS 19. In calculating the current service cost, changes in the pensionable payroll have been allowed for, estimated from contribution information provided. In calculating the asset share, the assets allocated as at the latest valuation, allowing for investment returns (estimated where necessary), the effect of contributions paid into, and estimated benefits paid from, the Fund by the Council and its employees have been rolled forward.

Note 38 to the Core Financial Statements on page xx has been prepared on the basis of these disclosures.

It is not possible to assess the accuracy of the estimated liability as at 31st March 2011 without conducting a full valuation. The estimated liability will not reflect differences in demographic experience from that assumed (e.g. early retirements) or the impact of differences between aggregate changes in salary and pension and changes for specific individuals.

As required under IAS 19, the projected unit method of valuation has been used to calculate the service cost.

A set of demographic assumptions (including life expectancy and commutation) have been adopted. The mortality assumptions adopted are consistent with those used for the formal funding valuation as at 31st March 2010.

The post-retirement mortality assumptions used are in line with the Actuary's Club Vita analysis which was carried out for the formal funding valuation as at 31st March 2010. These are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the fund and are based on the data provided for the purposes of the 2010 valuation. Medium cohort improvements and a 1% p.a. underpin, both from 2007, have also been applied.

The other demographic assumptions adopted (e.g. commutation, pre-retirement mortality) are the same as those used for the formal funding valuation as at 31st March 2010.

The financial assumptions used to calculate the components of the pension expense for the year ended 31st March 2011 were those from the beginning of the year (i.e. 31st March 2010) and have not been changed during the year. The financial assumptions used for the purposes of the IAS 19 calculations are detailed in Note 38 to the Core Financial Statements on page xx.

IAS 19 states that the discount rate used to place a value on the liabilities should be 'determined by reference to market yields at the end of the reporting period on high quality corporate bonds. It further states that 'the currency and term of the corporate bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations'.

In the past, a discount rate based on the yield available on a basket of AA-rated bonds with long terms to maturity (the iBoxx Sterling Corporates AA Over 15 Years Index) has been used. However, the constituents of the iBoxx Over 15 Years Index have durations that are somewhat shorter than those for the pension liabilities of a typical employer in the LGPS (estimated to be around 20 years).

An assessment has been performed on whether the iBoxx Over 15 Years Index remains appropriate for use in IAS 19 calculations for LGPS funds. It considered the yields available on long dated UK Government fixed interest bonds with a duration of around 20 years plus the median 'credit spread' applying to AA corporate bonds within the iBoxx Over 15 Years Index. It concluded that the average yield available on a UK Government fixed interest bond of 20 years duration, when added to the median credit spread on AA corporate bonds, was consistent with the iBoxx yield at the same date. Therefore the discount rate remains equivalent to the gross redemption yield on the iBoxx Sterling Corporates AA Over 15 Years Index at the IAS 19 valuation date with one slight amendment – the removal of recently re-rated bonds from the index.

Given the continued instability in the economic environment, the outlook for the majority of companies is still subject to a great amount of uncertainty. This means that company credit ratings are subject to change (mainly downgrading). It is possible that bonds that were previously rated AA may be re-rated and no longer make up part of the iBoxx AA Index.

Due to the way the index is calculated, any re-rated bonds drop out of the index at the beginning of the month following their re-rating therefore not affecting the end of month yields used for most accounting figures. Since re-rating during the previous month may have had a significant effect on the index, this has been allowed for by adjusting the previous end of month figure. For the 2010/11 financial year the discount rate derived from corporate bond yields as at 31st March 2011 was 5.5% p.a.

The inflation assumption (which the assumptions for salary growth and pension increases rely on) will be derived by considering the difference in yields available on traditional fixed interest and index-linked Government Bonds.

The pension increase assumption for 2010/11 will be in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This is as a result of the Emergency Budget announcement in June 2010. The CPI assumption will be calculated as RPI less 0.8% p.a., with RPI being calculated as outlined above. In previous years the pension increase assumption was in line with the assumption for RPI. This change in pension increase assumption is regarded as a change in benefit and will be treated as a past service credit in line with CIPFA recommendations.

The salary increase assumption has changed this year. Based on an analysis of membership in LGPS funds, and taking into account the Government's public sector pay freeze for all but those earning less than £21,000 p.a. (announced in June 2010), the average expected increase in pensionable pay across all employees should be around 1% for the next year. The salary increase assumption is therefore 1% p.a. for the next year, reverting back to RPI plus 1.5% from year 2 onwards. This is a change from previous years where RPI plus 1.5% was used for all future years.

