N0N-CONFIDENTIAL

Borough of Tamworth

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

Enquiries: 01827 709 709
Facsimile: 01827 709 271

# AUDIT AND GOVERNANCE COMMITTEE

20 September 2012

Dear Councillor

A Meeting of the Audit and Governance Committee will be held in **Committee Room 1 - Marmion House on Thursday, 27th September, 2012 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 **Appointment of Vice-Chair**

3 **Minutes of the Previous Meeting** (Pages 1 - 4)

4 **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.*

5 **Annual Governance Report** (Pages 5 - 24)

(Report of the Audit Commission)

6 **Annual Statement of Accounts 2011/12** (Pages 25 - 176)

(Report of the Executive Director Corporate Services)

7 **Review of Treasury Management Strategy 2012/13 & Annual Report on the Treasury Management Service and Actual Prudential Indicators 2011/12** (Pages 177 - 232)

(Report of the Director of Finance)

8 **Internal Audit Quarterly Report 2012/13** (Pages 233 - 246)

(Report of the Head of Internal Audit Services)

9 **Fraud and Corruption Update Report** (Pages 247 - 296)

(Report of the Head of Internal Audit Services)

10 **Regulation of Investigatory Powers Act 2000** (Pages 297 - 298)

(Report of the Solicitor to the Council and Monitoring Officer)

11 **Local Government Ombudsman's Annual Review and Report 2011/12** (Pages 299 - 306)

(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 709264 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: M Gant, M Couchman, K Gant, J Garner, S Peaple, P Seekings and M Thurgood

# MINUTES OF A MEETING OF THE
# AUDIT AND GOVERNANCE COMMITTEE
# HELD ON 28th JUNE 2012

PRESENT: Councillor M Gant (Chair), Councillors R Kingstone, P Seekings and M Thurgood

Officers: Jane Hackett (Solicitor to the Council and Monitoring Officer), Stefan Garner (Director of Finance) and Angela Struthers (Head of Internal Audit Services)

Visitors: James Cook (Audit Commission)
Joan Barnett (Audit Commission)

## 11 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor S Peaple.

## 12 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 31 May 2012 were approved and signed as a correct record.

*(Moved by Councillor R Kingstone and seconded by Councillor M Thurgood)*

## 13 DECLARATIONS OF INTEREST

There were no Declarations of Interest.

## 14 COMMUNICATION WITH THE AUDITOR

The Audit Commission gave a presentation on their report relating to International Standards in Accounting (UK & Ireland) as they affect the Council.

## 15 ANNUAL GOVERNANCE STATEMENT & CODE OF CORPORATE GOVERNANCE

The Report of the Head of Internal Audit Services informing 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 seeking approval for the proposed draft Statement and Code of Corporate Governance was considered.

**RESOLVED:** That:

1 The proposed Annual Governance Statement be agreed by the Committee as appropriate for presentation to the external auditor and for inclusion in the Annual Statement of Accounts, and;

2 The proposed Code of Corporate Governance be approved.

## 16 DRAFT STATEMENT OF ACCOUNTS 2011/12

The Report of the Director of Finance receiving the Draft Statement of Accounts (the Statement) for the financial year ended 31st March 2012 was considered.

**RESOLVED:** That Members review the Annual Statement of Accounts 2011/12.

## 17 PROPOSED CHANGES TO THE CONSTITUTION AND CODE OF CONDUCT

The Report of the Solicitor to the Council and Monitoring Officer seeking to consider the proposals put forward as amendments to the Constitution at Council on 17 May 2012 in terms of article 15 paragraph 15.02 and the sanctions available when a Member fails to comply with the Code of Conduct was considered.

**RESOLVED:** That:

1 The following amendments be made to 6.03 **Specific functions**:

(iv) question members of the executive and committees and chief officers about their view on issues and proposals affecting the area and receive a reply/progress statement from the responsible body or member within 3 calendar months, relating to any recommendations accepted by Full Council or Cabinet which have been referred from the scrutiny process; and *(Moved by Councillor M Thurgood and seconded by Councillor M Gant)*

2 Article 10 A – Nominations Committee be changed to

10A. 01 The Council will establish a standing committee of five members to :-

1. Consider nominations to be made to the Council pursuant to section 249(1) of the Local Government

Act 1972 for conferring the title of honorary alderman or honorary alderwomen on persons who have, in the opinion of the Council, rendered eminent services to the Council.

2. Consider nomination to be made to the Council pursuant to section 249(5) of the Local Government Act 1972 to admit to be honorary freeman or honorary freewomen of the Borough of Tamworth persons who are of distinction and who have, in the opinion of the Council, rendered eminent services to the Borough.

The Committee shall be attended by the Monitoring Officer or the Deputy Monitoring Officer.

10A. 02 **Composition**

(a) **Membership.** The nominations committee will be composed of at least:

- five Councillors
- one person who is not a councillor or an officer of the Council;

(a) **Chairing the Committee.** The Chairman and Vice-Chairman will be appointed in accordance with Council Procedure Rules;

(b) **Independent members.** Independent members will be entitled to vote at meetings.

10A. 03 **Role and Function**

The Nominations Committee will have the following roles and functions:

1. Consider nominations to be made to the Council pursuant to section 249(1) of the Local Government Act 1972 for conferring the title of honorary aldermen or honorary alderwomen on persons who have, in the opinion of the Council, rendered eminent services to the Council;

2. Consider nominations to be made to the Council pursuant to section 249(5) of the

Local Government Act 1972 to admit to be honorary freemen or honorary freewomen of the Borough of Tamworth persons who are of distinction and who have, in the opinion of the Council, rendered eminent services to the Borough;

3. Maintain a publicly accessible application process for the two above honours;

4. Any approved applications are referred to Full Council for Full Council approval;

5. Act as a sponsor to a new application, make referral to, or support an existing application that nominates a Tamworth resident to any outside bodies' awards or recognition scheme;

6. Seek nominations from the Tamworth public, persons worthy of public recognition for their service or work for the Borough of Tamworth.

3 The following amendment be made to
11.2 **Questions on notice at Ordinary Meetings of the Council:**

Subject to Rule 11.4, a member of the Council may ask :

- Any member in receipt of a Special Responsibility Allowance, except the Mayor and Deputy Mayor;
- A question on any matter in relation to which the Council has powers or duties or which affects Tamworth.

4 The following be added:
1.8 **Decisions to be taken by the executive**
(c) The executive are to reply to recommendations accepted from Full Council or the Scrutiny Committees within a 3 month period;

Chair

# Annual governance report

Tamworth Borough Council

Audit 2011/12

# Contents

# Key messages

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

## Financial statements

As at 18 September 2012, I expect to issue an unqualified audit opinion.

The Council has prepared its accounts and supporting working papers to a good standard, and there are relatively few issues that I need to draw to your attention. My audit identified a small number of adjustments that your officers have corrected in the financial statements. These relate to disclosure notes and do not affect the income or expenditure levels, or the level of year-end reserves.

## Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

My key messages from the audit are:

- Securing financial resilience – I found that the Council continues to achieve the savings necessary to do this; and
- Securing economy, efficiency and effectiveness – I found that the Council has been able to deliver savings with no detrimental impact on the range and quality of services provided.

# Before I give my opinion and conclusion

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

## Independence

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

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

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## I ask the Audit and Governance Committee to:

- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion.

# Financial statements

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

## Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.



## Minor amendments made

I have agreed a small number of amendments to your financial statements with the Executive Director Corporate Services. These were made mainly to enhance the disclosures made in the draft accounts. The most significant of these relate to:

Note 16a has been amended to remove Government and Statutory debtors and creditors from the disclosures (the Code states that these should not be treated as financial instruments); and

Note 16d has been amended to reflect the fair value information received from the Public Works Loan Board.

## Significant risks and my findings

I reported to you in my 29 March 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

| Risk | Finding |
|---|---|
| Heritage Assets | I evaluated the design and implementation of management's controls to recognise and value heritage assets. I also performed audit procedures to satisfy myself that you have recognised, valued and disclosed material heritage assets in your financial statements. My testing has not identified any significant issues to bring to your attention. |
| HRA reform and associated borrowing | I have evaluated management's oversight of HRA reforms and the transactions required by the Authority. I have agreed the detail on the settlement payment or receipt to the DCLG notification.<br>My testing has not identified any significant issues to bring to your attention. |
| Icelandic banks | I evaluated the design and implementation of management's controls to recognise and measure the recoverable amount from your investments in Icelandic banks. I also undertook testing to check that the disclosures relating to Icelandic banks in the financial statements are true and fair.<br>In particular, I have reviewed the accounting of the Capitalisation Direction that enabled the impairment originally envisaged to be spread over a number of years, and needed to be reversed.<br>I am satisfied that the accounts reflect the circumstances and recoverable amount from the Icelandic banks. |

## Significant weaknesses in internal control

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

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

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

I did not identify any weaknesses in internal control that are relevant to preparing the financial statements.

## Other matters

Your officers have responded positively throughout the audit to issues I have discussed with them during the monthly liaison meetings. This has enabled the audit to be completed on schedule and on budget.

Some of the working papers are particularly complex because they include data going back several years. I am discussing with your officers ways to simplify them for the 2012/13 closedown process.

## Whole of Government Accounts

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

# Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my 29 March 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified. I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

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

| Criteria | Risk | Findings |
|---|---|---|
| **1. Financial resilience**<br>The organisation has proper arrangements in place to secure financial resilience.<br>Focus for 2011/12:<br>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. | **Economic Downturn and pressure on the public sector.**<br>Although the Council has regularly updated its Council Plan and financial strategy, the financial pressures will continue over the next few years. There is a risk that future reductions in spending levels may affect the quality of services, and affect financial resilience and value for money. | I reviewed the progress made with the Council's Medium Term Financial Strategy (MTFS). The General Fund balances increased by £201k to increase these to £4511k (compared to minimum approved level of £500k). This result was achieved as a result of a £909k underspend against budget. I am therefore satisfied that the Council continues to meet its savings targets. I am also satisfied that the Council continues to have satisfactory arrangements in place to monitor the achievement of the savings plan in place. |

| Criteria | Risk | Findings |
| --- | --- | --- |
| **2. Securing economy efficiency and effectiveness**<br>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.<br>Focus for 2011/12:<br>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. | overarching risk see criteria 1. | I am satisfied that, despite the efficiencies demanded by its savings plan, the Council has not reduced its services and that no significant decline in the quality of these has resulted. |

# Fees

## I reported my planned audit fee in the 29 March 2012 Audit Plan.

I will complete the audit within the planned fee.

The Audit Commission has paid a rebate of £8,740 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £101,510.00

# Appendix 1 – Draft independent auditor's report

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TAMWORTH BOROUGH COUNCIL**

**Opinion on the Authority financial statements**

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

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

**Respective responsibilities of the Executive Director Corporate Services and auditor**

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

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In my opinion the financial statements:

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

**Opinion on other matters**

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

**Matters on which I report by exception**

I report to you if:

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

I have nothing to report in these respects

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

### Respective responsibilities of the Authority and the auditor

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

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

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

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

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

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

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

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

### Conclusion

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

**Certificate**

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

[*Signature*]

James Cook

Officer of the Audit Commission

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

X September 2012

# Appendix 2 – Draft letter of management representation

**Tamworth Borough Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Tamworth Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

**Compliance with the statutory authorities**

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

**Supporting records**

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

**Irregularities**

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

I also confirm that I have disclosed:

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

**Law, regulations, contractual arrangements and codes of practice**

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

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

**Accounting estimates including fair values**

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

**Related party transactions**

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

**Subsequent events**

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

Signed on behalf of Tamworth Borough Council

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

Signed

Name

Position

Date

# Appendix 3 – Glossary

**Annual Audit Letter**

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

**Annual Governance Report**

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

**Annual Governance Statement**

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

**Audit of the accounts**

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

**Audited body**

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

**Auditing Practices Board (APB)**

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

**Auditing standards**

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

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

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

**Commission (the)**

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

**Ethical Standards**

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

**Financial statements**

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

**Group accounts**

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

**Internal control**

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

**Materiality**

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

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

**Significance**

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

**Those charged with governance**

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

**Whole of Government Accounts**

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

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



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

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

www.audit-commission.gov.uk

September 2012

**AUDIT & GOVERNANCE COMMITTEE**

**27th September 2012**

**REPORT OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES**

**ANNUAL STATEMENT OF ACCOUNTS & REPORT 2011/12**

## EXEMPT INFORMATION

None

## PURPOSE

To approve the Statement of Accounts (the Statement) for the financial year ended 31st March 2012 following completion of the external audit.

## RECOMMENDATION

**That Members approve the Annual Statement of Accounts 2011/12**

## EXECUTIVE SUMMARY

As part of the annual audit process for 2011/12, the Audit Commission have prepared their Annual Governance Report (to be considered separately on this agenda) summarising their findings for consideration prior to issue of their opinion, conclusion & certificate.

Following identification as part of the audit, a number of amendments have been discussed & agreed with the Audit Commission. These have been actioned within the Final Statement of Accounts for 2011/12 as attached at **Appendix 1**. It is important to note that these adjustments relate to minor presentational or disclosure issues and do not have any impact on the net balances of the General Fund, Housing Revenue Account or Collection Fund.

The guidance requires the Chair of the Cabinet meeting to sign and date the Statement of Accounts with the intention that the Chair's signature formally represents the completion of the Council's approval process of the accounts.

## RESOURCE IMPLICATIONS

For 2011/12, a revenue budget underspend for the General Fund of £0.9m is reported with an increase in General Fund closing balances of £210k. The Housing Revenue Account reports an underspend of £79k with a reduction in Housing Revenue Account closing balances of £0.6m.

It should be noted that the Medium Term Financial Strategy identified required balances of £4.2m (at 1st April 2012) compared to the draft actual closing balances of £4.7m - additional balances of £509k. For the HRA balances of £4.7m were forecast at 1st April 2012 compared to the actual balances of £4.5m - fewer balances of £221k.

Balances above the minimum will be required to provide additional funds for uncertainties regarding future Government funding arrangements.

The outturn for the 2011/12 capital programme identifies an underspend of £1.604m against the approved budget of £6.769m (actual spend £5.165m - no change since Provisional Outturn). However, it has been approved that £1.489m of scheme spend be re-profiled into 2012/13. This will result in an overall underspend of £115k for the 2011/12 capital programme.

For disclosure purposes, the accounts include a note of the forecast revenue outturn of the joint waste service for the year ended 31st March 2012 as this is the latest information. No material change is expected.

**LEGAL / RISK IMPLICATIONS**

Current legislation, detailed in Accounts and Audit (England) Regulations 2011, requires a Committee of the Council to approve the Statement by 30th September 2012 and for the Council to publish the Statement together with the Auditors opinion by 30th September 2012.

**SUSTAINABILITY IMPLICATIONS**

None

**CONCLUSIONS**

Following consideration of the External Auditors Annual Governance Report and the approval of the Annual Statement of Accounts, the Chair's signature formally represents the successful completion of the Council's approval process of the accounts for 2011/12.

**REPORT AUTHOR**

Stefan Garner, Director of Finance

**LIST OF BACKGROUND PAPERS**

Capital Outturn Report 2011/12 - Cabinet, 13h June 2012
Provisional Outturn Report 2011/12 - Cabinet, 13th June 2012
Draft Annual Statement of Accounts & Report 2011/12 - Audit & Governance Committee, 28th June 2012

TAMWORTH BOROUGH COUNCIL

# Statement
## of Accounts 2011/12

Tamworth Borough Council

# *STATEMENT OF ACCOUNTS*

# *2011/12*

## Contents

# THE EXPLANATORY FOREWORD

The statement of accounts presents the financial position and performance of the Council for the year ended 31st March 2012. This foreword describes the nature and purpose of each of the statements which follow and the principal items of interest or note which are contained within the accounts.

**THE FINANCIAL STATEMENTS**

The Annual Statement of Accounts for the year ended 31st March 2012 has been prepared in accordance with the guidelines contained within the latest Code of Practice on Local Authority Accounting in the United Kingdom.

The Council's accounts for 2011/12 are set out on pages 18 to 132 and consist of the following:

- **Core Financial Statements:**

  - **Movement in Reserves Statement:** shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

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

  - **Balance Sheet:** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

  - **Cash Flow Statement:** shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **Supplementary Statements:**

  - **Housing Revenue Account:** reflects the statutory requirement to maintain a separate account for Council Housing.

  - **The Collection Fund:** shows the non-domestic rates and council tax income collected on behalf of Staffordshire County Council, the Police Authority, the Fire & Rescue Authority and this Council's General Fund.

These accounting statements are supported by appropriate notes to the accounts including the Statement of Accounting Policies.

## CHANGES TO THE ACCOUNTS FOR 2011/12

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). It was announced in the 2007 Budget (as amended) that International Financial Reporting Standards (IFRS) would be used for the production of accounts from 2010/11 onwards following a transition period.

The SORP was 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.

From 2010/11 there is no longer a Local Authority SORP produced by CIPFA. Instead, there is a Code of Practice on Local Authority Accounting 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.

An updated Code of Practice applicable for 2011/12 was issued by CIPFA in January 2011 and the changes reflected in this review must now be incorporated into the Council’s 2011/12 accounts, together with relevant changes to accounting policies.

This update to the Code provides accounting guidance on regulations issued and on other legislative developments since the original code was issued.

The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2011. It supersedes the 2010/11 Code.

In England and Wales, the Code is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21(2) of the Local Government Act 2003. All English authorities to which section 21 applies and that are required to prepare a Statement of Accounts by the Accounts and Audit Regulations under section 27 of the Audit Commission Act 1998, therefore have a statutory duty to comply with the Code's requirements.

The 2011/12 Code introduces some changes in accounting practice which the council needs to comply with.

**CHANGES IN ACCOUNTING POLICY FOR 2011/12**

The need for changes in accounting policy can arise from:

(i) changes that are mandatory under the annual IFRS based *Code of Practice on Local Authority Accounting* and require a new or revised accounting policy to be adopted by all local authorities;

(ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances.

The changes required to the Council's accounting policies for 2011/12 therefore arise from an updated IFRS based *Code of Practice on Local Authority Accounting* issued by CIPFA in January 2011.

Many of the changes reflected in the 2011/12 code & code update do have to be incorporated into the Council's accounts but do not necessarily impact on its accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

Changes to the *Code of Practice* that impact on Council's Accounting Policies in 2011/12 are therefore minimal and relate to Heritage Assets.

**Main changes to the Code of Practice on Local Authority Accounting Code (The Code) for 2011/12**

Following the significant changes in Local Authority Accounting last year 2011/12 is a year of consolidation with relatively few new requirements. The new requirements are summarised below:

- Heritage Assets
- Exit Packages
- Community Infrastructure Levy and Business Rates Supplements
- Related Party Disclosures
- Financial Instruments
- Accounting for Joint Ventures
- Code Clarifications

**1. Heritage Assets**

The only change to the Council's accounting policies necessitated by the changes to the accounting framework relates to Heritage Assets.

FRS30 has now been adopted in the Code and there is a new class of assets to be disclosed called Heritage Assets, to be shown (at valuation - with exceptions) on the balance sheet for the first time.

The impact was already assessed and disclosed as part of the 2010/11 Accounts. A new category will be included in the financial statements & assets have been reviewed against the criteria of Heritage Assets. This is a change in accounting policy and as such will need to be treated retrospectively and lead to a need to restate the 2010/11 Balance Sheet.

Heritage Assets are assets which are intended to be preserved in trust for future generations because of their historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Examples include; historical buildings such as the Castle, archaeological sites, military and scientific equipment of historical importance, civic regalia, medals, museum collections and works of art.

Community Assets (including parks (excluding archaeological sites); cemeteries and crematoria (land only); and allotments where there are restrictions on alternative uses) are not Heritage Assets, but are accounted for as Property, Plant and Equipment.

The Code also permits, but does not require, authorities to adopt the measurement and disclosure requirements within FRS 30 for community assets.

Heritage Assets should be carried at valuation but may be carried at historical cost where it is not practicable to establish a valuation and historical cost information is available.

Where there is no information available on either cost or value, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, there is no requirement to recognise Heritage Assets on the Balance Sheet. There should, however, be appropriate disclosure of the types of heritage asset held.

Officers have compiled a comprehensive inventory, based on the historical cost or historic valuations of Heritage Assets. Whilst the Council was reluctant, at a time of budget pressures, to engage the services of a professional valuer to update the required information, it was considered appropriate to seek updated insurance valuations for the significant assets held not previously on the Balance Sheet (under a value for money approach). Therefore, the Assay office were requested to value the significant items of Civic Regalia and an external valuer engaged to provide replacement cost values for statues within the borough.

Such assets need to be valued, depreciated (where the Heritage Asset has a finite useful economic life) and reviewed on a regular basis for evidence of impairment losses.

A disclosure has been included which shows the value and type of Heritage Assets held by the Authority, together with a balance sheet movement reconciliation.

An accounting policy for the acquisition, preservation, management and disposal of Heritage Assets has been included.

A review of our current assets held has taken place to re-categorise assets that meet the definition for a heritage asset. Discussions have also taken place with various service managers to ensure all assets that could be captured under the definition have been identified and are included on the Council's balance sheet.

Identified Heritage Assets are held on the Council's Balance Sheet using either historic cost or uplifted insurance valuations. This has resulted in a significant increase in the non current assets value held on the balance sheet for 2011/12.

As this is a retrospective change in accounting policy, the comparative figures for the 2010/11 Statement of Accounts have been restated.

**2. Exit Packages**

The 2011/12 Code introduces a requirement to report summary information in relation to exit packages (e.g. redundancy).

A new note has been included on the number of staff exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter), analysed between redundancies and other departures.

The note also discloses the total cost of packages agreed in each band. Bands have been combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere under regulations).

Exit packages include compulsory (where applicable) and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

**3. Related Party Disclosures**

There has been some clarification and change to the definitions of 'related party' and 'close members of the family' of a related party.

Related party transactions are ones which are not arm's length due to one party to a transaction being able to control or exert significant influence over the other.