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 31st March 2010).

IAS 19 requires that the expected return on assets is to be set by the Employer having taken actuarial advice. The expected returns are detailed in Note 38 to the Core Financial Statements on page XX.

8. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period (30th June) and the date when the Statement of Accounts is authorised for issue (30th September). Two types of events can be identified:

a) 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

b) 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.

9. FINANCIAL INSTRUMENTS

a) Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority 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 most of the borrowings that the Authority 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.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/ settlement. However, where any repurchase takes place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid (up to a maximum of 10 years for the Housing Revenue Account). The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund or Housing Revenue Account is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

b) 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.

I. Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority 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 Authority 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.

The accounting requirements for impairing investments (such as investments placed with Icelandic Banks) have been made in line with Cipfa guidance with the loss included in the surplus or deficit on the Comprehensive Income and Expenditure Statement in line with advice and information from the administrators.

II. Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis;

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).

III. Instruments Entered Into Before 1 April 2006

The Authority 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 provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

10. 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 Authority when there is reasonable assurance that:

a) the Authority will comply with the conditions attached to the payments, and

b) 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 (ABG)

ABG is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

11. INTANGIBLE ASSETS

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure over a de-minimis level of £10,000 is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority’s goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority 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.

12. INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that would require it to prepare group accounts.

13. INVENTORIES AND LONG TERM CONTRACTS

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

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

14. 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 but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure

Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.
Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

16. LEASES (IAS 17)

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.

a) The Authority as Lessee

I. 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 Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

II. Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

b) The Authority as Lessor

I. Finance Leases

Where the Authority 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 Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

The written-off value of disposals is not a charge against council tax, as the cost of 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.

II. Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

c) Statutory Requirements

Regulations were introduced in England and Wales after the publication of the 2010/11 Code that mitigated the impact of lease reclassification on income received when an authority was acting as a lessor. This means that income received under a lease that was reclassified on transition to IFRS continues to be treated as either a capital receipt or as revenue income according to its status prior to reclassification.

Where a lease has been reclassified as a finance lease on transition to IFRS, income received under the lease continues to be treated as revenue income – and transferred from the capital receipt to the General Fund and reported in the Movement in Reserves Statement.

Where a lease has been reclassified as an operating lease on transition to IFRS, any income that would, prior to the reclassification, have been treated as a capital receipt is transferred from the General Fund to the Capital Receipts Reserve, and reported in the Movement in Reserves Statement.

17. 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 Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – impairment losses chargeable on Assets Held for Sale.

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.

18. 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.

a) Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, subject to a de-minimis level of £10,000, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

b) Measurement

Assets are initially measured at cost, comprising:

I. the purchase price;
II. 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;
III. the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). 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 Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

I. infrastructure, community assets and assets under construction – depreciated historical cost;
II. dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH);
III. 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 that 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. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

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

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

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

c) 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:

I. where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down firstly against that balance (up to the amount of the accumulated gains); & then
II. 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.

d) Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

I. dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;

II. 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;

III. infrastructure – straight-line allocation over 30 years.

IV. Council Housing Stock - Depreciation is calculated on a straight line basis to an appropriate residual value over the expected useful life of the asset of 50 years.

V. Other Land and Buildings - Depreciation is calculated on a straight line basis to a nil residual value over the expected useful life of the asset being a range of 5 years to 100 years.

VI. Vehicles, Plant etc - Depreciation is calculated on a straight line basis to a nil residual value over the expected useful life of the asset, being between 1 and 20 years.

VII. Infrastucture - Depreciation is calculated on a straight line basis to a nil residual value over the expected useful life of the asset of 30 years.

VIII. Community Assets - Depreciation is calculated on a straight line basis to a nil residual value over the expected useful life of the asset of 100 years.

IX. Computer Hardware - Computer hardware is depreciated over a period of 3 years on a straight line basis to a nil residual value.

X. Investment properties & Surplus assets - No depreciation has been applied to either the land or building value of investment properties or surplus assets

XI. Intangible Fixed Assets:

Software - Computer software licences are amortised to revenue over a period of 3 years.

In 2009/10, Council Dwellings depreciation was based upon an expected useful life of the asset of 125 years. A change in the estimation basis has been implemented as at 1st April 2010 which means Council Dwellings are depreciated on a straight line basis over an expected useful life of 50 years.