The 2011/12 Code amends the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities. Additional guidance on the definition of a related party is also included. New definitions of IAS 24 are included - this is extra guidance and does not represent a change.

The disclosure for government is reduced and the normal disclosure requirements do not apply. For central government departments, government agencies, NHS bodies and other local authorities, the Council has disclosed: The name of the government (i.e. UK Government) and the fact that the government exerts significant influence through legislation and grant funding. The following information in sufficient detail enables users of the entity's financial statements to understand the effect of related party transactions on its financial statements a) the nature and amount of each individually significant transaction, and b) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

**4. Financial Instruments**

The 2011/12 Code incorporates minor changes to the disclosures of the nature and extent of risks arising from financial instruments. Additional disclosures are also required where the level of soft loans granted by an authority is material.

Soft loans are loans advanced by the Council to third parties at interest rates below the prevailing market rate. The Council does not have any soft loans.

The 2011/12 Code clarifies that financial instrument disclosures are required in respect of leases and PFI, PPP and similar schemes.

Changes include reduced disclosures in respect of financial assets that are neither past due nor impaired, and clarification of the disclosures required in respect of collateral and other credit enhancements obtained.

**5. Accounting for Joint Ventures**

The Code gives clarification that where an Authority is a party to a joint venture, does not have joint control of that joint venture but does have significant influence, the interest in the joint venture should be accounted for as if it were an associate in line with IAS 31. It also includes additional guidance on the accounts of transfers of functions between public sector bodies. The Council does not have any joint ventures.

The Council entered in a joint arrangement with Lichfield DC with effect from 5th July 2010 providing waste management and recycling services. Lichfield DC are the lead Authority for this arrangement, with the Council reimbursing Lichfield for services on the basis of a proportion of actual spend. For 2011/12, the cost of the joint arrangement to the Council was £1.42m.

**6. Code Clarifications**

The 2011/12 Code clarifies the requirements in a number of areas where uncertainty was identified in the 2010/11 Code.

**SIGNIFICANT TRANSACTIONS IN 2011/12**

The following major transactions have occurred during the year which have significant impact on the Financial Statements:

**1. HRA Self Financing**

With effect from 1st April 2012 the HRA subsidy system was abolished and replaced with a new system of self financing. Under the new system the council was required to take on additional debt totalling £44.668 million. This payment was made to central government on 28th March 2012 and has been shown as an extraordinary payment in the HRA accounts for 2011/12 in accordance with guidance issued in Local Authority Accounting Panel (LAAP) Bulletin 92. The debt appears in the balance sheet.

**2. Municipal Mutual Insurance (MMI)**

Contingent Liability: Following a Supreme Court decision handed down on 28th March 2012, if Municipal Mutual Insurance (MMI) are unable to foresee a position in which future investment income net of operating expenses would be adequate to achieve payment of agreed claims in full then appropriate alternative arrangements, which might involve the triggering of the Scheme of

Arrangement (SOA), would be made. Under the SOA, the Council could be liable to pay a levy up to the value of claims paid since 1993. The value of claims paid amounts to £250k.

**3. The Impact of the Recession**

**a) Impairment of Investments**

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

Following a capitalisation direction of up to £4m approved by the Government which allowed the Council to capitalise £3.386m in 2009/10 relating to the impact of the impairment of investments on the General Fund – an improvement in the recovery rates for two of the banks (KSF & Heritable) is anticipated which has led to a fall in impairment levels.

With regard to the investment with Glitnir, on 28 October 2011 the Icelandic Supreme Court ruled that UK local Authorities' claims in the administrations of Glitnir qualified as priority claims under Icelandic bankruptcy legislation, confirming the earlier decision of the Reykjavik District Court.

The position as to the status of interest on UK local authorities' deposits maturing between 6 October 2008 and 22 April 2009 has also been fully resolved for Glitnir depositors meaning that the value of the Councils' claims is equal to the value of the original deposit plus interest accrued to 22 April 2009 or, if earlier, the maturity date.

After the decision of the Icelandic Supreme Court had been delivered, the Winding Up Board of Glitnir made a distribution proposal to priority creditors. This was accepted by all UK local authorities and implemented on 16 March 2012. Under the terms of the distribution proposal, payment of each claim (measured in Icelandic krona (ISK) terms as at 22 April 2009) was made in a basket of currencies with conversions made using Central Bank of Iceland selling rates as at 22 April 2009. The distribution currencies were Icelandic krona, Euros, US dollars, pounds sterling, and Norwegian krona. The weightings for the distribution currencies were determined based on the currencies of the adjusted assets held by Glitnir as at 30 September 2011.

The amounts received by the Council in currencies other than Icelandic krona were converted into sterling when received – with the Council receiving £2.6m directly into its bank account on 16 March 2012 (from an anticipated £3.2m). The Council has therefore accounted for the final amount of any impairment charge by comparing the carrying value of the impaired deposit with the sum of the amount actually received in sterling and from conversion of Euro, US dollar and Norwegian krona receipts.

The balance (c. £0.6m) is held in Icelandic krona amounts that have been distributed by the Glitnir Winding Up Board but held in an escrow account in Iceland because, under the applicable currency controls operating in Iceland, the permission of the Central Bank of Iceland is required to release Icelandic krona payments held within the Icelandic banking system. The money held in the Glitnir Winding Up Board escrow account is, however, earning interest for the benefit of local authorities at a rate of 3.4%.

Following return of the deposits placed with Glitnir during March 2012 (as well as the balance held in an Escrow account in Iceland), a reversal of the impairment of £2.4m has been included within Financing and Investment Income. Consequently, the element of the capitalisation relating to the Glitnir deposits has also been reversed – equating to a net reversal of £2.15m within the 2011/12 accounts (£2.26m since 2010/11) charged to the Comprehensive Income and Expenditure Statement (reversed through the Capital Adjustment Account within the Movement in Reserves Statement).

## 4. Changes to the Accounts

Whenever changes to accounting principles are made it is necessary to produce comparable figures for the previous year on the new basis – therefore changes to the 2011/12 accounts have been mirrored in re-stated accounts for 2010/11 to allow for like for like comparisons.

In the 2011/12 Statement of Accounts, the Council has adopted a new accounting policy for Heritage Assets that impacts on the comparative figures for 2010/11.

The following table explains the material differences between the amounts presented in the 2010/11 financial statements and the equivalent amounts presented in the 2011/12 financial statements.

| **Restatement Table (Balance Sheet Extract)** | **Opening Balances as at 1 April 2010** | **Category Transfer** | **Restatement** | **Restatement required to opening balances as at 1 April 2010** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Property, Plant and Equipment | 203,488 | (658) | - | 202,830 |
| Heritage Assets | - | 658 | 864 | 1,522 |
| **Long Term Assets** | **235,574** | **235,574** | **236,438** | **236,438** |
| **Total Net Assets** | **186,856** | **186,856** | **187,720** | **187,720** |
| Unusable Reserves | (167,430) | - | (864) | (168,294) |
| **Net Worth/Total Reserves** | **(186,856)** | **(186,856)** | **(187,720)** | **(187,720)** |

## FINANCIAL PERFORMANCE

### Overall Revenue Position

The Movement in Reserves Statement on page 20 shows a net General Fund surplus of £210k for the year. This was £909k lower than planned in the original budget at the start of the year and has been added to General Fund Balances of £4.511m (with the minimum approved level being £500k) brought forward from 2010/11, to produce a cumulative surplus of £4.721m carried forward to 2012/13.

The overall revenue financial position relating to Council Housing as given on page 122 shows a reduction in HRA balances for the year of £600k. This equates to an under-spend of £79k when compared to the approved budget for the year. This has resulted in a reduction in balances from £5.087m to £4.487m to be carried forward to 2012/13.

### General Fund

The main components of the General Fund approved budget and how these compare with actual income and expenditure are set out below.

The net expenditure of the Council was £8.507m, representing an under-spend of £909k. Major differences between the budget and the outturn are as follows:-

| **Variance between Budget & Actual Outturn** | **£000s** | **£000s** |
|---|---|---|
| • **Increased / Un - Budgeted Income** | | |
| Corporate Finance - Unspent/Redundant Reserves | (156) | |
| Interest on Icelandic returns | (114) | |
| Joint Waste Arrangements - Fees and Charges | (27) | (297) |
| • **Shortfalls in Income** | | |
| Interest Charges to HRA | 339 | |
| Outside Car Parks - Fees and Charges | 104 | |
| Recharges Outside of Fund | 97 | |
| Investment Income | 39 | |
| Joint Waste Arrangements - Contributions | 31 | |
| Tamworth Golf Course - Contract Income | 26 | |
| Efficiency Savings - Unachieved | 20 | 656 |
| • **Un- Budgeted Expenditure / Overspends** | | |
| Land Charges | 84 | |
| Tourist Information Centre - Employee Costs | 54 | |
| Public Spaces | 46 | |
| Pension Costs - West Midlands Council | 42 | 226 |
| • **Savings / Under-spends** | | |
| External Interest Payments | (360) | |
| Icelandic Impairment Adjustment | (228) | |
| Joint Waste Arrangements - Unspent Contingency | (115) | |
| Minimum Revenue Provision | (113) | |
| Environmental Health | (92) | |

| Variance between Budget & Actual Outturn | £000s | £000s |
|---|---|---|
| Development Control | (85) | |
| Employee Costs - Community Services Management | (73) | |
| Vacancy Allowance | (50) | |
| General Fund Housing - Charge from HRA | (50) | |
| General Contingency | (49) | |
| Benefits - Net Surplus on Operations | (41) | |
| Commercial Property Management - Rates, Rental Income | (37) | |
| Joint Waste Arrangements - Contract | (35) | |
| Marmion House - Electricity, Rental Income | (32) | |
| IFRS Contingency | (25) | (1,385) |
| • **Other Variances** | | (109) |
| **Total (Favourable) / Unfavourable Variance** | | **(909)** |

A summary of the General Fund expenditure by service, compared to budget (including decisions made by Members during the financial year) is shown below:

| | Actual [a] £ | Budget [b] £ | Variance [c] £ |
|---|---|---|---|
| **Chief Executives Office** | | | |
| Chief Executive | 180,160 | 173,200 | 6,960 |
| Assistant Chief Executive | 110,626 | 108,020 | 2,606 |
| Head of Organisational Development | 222,284 | 246,020 | (23,736) |
| Head of Customer Services | 437,654 | 380,950 | 56,704 |
| Head of Performance & Corporate Relations | 212,464 | 223,600 | (11,136) |
| Solicitor & Monitoring Officer | 728,463 | 648,060 | 80,403 |
| Sub Total | 1,891,651 | 1,779,850 | 111,801 |
| **Corporate Director Resources** | | | |
| Corporate Director Resources | 112,010 | 101,520 | 10,490 |
| Deputy Director Corporate Finance, Exchequer & Revenues | (221,914) | 830,960 | (609,046) |
| Assistant Director Business Processes | 813,311 | 814,550 | (1,239) |
| Head of Benefits | 77,279 | 67,440 | 9,839 |
| Head of Internal Audit Services | 102,790 | 110,950 | (8,160) |
| Head of Revenues | 116,475 | 157,750 | (41,275) |
| Sub Total | 1,443,779 | 2,083,170 | (639,391) |
| **Deputy Chief Executive & Corporate Director Community Services** | | | |
| Corporate Director Community Services | 6,728 | 40,090 | (33,362) |
| Deputy Director Communities, Planning & Partnerships | 2,115,675 | 2,209,830 | (94,155) |
| Deputy Director Housing & Health | 790,749 | 854,930 | (64,181) |
| Deputy Director Assets & Environment | 2,258,187 | 2,447,760 | (189,573) |
| Sub Total | 5,171,339 | 5,552,610 | (381,271) |
| **Total Cost of Services** | **8,506,769** | **9,415,630** | **(908,861)** |
| **Transfer to / (from) Balances** | **209,511** | **(699,350)** | **908,861** |
| **Total to be met by Government Grants & Taxpayers** | **8,716,280** | **8,716,280** | **-** |

In the above table, columns [a] and [b] show actual and budgeted net expenditure and income before management, support service costs and capital charges have been apportioned to front line services. This allows a comparison of the services performance against budget (variance shown in column [c]) for directly controllable costs.

## Council Housing

A summary of the Housing Revenue Account for 2011/12, compared with the approved budget (including decisions made by Members during the financial year) is shown below:-

### Council Housing Summary

| Housing Revenue Account | Actual £000s | Approved Budget £000s | Variance £000s |
|---|---|---|---|
| **(Surplus) or Deficit for the Year Added to HRA** | **600** | **679** | **(79)** |

Major differences between the budget and the outturn were as follows:

| Variance between Budget & Actual Outturn | £000s | £000s |
|---|---|---|
| • **Increased / Un - Budgeted Income** | | |
| Council House Rents | (139) | (139) |
| • **Shortfalls in Income** | | |
| Garage Rents | 52 | 52 |
| • **Un - Budgeted Expenditure/Overspends** | | |
| Provision – Increase Costs | 518 | |
| HRA Subsidy | 158 | |
| Provision for Bad Debts | 109 | |
| Discretionary Contribution from GF | 58 | |
| Contribution to Reserve – Pension Liability | 51 | 894 |
| • **Savings / Under-spends** | | |
| Interest Charges – Item 8 | (339) | |
| Compensation Payments | (106) | |
| Specific Contingency | (100) | |
| Repairs Account - Contributions | (90) | |
| Recharges from General Fund | (90) | |
| Housing Advice | (36) | |
| Debt Premiums | (33) | (794) |
| • **Other Variances** | | (92) |
| **Total (Favourable) / Unfavourable Variance** | | **(79)** |

**Capital Expenditure**

During 2011/12 the Council spent £49.833m on capital expenditure. A breakdown by category and sources of finance is shown as Note 36 to the Core Financial Statements on page 97.

It should be noted that the above figures include the £44.668m capital expenditure relating to the Housing Self Financing Reform which took place on 28th March 2012.

The remaining £5.165m of expenditure related to improvement, enhancement or ongoing construction works. Fixed asset acquisitions in the year include the purchase of IT Equipment (software & hardware); purchase of Community Safety Equipment and enhancements to the CCTV System.

A total of £1.489m spending originally planned for 2011/12, or earlier, has been deferred to 2012/13. Included within this deferred expenditure, £723k for the HLF project at the Castle, £324k is earmarked for Private Sector Home Improvement Grants; £160k for return on investments; £70k for Replacement ICT Equipment as part of Corporate Change Programme and £40k contingency budgets.

**Provisions, Reserves and Balances**

The working balances at 31st March 2012 stand at £18.913m and comprise provisions, earmarked reserves, revenue balances and the unused element of capital receipts.

Working balances of £3.334m relate to capital (including the capital reserve of £1.515m). The £1.489m capital commitments from 2011/12 and previous years carried forward to 2012/13 will be required to be financed from these balances.

**Borrowing Facilities**

The Council borrows funds where necessary to meet both long term capital expenditure commitments and short-term cash flow demands. Funds are borrowed from the Government (Public Works Loan Board) and from the commercial money market (banks, building societies and other lenders). A summary of the Council's borrowing at 31st March 2012 is provided below while further information can be found in the notes to the core financial statements.

| 2010/11 £m | Borrowing Facilities | 2011/12 £m |
|---|---|---|
| | **Fixed Rate Debt** | |
| 20.4 | Public Works Loan Board | 65.1 |
| - | Commercial Money Market | - |
| | **Variable Rate Debt** | |
| - | Public Works Loan Board | - |
| **20.4** | **Total** | **65.1** |

**Pensions**

The pension fund deficit has increased in the year to £28.1m (2010/11 £22.5m) and is required to be shown on the balance sheet of the Authority. This increase is as a result of less favourable financial assumptions at 31 March 2012 than at 31 March 2011. A new approach for calculating the discount rate and falling bond yields have adversely affected the estimate of future liabilities and lower than expected investment performance has reduced asset values. However, it should be noted that there has been no impact on the net cost to the taxpayer arising from this - other than as part of the planned increase in annual contributions (from 17.6% to 19.6%) arising from the formal valuation on 31st March 2010.

Further information about the Statement of Accounts is available from the Executive Director Corporate Services, Tamworth Borough Council, Marmion House, Lichfield Street, Tamworth, Staffs. B79 7BZ.

Telephone : 01827 709252.
Email: john-wheatley@tamworth.gov.uk

This is part of the Council's policy of providing full information about the Council's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press and on the Council’s website at www.tamworth.gov.uk

**The information in this document may be made available in other selected languages. Copies may be made available on tape, in Braille or large print.**

## Statement of Responsibilities

### The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Executive Director Corporate Services;

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- Approve the Statement of Accounts.

### The Executive Director Corporate Services' Responsibilities

The Executive Director Corporate Services is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Executive Director Corporate Services has:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with the Local Authority Code.

The Executive Director Corporate Services has also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

This Statement of Accounts gives a true and fair view of the financial position of Tamworth Borough Council and its expenditure and income for the year ended 31st March 2012.

J Wheatley FCCA
Executive Director Corporate Services Dated: 27th September 2012

*This is an electronic copy without an electronic signature. The original was signed as dated above and a copy can be obtained from the Executive Director Corporate Services.*

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

The reserve movements for 2010/11 and 2011/12 are shown on pages 19 to 20.

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## Movement in Reserves Statement 2010/11

| | General Fund Balance | Earmarked Reserves | Housing Revenue Account | Earmarked HRA Reserves | Capital Receipts Reserve | Major Repairs Reserve HRA Note 3 | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance as at 01 April 2010** | 4,881 | 6,318 | 4,712 | 724 | 2,618 | - | 173 | **19,426** | 168,337 | **187,763** |
| **Movement in reserves during 2010/11** | | | | | | | | | | |
| (Surplus) or Deficit on the Provision of Services | 6,547 | - | (35,784) | - | - | - | - | **(29,237)** | - | **(29,237)** |
| Other Comprehensive Income & Expenditure | - | - | - | - | - | - | - | **-** | (6,654) | **(6,654)** |
| **Total Comprehensive Income & Expenditure** | **6,547** | **-** | **(35,784)** | **-** | **-** | **-** | **-** | **(29,237)** | **(6,654)** | **(35,891)** |
| Adjustments between Accounting Basis & Funding Basis under Regulations (Note 7) | (6,644) | - | 36,081 | - | (711) | - | (125) | **28,601** | (28,601) | **-** |
| **Net (Increase) / Decrease before transfers to Earmarked Reserves** | **(97)** | **-** | **297** | **-** | **(711)** | **-** | **(125)** | **(636)** | **(35,255)** | **(35,891)** |
| Transfers to/(from) Earmarked Reserves (Note 8) | (273) | 177 | 78 | 18 | - | - | - | **-** | - | **-** |
| **Increase / (Decrease) in 2010/11** | **(370)** | **177** | **375** | **18** | **(711)** | **-** | **(125)** | **(636)** | **(35,255)** | **(35,891)** |
| **Balance as at 31 March 2011** | **4,511** | **6,495** | **5,087** | **742** | **1,907** | **-** | **48** | **18,790** | **133,082** | **151,872** |

## Movement in Reserves Statement 2011/12

| | General Fund Balance | Earmarked Reserves | Housing Revenue Account | Earmarked HRA Reserves | Capital Receipts Reserve | Major Repairs Reserve HRA Note 3 | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance as at 01 April 2011** | **4,511** | **6,495** | **5,087** | **742** | **1,907** | **-** | **48** | **18,790** | **133,082** | **151,872** |
| **Movement in reserves during 2011/12** | | | | | | | | | | |
| (Surplus) or Deficit on the Provision of Services | 1,172 | - | (45,592) | - | - | - | - | **(44,420)** | - | **(44,420)** |
| Other Comprehensive Income & Expenditure | - | - | - | - | - | - | - | **-** | (7,283) | **(7,283)** |
| **Total Comprehensive Income & Expenditure** | **1,172** | **-** | **(45,592)** | **-** | **-** | **-** | **-** | **(44,420)** | **(7,283)** | **(51,703)** |
| Adjustments between Accounting Basis & Funding Basis under Regulations (Note 7) | (804) | - | 44,905 | - | (131) | - | (4) | **43,966** | (43,966) | **-** |
| **Net (Increase) / Decrease before transfers to Earmarked Reserves** | **368** | **-** | **(687)** | **-** | **(131)** | **-** | **(4)** | **(454)** | **(51,249)** | **(51,703)** |
| Transfers to/(from) Earmarked Reserves (Note 8) | (158) | 158 | 87 | (87) | - | - | - | **-** | - | **-** |
| **Increase / (Decrease) in 2011/12** | **210** | **158** | **(600)** | **(87)** | **(131)** | **-** | **(4)** | **(454)** | **(51,249)** | **(51,703)** |
| **Balance as at 31 March 2012** | **4,721** | **6,653** | **4,487** | **655** | **1,776** | **-** | **44** | **18,336** | **81,833** | **100,169** |

**Comprehensive Income and Expenditure Statement (CIES)**

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

A breakdown of the individual services contained within the CIES headings are detailed within the Appendix to the CIES on page 143.