XII. Furniture and equipment owned by the Council is charged to revenue in the year of acquisition and is not capitalised in the accounts.

XIII. De-minimis items of expenditure on computer equipment and software is capitalised under the concept of ‘Grouped Assets’ where the value of such items is material. A charge is made for these assets (depreciation for equipment and amortisation for software), calculated using the straight-line method over a period of three years.

Depreciation, in the form of the capital element of finance leases is charged to the Revenue Accounts in cases where the asset was acquired by way of a finance lease.

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 – as detailed within the Component Accounting Policy for Property, Plant and Equipment.

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.

e) Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund or Housing Revenue Account in the Movement in Reserves Statement. For 2010/11 £0.18m was paid over in respect to Government pooling (see the Comprehensive Income & Expenditure Statement on page xx).

The written-off value of disposals is not a charge against council tax or housing rents, 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 or Housing Revenue Account in the Movement in Reserves Statement.

f) Component Accounting Policy for Property, Plant and Equipment

I. De Minimis Level

The de minimis threshold for Tamworth Borough Council is a current net book value of £250k. Individual assets with a value less than £250k will be disregarded for componentisation. This level will be reviewed annually.

II. Policy for Componentisation

The code requires that each part of an asset should be separately identified and depreciated where the cost is significant in relation to the overall cost of the asset.

Cost is defined as the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.

To be separately identified as a component, an element of an asset must meet the following criteria:

- have a cost of at least 20% of the cost of the overall asset <u>and</u>
- have a materially different useful life (at least 20% different) <u>and/or</u>
- have a different depreciation method that materially affects the amount charged

Land and Buildings will be componentised between the two elements where this has not already been done, subject to the de minimis level being considered.

A component can either be part of an individual structure, such as roofs, windows, heating systems or a complete building where many buildings are held as a single asset such as the Council offices.

Where individual assets are beneath the de minimis threshold but collectively are above, they should be considered for componentisation where they are generally treated together elsewhere.

Where components are identified, they will be set up separately in the asset register and have individual values, useful lives and depreciation methods recorded.

The componentisation policy will be applied to new capital spend and new assets with a total cost of over £250k will be considered under the componentisation policy as follows:

- when an asset is enhanced, the cost of the replacement component is compared with the cost of the total asset and the result is measured against the agreed de-minimis threshold;
- When an asset is acquired: the cost of any component parts are compared with the overall cost of the new asset and the results assessed against the agreed de-minimis threshold;

When such an asset is revalued: the cost of the component part is measured against the cost of the total asset and the result compared with the agreed de-minimis threshold.

Car Parks without structures on them (excluding ticket machines) are considered to be one component.

Example Building A Total current market value of asset = £3M Cost of building = £2M (15 years ago) Cost of roof = £350k (15 years ago) Useful life of building = 40yrs Useful life of roof = 20yrs Roof as a percentage of the overall asset (350/2000) = 17.5% This would be considered for componentisation as the current value is above the de minimis threshold but although the useful life of the roof is materially different, the cost of the roof is less than 20% of the overall cost so no componentisation is required.

III. Valuation

The 5 year valuation cycle remains and therefore componentisation needs to be considered for each asset in the portfolio.

In addition in each financial year, a list of assets that have had capital expenditure incurred will be passed to the finance team and/or valuers who can consider componentisation for any properties not already reviewed.

IV. Impairment

We will continue to complete a desktop Impairment review on an annual basis.

19. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

a) Provisions

Provisions are made where an event has taken place that gives the Authority 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 Authority 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 authority 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 Authority settles the obligation.

b) Contingent Liabilities
A contingent liability arises where an event has taken place that gives the Authority 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 Authority. 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.

c) Contingent Assets
A contingent asset arises where an event has taken place that gives the authority 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 Authority.

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.

20. RESERVES

The Authority 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 OR Housing Revenue Account 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 or Housing Revenue Account in the Movement in Reserves Statement so that there is no net charge against council tax or housing rent for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies. Details can be found in Note xx to the Core Financial Statements on page xx.

The Revaluation Reserve and Capital Adjustment Account can be used for specific statutory purposes and are not therefore backed by cash at any point in time. The Usable Capital Receipts Reserve is available to part finance capital expenditure.

Further details can be found in Note xx to the Core Financial Statements on page xx.

21. 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 Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund or Housing Revenue Account to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax or housing rent.

22. 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.

23. CAPITAL CHARGES

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

- depreciation attributable to the assets used by the relevant service;
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity).

Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

The Redemption of Debt

Under the Local Government Act 2003, the General Fund Revenue Account must be charged a Minimum Revenue Provision (MRP) for the repayment of outstanding debt. This is calculated as 4% of the Capital Financing Requirement for General Fund services. The Council has complied by charging £27k within the General Fund. Under the Act no MRP is chargeable to the Housing Revenue Account.

24. ACCOUNTING FOR COUNCIL TAX

The Council, as a billing authority, acts as the agent of its major preceptors (Staffordshire County Council, Staffordshire Police Authority and the Stoke on Trent and Staffordshire Fire and Rescue Authority).

Under the accounting requirements, for both the billing authority and major preceptors, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

25. ACCOUNTING FOR NATIONAL NON-DOMESTIC RATES

The collection of National Non-Domestic Rates (NNDR) is carried out by authorities as an agent activity on behalf of central government and should be accounted for accordingly. It means that the Council does not recognise NNDR debtors in its' balance sheet but instead recognises a creditor or debtor for the net balance due to or from the Government.

26. INTEREST

All interest earned is credited to the Income & Expenditure Account via the General Fund. A proportion of this is credited to the Housing Revenue Account in accordance with the Local Government and Housing Act 1989.

Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

The long-term and current parts of individual instruments (including Interest accruals on loans or investments) are required to be separated into individual elements of financial instruments, such as interest payable and receivable and dividends receivable. Therefore, interest accruals have been included in either current liabilities or assets.

27. BEST VALUE ACCOUNTING CODE OF PRACTICE (BVACOP)

BVACOP sets out "proper practice" with regard to consistent financial reporting in order to ensure that the requirement to obtain and demonstrate best value is met. The statement of accounts have been prepared on this basis.

28. GROUP ACCOUNTS

In accordance with the requirements of the Code, the Council has reviewed its relationship with organisations in which it may have an interest. The review has highlighted that the Council has no material interest in subsidiaries, associates or joint ventures which would require the preparation of Group Accounts for 2010/11.

29. ACQUISITIONS AND DISCONTINUED OPERATIONS

Acquired operations

The Authority has not acquired any operations during 2010/11.

Discontinued Operations

The results of discontinued operations are shown as a single amount on the face of the Comprehensive Income and Expenditure account comprising the profit or loss of discontinued operations and the gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a unit that has been disposed of, or is classified as held for sale.

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Agenda Item 7

AUDIT & GOVERNANCE COMMITTEE
30 JUNE 2011

Regulation of Investigatory Powers Act 2000

Report of the Solicitor to the Council and Monitoring Officer

1. Recommendation

1.1. That Audit and Governance Committee note the quarterly RIPA monitoring report.

2. Purpose

2.1. The Council's Code of Practice for carrying out surveillance under the Regulation of Investigatory Powers Act 2000 (RIPA) specifies that quarterly reports will be taken to Audit & Governance Committee to demonstrate to elected members that the Council is complying with its own Code of Practice when using RIPA.

2.2. On 14 December 2010, the Council adopted the RIPA policy and agreed that quarterly reports on the use of RIPA powers be submitted to Audit & Governance Committee.

3. Background Information

3.1. The latest statutory RIPA Codes of Practice produced by the Home Office in April 2010 introduced the requirement to produce quarterly reports to elected members to demonstrate that the Council is using its RIPA powers appropriately and complying with its own Code of Practice when carrying out covert surveillance. This requirement relates to the use of directed surveillance and covert human intelligence sources (CHIS).

3.2. The table below shows the Council's use of directed surveillance in the current financial year to provide an indication of the level of use of covert surveillance at the Council. At the time of writing this report there have been no applications under RIPA in the quarterly period from 1 April 2011. At the meeting on 30 June 2011 the position shall be updated and the quarterly position confirmed.

3.3. The table outlines the number of times RIPA has been used for directed surveillance, the month of use, the service authorising the surveillance and a general description of the reasons for the surveillance. Where and investigation is ongoing at the end of a quarterly period it will not be reported until the authorisation has been cancelled. At the end of the current quarterly period there are no outstanding authorisations.

3.4. There have been no authorisations for the use of CHIS.

Financial year 2011/12

Month	Service	Reason
No applications		

4. Background papers

4.1. None

"If Members would like further information or clarification prior to the meeting please contact Jane M Hackett Solicitor to the Council and Monitoring Officer on Ext.258"