# Comprehensive Income & Expenditure Statement

| 2010/11 Gross Expenditure £000 | 2010/11 Gross Income £000 | 2010/11 Net Expenditure £000 | | | 2011/12 Gross Expenditure £000 | 2011/12 Gross Income £000 | 2011/12 Net Expenditure £000 |
|---|---|---|---|---|---|---|---|
| 7,193 | (6,321) | 872 | Central Services | | 6,468 | (6,099) | 369 |
| 4,842 | (2,368) | 2,474 | Cultural & Related Services | | 4,124 | (1,399) | 2,725 |
| 6,795 | (1,266) | 5,529 | Environmental & Regulatory Services | | 4,793 | (735) | 4,058 |
| 2,459 | (689) | 1,770 | Planning Services | | 1,953 | (288) | 1,665 |
| 2,001 | (1,624) | 377 | Highways & Transport Services | | 1,086 | (1,356) | (270) |
| (2,593) | (16,567) | (19,160) | Local Authority Housing (HRA) | | 17,321 | (17,456) | (135) |
| - | - | - | Exceptional Item - HRA Self Financing Settlement | Note 5 | 44,668 | - | 44,668 |
| 55,316 | - | 55,316 | Exceptional Item - Change in EUSHV | | - | - | - |
| - | (1,780) | (1,780) | Exceptional Item - Change in Pension | | - | - | - |
| 22,416 | (20,719) | 1,697 | Other Housing Services | | 23,489 | (21,841) | 1,648 |
| 1,637 | (6) | 1,631 | Corporate & Democratic Core | | 1,649 | (23) | 1,626 |
| 29 | (3) | 26 | Non Distributed Costs | | 119 | - | 119 |
| - | (7,027) | (7,027) | Exceptional Item - Change in Pension | | - | - | - |
| **100,095** | **(58,370)** | **41,725** | **Net Cost of Services** | **Note 27** | **105,670** | **(49,197)** | **56,473** |
| | | 450 | Other Operating Expenditure | Note 9 | | | 74 |
| | | (2,292) | Financing & Investment Income & Expenditure (FIIE) | Note 10 | | | 410 |
| | | - | FIIE – Exceptional Item for Reversal of Impairment | Note 10 | | | (2,375) |
| | | 79 | Surplus or Deficit of Discontinued Operations | Note 28 | | | 20 |
| | | (10,725) | Taxation & Non Specific Grant Income | Note 11 | | | (9,362) |
| | | **29,237** | **(Surplus) or Deficit on Provision of Services** | **Note 27** | | | **44,420** |
| | | 15,024 | Surplus or Deficit on Revaluation of Property, Plant & Equipment Assets | Note 23a | | | 2,155 |
| | | - | Surplus or Deficit on Revaluation of Available for Sale Financial Assets | | | | - |
| | | (8,370) | Actuarial Gains / Losses on Pension Assets / Liabilities | Note 23e | | | 5,128 |
| | | **6,654** | **Other Comprehensive Income & Expenditure** | | | | **7,283** |
| | | **35,891** | **Total Comprehensive Income & Expenditure** | | | | **51,703** |

**Balance Sheet**

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

| 31 March 2011 £000 | Balance Sheet | Notes | 31 March 2012 £000 |
|---:|---|---:|---:|
| 149,383 | Property, Plant & Equipment | 12 | 145,609 |
| 1,569 | Heritage Assets | 13 | 1,746 |
| 19,061 | Investment Property | 14 | 19,272 |
| 169 | Intangible Assets | 15 | 101 |
| - | Assets Held for Sale | 20 | - |
| 1,350 | Long Term Investments | 16 | 296 |
| 13,065 | Long Term Debtors | 16 | 13,301 |
| **184,597** | **Long Term Assets** | | **180,325** |
| 8,880 | Short Term Investments | 16 | 7,296 |
| 18 | Inventories | 17 | 25 |
| 2,741 | Short Term Debtors | 18 | 2,356 |
| 5,102 | Cash & Cash Equivalents | 19 | 9,704 |
| **16,741** | **Current Assets** | | **19,381** |
| (346) | Cash & Cash Equivalents | 19 | (341) |
| (345) | Short Term Borrowing | 16 | (369) |
| (5,143) | Short Term Creditors | 21 | (5,071) |
| (668) | Provisions | 22 | (577) |
| **(6,502)** | **Current Liabilities** | | **(6,358)** |
| - | Long Term Creditors | 16 | - |
| - | Provisions | 22 | - |
| (20,392) | Long Term Borrowing | 16 | (65,060) |
| (22,505) | Other Long Term Liabilities | 23e | (28,118) |
| - | Donated Assets Account | | - |
| (67) | Capital Grants Receipts in Advance | 34 | (1) |
| - | Revenue Grants Receipts in Advance | | - |
| **(42,964)** | **Long Term Liabilities** | | **(93,179)** |
| **151,872** | **Net Assets** | | **100,169** |
| 18,790 | Usable Reserves | | 18,336 |
| 133,082 | Unusable Reserves | 23 | 81,833 |
| **151,872** | **Total Reserves** | | **100,169** |

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

| **2010/11 £000** | **Cash Flow Statement** | | **2011/12 £000** |
|---|---|---|---|
| 29,237 | Net (Surplus) or Deficit on the Provision of Services | | 44,420 |
| (34,926) | Adjustments to Net (Surplus) or Deficit on the Provision of Services for non cash movements | | (5,990) |
| 605 | Adjustments for items included in Net (Surplus) or Deficit on the Provision of Services that are Investing and Financing Activities | | (44,444) |
| (5,084) | Net Cash Flows from Operating Activities | Note 24 | (6,014) |
| 5,537 | Investing Activities | Note 25 | 46,512 |
| 1,969 | Financing Activities | Note 26 | (45,105) |
| 2,422 | Net Increase or Decrease in Cash & Cash Equivalents | | (4,607) |
| 7,178 | Cash & Cash Equivalents at the beginning of the reporting period | | 4,756 |
| **4,756** | **Cash & Cash Equivalents at the end of the reporting period** | Note 19 | **9,363** |

**Notes to the Accounts - Summary** **Page**

# 1. Accounting Policies

## 1. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31st March 2012. The Accounts and Audit Regulations (England) 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 2011/12, supported by International Financial Reporting Standards (IFRS).

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

## 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 together with payments over £5,000 made in March & April to ensure that they are appropriate. Any accruals below this amount are not considered to be material.

## 3. ACQUISITIONS AND DISCONTINUED OPERATIONS

### Acquired operations

The Authority has not acquired any operations during 2011/12.

### Discontinued Operations

The results of discontinued operations are shown as a single amount on the face of the Comprehensive Income and Expenditure Statement 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.

## 4. 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.

## 5. 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.

## 6. 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.

**7. 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.

**8. 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 40 to the Core Financial Statements on page 101 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 4.8% (based on the single average gilt yield which gives the same present value as the gilt curve applied to the cash flows of a typical LGPS employer with a duration of around 20 years plus the median 'credit spread' applying to AA corporate bonds within the iBoxx Over 15 Years Index). This is no longer consistent with the iBoxx Index yield.

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 $31^{st}$ March 2012.

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 $1^{st}$ 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 $31^{st}$ March 2012, 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 40 to the Core Financial Statements on page 101 has been prepared on the basis of these disclosures.

It is not possible to assess the accuracy of the estimated liability as at $31^{st}$ March 2012 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 $31^{st}$ 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 $31^{st}$ 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 $31^{st}$ March 2010.

The financial assumptions used to calculate the components of the pension expense for the year ended $31^{st}$ March 2012 were those from the beginning of the year (i.e. $31^{st}$ March 2011) and have not been changed during the year. The financial assumptions used for the purposes of the IAS 19 calculations are detailed in Note 40 to the Core Financial Statements on page 101.

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 not consistent with the iBoxx yield at the same date. Therefore the discount rate is no longer equivalent to the gross redemption yield on the iBoxx Sterling Corporates AA Over 15 Years Index at the IAS 19 accounting date.

For the 2011/12 financial year the discount rate derived from corporate bond yields as at 31st March 2012 was 4.8% 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 2011/12, as with the accounting exercise in the previous year, will be in line with the Consumer Prices Index (CPI). The CPI assumption will be calculated as RPI less 0.8% p.a., with RPI being calculated as outlined above.

The salary increase assumption has changed this year as the Government's public sector pay restraints have been taken into account. The salary increase assumption is therefore 1% p.a. for the next 3 years, reverting to RPI plus 1.5% thereafter. This is a change from previous years due to further pay restraints now applying.

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 2011).

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 40 to the Core Financial Statements on page 101.

## 9. 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.

## 10. 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.

  - ***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.

  - ***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).

- **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.

**11. FOREIGN CURRENCY TRANSLATION**

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

## 12. 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.

## 13. HERITAGE ASSETS

Heritage Assets are assets that are held by the Council because of their cultural, environmental or historical value. Tangible Heritage Assets include historical buildings, paintings, sculptures / statues, archives and other works of art.

The Authority's Museum, Art and Civic Heritage Assets are held in various sites including the Castle Museum, Store and Town Hall. The Museum Collection has four main collections, General Collection, Art, Furniture and Archaeological Collection & Ephemera. The collections are used for education, learning, research, enjoyment and are preserved for the use of future generations.

- **Valuation of Heritage Assets**

The Code requires that Heritage Assets are measured at valuation in the 2011/12 financial statements (including the 2010/11 comparative information). The Council will recognise in the Balance Sheet each asset shown in the table which has an identified value.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below.
The accounting policies in relation to Heritage Assets that are deemed to include elements of intangible Heritage Assets are also presented below.

- **General Collection:** Tamworth Castle has held collections and maintained a museum since it was purchased for the Borough in 1897. The collections are crucial for maximising access to and understanding of Tamworth's heritage. These items are reported in the balance sheet at insurance valuation which is based on Market values. Acquisitions, although rare, are initially recognised at cost.

- **Art Collection:** The collection consists principally of views of Tamworth by local artists although some are nationally recognised. The mediums covered include oil, watercolour, lithographs, mezzotints and prints. These too are reported in the balance sheet at insurance valuation based on Market values.

- **Archaeological Collection & Ephemera:** The archaeological collection consists mainly of finds from various excavations local to Tamworth, usually as a result of building development around Tamworth Castle site but also in the town and further afield. These are not recognised on the Balance Sheet as cost or valuation information is not reliable for items of this type due to the diverse nature, and lack of comparable market values for the assets held.

- **Civic Collection and Statues:** The Authority's Civic Collection and Statues were valued in April 2012 by external valuers. These assets are deemed to have an indeterminate life with high residual values; hence the Authority does not consider it appropriate to charge depreciation.

- **Tamworth Castle:** The castle dates from c1070 but has been updated and modernised during the interim period. The current value is based on historic cost but there are regular works to maintain the property.

    - **Heritage Assets – General**

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment for Heritage Assets, e.g. where an item has suffered physical deterioration or breakage, or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. There will be the occasional disposal of Heritage Assets which have a doubtful provenance or are unsuitable for public display.

Disposals will be made in line with the Authority's policy on acquisitions and disposals. The proceeds of such items are accounted for in accordance with the authority's general provisions relating to the disposal of Property, Plant and Equipment except where specified in the acquisition and disposal policy. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

## 14. 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 minimus 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.

## 15. 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.

## 16. 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.

**17. 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.

**18. 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.

**19. 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 and 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 2011/12 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.

## 20. 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 *Service Reporting Code of Practice 2011/12* (SeRCOP). 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 SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

## 21. 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 minimus 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.

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 the Council has incurred capital expenditure on Council dwellings this is included within the Gross Book Value (GBV) and where it is not considered to add value it is included as impairment. These impairments are subject to write out following a full revaluation exercise (on a 5 yearly basis).

During the year a review of garage sites was undertaken and several areas identified for disposal and redevelopment. Where the decision had been made to dispose of a garage site, the value of the buildings element has been impaired to zero leaving only a residual land value.

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. **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.

ii. **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.

iii. **Vehicles, Plant and Equipment:** 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.

iv. **Infrastructure:** Depreciation is calculated on a straight line basis to a nil residual value over the expected useful life of the asset of 30 years.

v. **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.

vi. **Heritage Assets:** The Council considers that the Heritage Assets held will have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation for the assets.

vii. **Computer Hardware:** Computer hardware is depreciated over a period of 3 years on a straight line basis to a nil residual value.
viii. **Investment Properties & Surplus Assets:** No depreciation has been applied to either the land or building value of Investment Properties or Surplus Assets

ix. **Intangible Fixed Assets:** Software - Computer software licences are amortised to revenue over a period of 3 years.

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

xi. De minimus 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 Comprehensive Income and Expenditure Statement in cases where the asset was acquired by way of a finance lease.

Where an item of Property, Plant and Equipment 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 Capital Receipts Reserve from the General Fund or Housing Revenue Account in the Movement in Reserves Statement. For 2011/12 £292k was paid over in respect to Government pooling (see the Comprehensive Income & Expenditure Statement on page 21).

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 Minimus Level**

The de minimus 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 and
- have a materially different useful life (at least 20% different) and/or
- 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 minimus 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 minimus 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 minimus 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 minimus 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 minimus 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 minimus 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.

## 22. 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 (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the 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.

**23. 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 8 to the Core Financial Statements on page 60.

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 23 to the Core Financial Statements on page 78.

**24. 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.

**25. 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.

**26. 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 £25k within the General Fund plus £56k relating to the repayment of Icelandic Capitalisation debt. Under the Act no MRP is chargeable to the Housing Revenue Account.

## 27. 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.

## 28. 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.

## 29. INTEREST

All interest earned is credited to the Comprehensive Income & Expenditure Statement 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.

## 30. SERVICE REPORTING CODE OF PRACTICE (SeRCOP)

SeRCOP 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.

## 31. 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 2011/12.

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

Amendments to IFRS7 Financial Instruments *has been adopted within* the 2012/13 Code and requires the following disclosure in the 2011/12 financial statements of local authorities in the UK.

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October) 2010 by the code will result in a change in accounting policy that requires disclosure.

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the standard was 1 July 2011 but we are not required by the Code to implement this amended disclosure requirement until 1 April 2012.

Following a review of the Authority's financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements of the Council.

## 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision;

- The level and timing of recovery of Icelandic Deposits – as detailed in Note 43 on page 107.

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

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

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

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Pensions | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied | Adjustment to the level of liability on the balance sheet. During the year the overall liability increased from £22.5m to £28.1m (following a reduction from £38.9m to £22.5m in 2010/11) – see note 40 on page 101. |
| Property ,Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Council dwellings would increase by c.£30k for every year that useful lives had to be reduced. |

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

## 5. Material Items of Income and Expense

The Statement of Accounts includes the following material items of income and expenditure:

**a) HRA Self Financing**

With effect from 1st April 2012 the HRA subsidy system was abolished and replaced with a new system of self financing. Under the new system the council was required to take on additional debt totalling £44.668 million. This payment was made to central government on 28th March 2012 and has been shown as an extraordinary payment in the HRA accounts for 2011/12 in accordance with guidance issued in Local Authority Accounting Panel (LAAP) Bulletin 92. The debt appears in the balance sheet.

***b) Impairment of Financial Assets – Deposits with Icelandic Banks***

The accounting requirements for impairing investments (such as the anticipated loss to the Authority arising from the Icelandic banking sector defaulting on its obligations in October 2008) have been made in line with Cipfa guidance with an impairment gain of £2.375m included in the Surplus or Deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement for 2011/12.

**c*) Pensions***

The pension fund deficit has increased in the year to £28.1m (2010/11 £22.5m) and is required to be shown on the balance sheet of the Authority. This increase is as a result of less favourable financial assumptions at 31 March 2012 than at 31 March 2011. A new approach for calculating the discount rate and falling bond yields have adversely affected the estimate of future liabilities and lower than expected investment performance has reduced asset values.

## 6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director Corporate Services on 27 June 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2012 as they provide information that is relevant to an understanding of the Authority's financial position but do not relate to conditions at that date.

**Deposits with Icelandic Banks**

Since 31st March 2012, the Authority has received the following additional repayments:

| Date | KSF £ | Heritable £ |
|---|---|---|
| 20/04/2012 | - | 57,038.98 |
| 02/05/2012 | 317,525.59 | - |

## 7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

## Adjustments between Accounting Basis and Funding Basis under Regulations

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **2011/12** | | | | | | |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:** | | | | | | |
| Charges for depreciation & impairment of Non Current Assets | (570) | (6,315) | - | - | - | 6,885 |
| Revaluation losses on Property Plant & Equipment | (191) | 1,436 | - | - | - | (1,245) |
| Movements in the market value of Investment Properties | (119) | - | - | - | - | 119 |
| Amortisation of Intangible Assets | (80) | - | - | - | - | 80 |
| Capital Grants and Contributions Applied | 372 | - | - | - | - | (372) |
| Movement in the Donated Assets Account | - | - | - | - | - | - |
| Revenue Expenditure Funded from Capital Under Statute | (439) | (44,668) | - | - | - | 45,107 |
| Amounts on Non Current Assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement | (10) | (177) | - | - | - | 187 |
| **Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:** | | | | | | |
| Statutory provision for the financing of capital investment – Minimum Revenue Provision | 81 | - | - | - | - | (81) |
| Statutory provision for the financing of capital investment – Voluntary Revenue Provision | 2,147 | - | - | - | - | (2,147) |
| Capital expenditure charged against the General Fund & HRA balances | 2 | 1,704 | - | - | - | (1,706) |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement | 2 | - | - | - | (2) | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | 6 | (6) |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income & Expenditure Statement | 12 | 395 | (407) | - | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | 247 | - | - | (247) |
| Contribution from the Capital Receipts Reserve towards administrative costs of Non Current Asset disposals | - | (3) | 3 | - | - | - |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (291) | - | 291 | - | - | - |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | | - | (3) | - | - | 3 |

## Adjustments between Accounting Basis and Funding Basis under Regulations

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Adjustment primarily involving the Deferred Capital Receipts Reserve:** | | | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income & Expenditure Statement | - | - | - | - | - | - |
| Finance Leases | 165 | - | - | - | - | (165) |
| Transfer of Kickstart loans from Birmingham city Council | 93 | - | - | - | - | (93) |
| **Adjustments primarily involving the Major Repairs Reserve:** | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | - | 2,833 | - | (2,833) | - | - |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | 2,833 | - | (2,833) |
| **Adjustment primarily involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | - | 10 | - | - | - | (10) |
| **Adjustments primarily involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement (see Note 40) | (1,606) | (423) | - | - | - | 2,029 |
| Employer's pensions contribution and direct payments to pensioners payable in the year. | 1,233 | 311 | - | - | - | (1,544) |
| **Adjustment primarily involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 7 | - | - | - | - | (7) |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (4) | (8) | - | - | - | 12 |
| **Total Adjustments 2011/12** | **804** | **(44,905)** | **131** | **-** | **4** | **43,966** |

## Adjustments between Accounting Basis and Funding Basis under Regulations

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **2010/11** | | | | | | |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:** | | | | | | |
| Charges for depreciation & impairment of non-current assets | (1,215) | (5,947) | - | - | - | 7,162 |
| Revaluation losses on Property Plant & Equipment | (377) | (35,401) | - | - | - | 35,778 |
| Movements in the market value of Investment Properties | 2,052 | - | - | - | - | (2,052) |
| Amortisation of intangible assets | (50) | - | - | - | - | 50 |
| Capital grants and contributions applied | 344 | 90 | - | - | - | (434) |
| Movement in the Donated Assets Account | - | - | - | - | - | - |
| Revenue expenditure funded from capital under statute | (419) | - | - | - | - | 419 |
| Amounts on non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement | (29) | (581) | - | - | - | 610 |
| **Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:** | | | | | | |
| Statutory provision for the financing of capital investment | 195 | - | - | - | - | (195) |
| Capital expenditure charged against the General Fund & HRA balances | 15 | 893 | - | - | - | (908) |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement | - | - | - | - | - | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | 125 | (125) |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income & Expenditure Statement | 58 | 432 | (490) | - | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | 877 | - | - | (877) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | - | (6) | 6 | - | - | - |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (324) | - | 324 | - | - | - |

## Adjustments between Accounting Basis and Funding Basis under Regulations

| Adjustments between Accounting Basis and Funding Basis under Regulations | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | - | - | (6) | - | - | 6 |
| **Adjustment primarily involving the Deferred Capital Receipts Reserve:** | | | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/ loss on disposal to the Comprehensive Income & Expenditure Statement | - | - | - | - | - | - |
| Finance Leases | (7) | - | - | - | - | 7 |
| **Adjustments primarily involving the Major Repairs Reserve:** | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | - | 2,801 | - | (2,801) | - | - |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | 2,801 | - | (2,801) |
| **Adjustment primarily involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | - | 33 | - | - | - | (33) |
| **Adjustments primarily involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement (see Note 40) | 5,082 | 1,270 | - | - | - | (6,352) |
| Employer's pensions contribution and direct payments to pensioners payable in the year. | 1,324 | 335 | - | - | - | (1,659) |
| **Adjustment primarily involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (2) | - | - | - | - | 2 |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (3) | - | - | - | - | 3 |
| **Total Adjustments 2010/11** | **6,644** | **(36,081)** | **711** | **-** | **125** | **28,601** |

# 8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in Earmarked Reserves to provide financing for future expenditure plans and the amounts posted back from Earmarked Reserves to meet General Fund and HRA expenditure in 2011/12.

| Transfers to / (from) Earmarked Reserves | Balance at 01 Apr 2010 £000 | Transfers out 2010/11 £000 | Transfers in 2010/11 £000 | Balance at 31 Mar 2011 £000 | Transfers out 2011/12 £000 | Transfers in 2011/12 £000 | Balance at 31 Mar 2012 £000 |
|---|---|---|---|---|---|---|---|
| **General Fund:** | | | | | | | |
| **Future Capital Expenditure** | 1,220 | - | - | 1,220 | (17) | 38 | 1,241 |
| **Temporary Reserves** | 1,066 | (878) | 773 | 961 | (439) | 910 | 1,432 |
| **Retained Funds** | 1,440 | (267) | 1,058 | 2,231 | (1,003) | 675 | 1,903 |
| **Repairs & Renewals** | 709 | (453) | - | 256 | - | 3 | 259 |
| **Commuted Sums** | 1,473 | (160) | 179 | 1,492 | (50) | 26 | 1,468 |
| **Other Reserves** | 410 | (75) | - | 335 | (381) | 396 | 350 |
| **Total** | **6,318** | **(1,833)** | **2,010** | **6,495** | **(1,890)** | **2,048** | **6,653** |
| **HRA:** | | | | | | | |
| **Future Capital Expenditure** | 507 | (116) | - | 391 | (1,704) | 1,587 | 274 |
| **Temporary Reserves** | 217 | (127) | 127 | 217 | (160) | 173 | 230 |
| **Retained Funds** | - | - | 134 | 134 | - | 17 | 151 |
| **Repairs & Renewals** | - | - | - | - | - | - | - |
| **Commuted Sums** | - | - | - | - | - | - | - |
| **Other Reserves** | - | - | - | - | - | - | - |
| **Total** | **724** | **(243)** | **261** | **742** | **(1,864)** | **1,777** | **655** |

**Future Capital Expenditure:** The Council maintains a Capital Reserve under the provisions of the Local Government (Miscellaneous Provisions) Act 1976. It is Council policy to make advances from this fund to various services.

**Temporary Reserves:** These have been established by the transfer of funds from revenue in order to finance specific identified schemes or potential needs.

**Retained Funds:** These have been established in order to finance recurring irregular expenditure for a specific purpose.

**Repairs and Renewal Account:** This was set up under the provisions of the Local Government (Miscellaneous Provisions) Act 1976 and is maintained for the purchase of vehicles and plant and is funded through notional depreciation charges on purchases.

**Commuted Sums:** These are monies deposited by contractors to finance future maintenance expenditure incurred as a result of the various developments.

**Other Reserves:** The largest of these is the Building Repairs Fund that is held for the maintenance of Municipal buildings, including commercial properties.

## 9. Other Operating Expenditure

| 2010/11 £000 | Other Operating Expenditure | 2011/12 £000 |
|---|---|---|
| 324 | Payments to the Government Housing Capital Receipts Pool | 292 |
| 126 | (Gains) / losses on the disposal of Non Current Assets | (218) |
| **450** | **Total** | **74** |

## 10. Financing and Investment Income and Expenditure

| 2010/11 £000 | Financing and Investment Income & Expenditure | 2011/12 £000 |
|---|---|---|
| 1,585 | Interest payable and similar charges | 1,435 |
| 912 | Pensions interest cost and expected return on Pensions Assets | 533 |
| (447) | Interest receivable and similar income | (411) |
| (857) | Finance lease Income | (851) |
| (3,142) | (Income) and expenditure in relation to Investment Properties and changes in their fair value | (1,116) |
| (343) | Reversal of Icelandic Bank Investment impairment | (2,375) |
| **(2,292)** | **Total** | **(2,785)** |

## 11. Taxation and Non Specific Grant Income

| 2010/11 £000 | Taxation and Non Specific Grant Income | 2011/12 £000 |
|---|---|---|
| 3,505 | Council tax income | 3,509 |
| 5,978 | Non domestic rates | 3,983 |
| 965 | Non ringfenced government grants | 1,497 |
| 277 | Capital grants and contributions | 373 |
| **10,725** | **Total** | **9,362** |

# 12. Property, Plant and Equipment

| Movement in 2011/12 | Council Dwellings £000 | Other Land & Buildings £000 | Vehicles, Plant, Furniture and Equipment £000 | Infrastructure Assets £000 | Community Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | Total Property, Plant & Equipment £000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | |
| **At 01 April 2011** | **128,869** | **23,990** | **3,901** | **378** | **703** | **-** | **-** | **157,841** |
| Additions | 4,537 | 33 | 59 | - | 21 | - | - | **4,650** |
| Donations | - | - | - | - | - | - | - | **-** |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 258 | (2,515) | - | - | (6) | - | - | **(2,263)** |
| Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on the Provision of Services | 1,436 | (286) | - | - | 99 | - | - | **1,249** |
| Derecognition - Disposals | (179) | - | (151) | - | (10) | - | - | **(340)** |
| Derecognition - Other | (1,249) | (141) | - | - | (4) | - | - | **(1,394)** |
| Assets reclassified (to)/ from Investment Property | - | (330) | - | - | - | - | - | **(330)** |
| Other movements in cost or valuation | - | - | - | - | - | - | - | **-** |
| **At 31 March 2012** | **133,672** | **20,751** | **3,809** | **378** | **803** | **-** | **-** | **159,413** |
| **Accumulated Depreciation & Impairment** | | | | | | | | |
| **At 01 April 2011** | **(5,435)** | **(238)** | **(2,641)** | **(139)** | **(5)** | **-** | **-** | **(8,458)** |
| Depreciation Charge | (1,702) | (407) | (221) | (12) | - | - | - | **(2,342)** |
| Impairment losses/ (reversals) recognised in the Revaluation Reserve | - | (14) | - | - | - | - | - | **(14)** |
| Impairment losses/ (reversals) recognised in the Surplus/ Deficit on the Provision of Services | (4,537) | (4) | - | - | - | - | - | **(4,541)** |
| Derecognition - disposals | 3 | - | 151 | - | - | - | - | **154** |
| Derecognition - other | 1,249 | 141 | - | - | 4 | - | - | **1,394** |
| Assets reclassified (to)/ from Investment Property | - | 3 | - | - | - | - | - | **3** |
| | | | | | | | | **-** |
| **At 31 March 2012** | **(10,422)** | **(519)** | **(2,711)** | **(151)** | **(1)** | **-** | **-** | **(13,804)** |
| **Net Book Value** | | | | | | | | |
| at 31 March 2011 | 123,434 | 23,752 | 1,260 | 239 | 698 | - | - | 149,383 |
| **at 31 March 2012** | **123,250** | **20,232** | **1,098** | **227** | **802** | **-** | **-** | **145,609** |
| **Nature of Holdings at year end** | | | | | | | | |
| Owned | 123,250 | 20,232 | 1,098 | 227 | 802 | - | - | **145,609** |
| Finance Lease | - | - | - | - | - | - | - | **-** |

## Comparative Movement in 2010/11

| | Council Dwellings | Other Land & Buildings | Vehicles, Plant, Furniture and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or Valuation** | | | | | | | | |
| **At 01 April 2010** | **180,698** | **20,379** | **3,236** | **378** | **700** | **-** | **309** | **205,700** |
| Additions | 4,352 | 122 | 518 | - | 100 | - | 8 | **5,100** |
| Donations | - | - | - | - | - | - | - | **-** |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | (19,648) | 4,571 | - | - | 6 | - | - | **(15,071)** |
| Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on the Provision of Services | (35,401) | (285) | - | - | (103) | - | - | **(35,789)** |
| Derecognition - Disposals | (582) | - | - | - | - | - | - | **(582)** |
| Derecognition - Other | (720) | (797) | - | - | - | - | - | **(1,517)** |
| Assets reclassified (to)/ from Held for Sale | - | - | - | - | - | - | - | **-** |
| Other movements in cost or valuation | 170 | - | 147 | - | - | - | (317) | **-** |
| **At 31 March 2011** | **128,869** | **23,990** | **3,901** | **378** | **703** | **-** | **-** | **157,841** |
| **Accumulated Depreciation & Impairment** | | | | | | | | |
| **At 01 April 2010** | **(284)** | **(627)** | **(1,787)** | **(126)** | **(5)** | **-** | **-** | **(2,829)** |
| | | | | | | | | **-** |
| Depreciation and Impairment Charge | (1,610) | (417) | (854) | (13) | - | - | - | **(2,894)** |
| Impairment losses/ (reversals) recognised in the Surplus/ Deficit on the Provision of Services | (4,262) | 19 | - | - | - | - | - | **(4,243)** |
| Derecognition - disposals | 1 | - | - | - | - | - | - | **1** |
| Derecognition - other | 720 | 797 | - | - | - | - | - | **1,517** |
| Other movements in depreciation and impairment | - | (10) | - | - | - | - | - | **(10)** |
| **At 31 March 2011** | **(5,435)** | **(238)** | **(2,641)** | **(139)** | **(5)** | **-** | **-** | **(8,458)** |
| **Net Book Value** | | | | | | | | |
| at 31 March 2010 | 180,414 | 19,752 | 1,449 | 252 | 695 | - | 309 | 202,871 |
| **at 31 March 2011** | **123,434** | **23,752** | **1,260** | **239** | **698** | **-** | **-** | **149,383** |
| **Nature of Holdings at year end** | | | | | | | | |
| Owned | 123,434 | 23,752 | 1,260 | 239 | 698 | - | - | **149,383** |
| Finance Lease | - | - | - | - | - | - | - | **-** |

**a) Depreciation**

***i) Tangible Fixed Assets:***

***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.

**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.

***Vehicles, Plant and Equipment:*** 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.

***Infrastructure:*** Depreciation is calculated on a straight line basis to a nil residual value over the expected useful life of the asset of 30 years.

***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.

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

***Investment Properties:*** No depreciation has been applied to either the land or building value of Investment Properties.

***Heritage Assets:*** No depreciation has been applied.

***ii) Intangible Fixed Assets:***

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

**b) Capital Commitments**

At 31 March 2012, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £8.001m. Similar commitments at 31 March 2011 were £195.5k. The major commitments are:

| 2010/11 £000 | Capital Contract | 2011/12 £000 |
|---|---|---|
| 67.4 | Private Sector Housing – Disabled Facilities Grants | 19.6 |
| 18.0 | IT Projects | - |
| 93.1 | High Rise Lift Refurbishment | - |
| 11.8 | TIC Relocation | - |
| 5.2 | Window & Door Renewals | - |
| - | Tamworth Castle Heritage Lottery Fund (HLF) | 722.6 |
| - | CCTV Camera Renewals | 4.9 |
| - | Housing Repairs & Investment | 6,041.3 |
| - | Gas Installations | 1,203.4 |
| - | CDM costs | 9.1 |
| **195.5** | **Total** | **8,000.9** |

**c) Revaluations**

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The valuations are carried out by Council's Property Surveyor, Mr P Evans MRICS, IRRV and external valuers, Calders. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are are carried at historical cost as a proxy for fair value.

The significant assumptions applied in estimating the fair values are:

- Fair Value is: 'The amount for which an asset could be exchanged, between knowledgeable, willing parties, in an arms length transaction';
- Fair Value represents the price that would be reasonably agreed between two specific parties for the exchange of an asset;
- Although the parties may be unconnected and negotiating at arms length, the asset is not necessarily exposed in the wider market and the price agreed may be one that reflects the specific advantages (or disadvantages) of ownership to the parties involved rather than the market at large;
- In accounting standards, fair value is normally equated to market value;
- Fair value is a broader concept than market value. Although in many causes the price that is fair between two parties will equate to that obtainable in the general market, there will be cases where the assessment for fair value will involve taking into account matters that have to be disregarded in the assessment of market value.

The following statement show the progress of the Council's rolling programme for revaluation of Non-Current Assets:

| Valuations (Cost or Valuation) | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Valued at historical cost | - | - | 1,098 | 227 | - | - | - | 1,325 |
| Valued at current cost in: | | | | | | | | |
| 2011/12 | 62,025 | 11,944 | - | - | - | - | - | 73,969 |
| 2010/11 | 1,347 | 6,316 | - | - | 802 | - | - | 8,465 |
| 2009/10 | 59,878 | 1,972 | - | - | - | - | - | 61,850 |
| **Total** | **123,250** | **20,232** | **1,098** | **227** | **802** | **-** | **-** | **145,609** |

## 13. HERITAGE ASSETS

The Authority's Museum, Art, and Civic Heritage Assets are held in various sites including the Castle Museum, Store, and Town Hall. The Museum Collection has four main collections, General collection, Art, Furniture, and Archaeological Collection & ephemera. The collections are used for education and learning, research and enjoyment, and are preserved for the use of future generations. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below. The accounting policies in relation to Heritage Assets that are deemed to include elements of intangible Heritage Assets are also presented below.

- **General Collection:** Tamworth Castle has held collections and maintained a museum since it was purchased for the Borough in 1897. The collections are crucial for maximising access to and understanding of Tamworth's heritage. These items are reported in the balance sheet at insurance valuation which is based on Market values. Acquisitions, although rare, are initially recognised at cost.

- **Art Collection:** The collection consists principally of views of Tamworth by local artists although some are nationally recognised. The mediums covered include oil, watercolour, lithographs, mezzotints and prints. These too are reported in the balance sheet at insurance valuation based on Market values.

- **Archaeological Collection & Ephemera:** The archaeological collection consists mainly of finds from various excavations local to Tamworth, usually as a result of building development around Tamworth Castle site but also in the town and further afield. These are not recognised on the Balance Sheet as cost or valuation information is not reliable for items of this type due to the diverse nature, and lack of comparable market values for the assets held.

- **Civic Collection and Statues:** The Authority's Civic Collection and Statues were valued in April 2012 by external valuers. These assets are deemed to have an indeterminate life with high residual values; hence the Authority does not consider it appropriate to charge depreciation.

- **Tamworth Castle:** The castle dates from c1070 but has been updated and modernised during the interim period. The current value is based on historic cost but there are regular works to maintain the property.

**Heritage Assets – General**

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment for Heritage Assets, e.g. where an item has suffered physical deterioration or breakage, or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. There will be the occasional disposal of Heritage Assets which have a doubtful provenance or are unsuitable for public display.

Disposals will be made in line with the Authority's policy on acquisitions and disposals. The proceeds of such items are accounted for in accordance with the authority's general provisions relating to the disposal of Property, Plant and Equipment except where specified in the acquisition and disposal policy. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

| **Movement in 2011/12** | **Art Collection** | **Civic Regalia** | **Museum Exhibits** | **Statues** | **Castle** | **Total Heritage Assets** |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Cost or Valuation** | | | | | | |
| **At 01 April 2011** | **93** | **183** | **594** | **93** | **606** | **1,569** |
| Additions | - | - | - | - | 64 | **64** |
| Disposals | - | - | - | - | - | **-** |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 4 | (9) | 28 | 140 | (46) | **117** |
| Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on the Provision of Services | - | - | - | - | (4) | **(4)** |
| Depreciation | - | - | - | - | - | **-** |
| **At 31 March 2012** | **97** | **174** | **622** | **233** | **620** | **1,746** |

## Movement in 2010/11

| | Art Collection | Civic Regalia | Museum Exhibits | Statues | Castle | Total Heritage Assets |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or Valuation** | | | | | | |
| **At 01 April 2010** | **88** | **174** | **565** | **93** | **602** | **1,522** |
| Additions | - | - | - | - | 4 | **4** |
| Disposals | - | - | - | - | - | **-** |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 5 | 9 | 29 | - | 6 | **49** |
| Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on the Provision of Services | - | - | - | - | - | **-** |
| Impairment Losses/(Reversals) recognised in the Revaluation Reserve | - | - | - | - | - | **-** |
| Depreciation | - | - | - | - | (6) | **(6)** |
| **At 31 March 2011** | **93** | **183** | **594** | **93** | **606** | **1,569** |

## 14. Investment Properties

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

| 2010/11 £000 | Investment Properties | 2011/12 £000 |
|---|---|---|
| (1,408) | Rental income from Investment Property | (1,400) |
| 318 | Direct operating expenses arising from Investment Property | 284 |
| **(1,090)** | **Net (gain)/ loss** | **(1,116)** |

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of Investment Properties over the year:

| 2010/11 £000 | Fair Value of Investment Properties | 2011/12 £000 |
|---|---|---|
| **17,025** | **Balance at 01 April 2011** | **19,061** |
| | Additions: | |
| 13 | Subsequent expenditure | - |
| (29) | Disposals | |
| 2052 | Net gains/ losses from fair value adjustments | (116) |
| | Transfers: | |
| - | to/ from Property, Plant & Equipment | 327 |
| **19,061** | **Balance at 31 March 2012** | **19,272** |

## 15. Intangible Assets

The Authority accounts for its software as Intangible Assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The Intangible Assets include purchased licenses and software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £80k charged to revenue in 2011/12 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

| 2010/11 £000 | Intangible Assets | 2011/12 £000 |
|---|---|---|
| | Balance at 01 April 2011 | |
| 638 | Gross carrying amounts | 728 |
| (509) | Accumulated amortisation | (559) |
| **129** | **Net carrying amount at 01 April 2011** | **169** |
| 90 | Additions through purchases | 12 |
| - | Assets reclassified as held for sale | - |
| - | Revaluation increases or decreases | - |
| - | Impairment losses recognised in the Surplus/ Deficit on the Provision of Services | - |
| - | Reversal of past impairment losses written back to the Surplus/ Deficit on the Provision of Services | - |
| (50) | Amortisation for the period | (80) |
| - | Other Changes | |
| **169** | **Net carrying amount at 31 March 2012** | **101** |
| | Comprising: | |
| 728 | Gross carrying amounts | 740 |
| (559) | Accumulated amortisation | (639) |
| **169** | | **101** |

# 16. Financial Instruments

## a) Categories of Financial Instruments

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

| Financial Instruments | Long Term | | Current | |
|---|---|---|---|---|
| | 31 March 2011 £000 | 31 March 2012 £000 | 31 March 2011 £000 | 31 March 2012 £000 |
| **Investments** | | | | |
| Loans and receivables (Principal amount) | 1,302 | 238 | 8,849 | 7,255 |
| Plus Accounting adjustments | - | - | 31 | 41 |
| Available for Sale Financial Assets | 48 | 58 | - | - |
| Unquoted equity investment at cost | - | - | - | - |
| **Total Investments** | **1,350** | **296** | **8,880** | **7,296** |
| **Debtors** | | | | |
| Loans and receivables | - | - | 5,090 | 9,682 |
| Plus Accounting adjustments | - | - | 8 | 18 |
| Financial assets carried at contract amounts | 13,065 | 13,301 | 1,314 | 1,279 |
| **Total Debtors** | **13,065** | **13,301** | **6,412** | **10,979** |
| **Borrowings** | | | | |
| Financial liabilities at amortised cost | 20,392 | 65,060 | - | - |
| Plus Accounting adjustments | - | - | 345 | 369 |
| **Total Borrowings** | **20,392** | **65,060** | **345** | **369** |
| **Other Long Term Liabilities** | | | | |
| PFI and finance lease liabilities | - | - | - | - |
| **Total other long term liabilities** | **-** | **-** | **-** | **-** |
| **Creditors** | | | | |
| Financial liabilities at amortised cost | - | - | 346 | 341 |
| Financial liabilities carried at contract amount | - | - | 3,997 | 2,757 |
| **Total Creditors** | **-** | **-** | **4,343** | **3,098** |

Under accounting requirements the financial instrument value shown in the balance sheet include the principal amount borrowed or lent plus accrued interest and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation).

Fair value has been measured by:

- Direct reference to published price quotations in an active market; and/or
- Estimated using a valuation technique.

**b) Reclassifications**

There were no reclassifications of financial instruments during the year.

**c) Gains and Losses**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statements in relation to financial instruments are made up as follows.

| Financial Instruments | 2010/11 | | | | | 2011/12 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial liabilities measured at amortised cost | Financial Assets: Loans and receivables | Financial Assets: Available for sale | Assets and Liabilities at Fair Value through Profit and Loss | Total | Financial liabilities measured at amortised cost | Financial Assets: Loans and receivables | Financial Assets: Available for sale | Assets and Liabilities at Fair Value through Profit and Loss | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest expense | (1,585) | - | - | - | **(1,585)** | (1,435) | - | - | - | **(1,435)** |
| Losses on derecognition | - | - | - | - | **-** | - | - | - | - | **-** |
| Reductions in fair value | - | - | - | - | **-** | - | - | - | - | **-** |
| Impairment (losses) / gain | - | 343 | - | - | **343** | - | 2,375 | - | - | **2,375** |
| Fee expense | - | - | - | - | **-** | - | - | - | - | **-** |
| **Total expense in (Surplus) or Deficit on the Provision of Services** | **(1,585)** | **343** | **-** | **-** | **(1,242)** | **(1,435)** | **2,375** | **-** | **-** | **940** |

| Financial Instruments | 2010/11 | | | | | 2011/12 | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Financial liabilities measured at amortised cost £000 | Financial Assets: Loans and receivables £000 | Financial Assets: Available for sale £000 | Assets and Liabilities at Fair Value through Profit and Loss £000 | Total £000 | Financial liabilities measured at amortised cost £000 | Financial Assets: Loans and receivables £000 | Financial Assets: Available for sale £000 | Assets and Liabilities at Fair Value through Profit and Loss £000 | Total £000 |
| Interest income | - | 255 | 2 | 857 | **1,114** | - | 295 | 2 | 851 | **1,148** |
| Interest on VAT repayment | - | 59 | - | - | **59** | - | - | - | - | **-** |
| Interest income accrued on impaired financial assets | - | 131 | - | - | **131** | - | 114 | - | - | **114** |
| Increases in fair value | - | - | - | - | **-** | - | - | - | - | **-** |
| Gains on derecognition | - | - | - | - | **-** | - | - | - | - | **-** |
| Fee income | - | - | - | - | **-** | - | - | - | - | **-** |
| **Total income in (Surplus) or Deficit on the Provision of Services** | **-** | **445** | **2** | **857** | **1,304** | **-** | **409** | **2** | **851** | **1,262** |
| Gains on revaluation | - | - | 2 | - | **2** | - | - | 2 | - | **2** |
| Losses on revaluation | - | - | - | - | **-** | - | - | - | - | **-** |
| Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment | - | - | - | - | **-** | - | - | - | - | **-** |
| **Surplus / (deficit) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure** | **-** | **-** | **2** | **-** | **2** | **-** | **-** | **2** | **-** | **2** |
| **Net gain / (loss) for the year** | **(1,585)** | **788** | **4** | **857** | **64** | **(1,435)** | **2,784** | **4** | **851** | **2,204** |

**d) Fair Values of Assets and Liabilities**

Financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| | 31 March 2011 | | 31 March 2012 | |
|---|---|---|---|---|
| **Financial liabilities** | **Carrying Amount £000** | **Fair Value £000** | **Carrying Amount £000** | **Fair Value £000** |
| PWLB Debt | 20,737 | 27,601 | 65,429 | 79,054 |
| Creditors | 3,997 | 3,997 | 2,757 | 2,757 |
| Long-term creditors | - | - | - | - |
| Total Financial liabilities | **24,734** | **31,598** | **68,186** | **81,811** |

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2012) arising from a commitment to pay interest to lenders above current market rates.

The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair values for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments.

| Loans and receivables | 31 March 2011 | | 31 March 2012 | |
|---|---|---|---|---|
| | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 |
| Money Market Loans <1 year | 8,880 | 8,898 | 7,296 | 6,771 |
| Money Market Loans >1 year | 1,302 | 1,302 | 238 | 238 |
| Debtors | 1,314 | 1,314 | 1,279 | 1,279 |
| Long-term debtors | 13,065 | 13,065 | 13,301 | 13,301 |
| Total Financial liabilities | **24,561** | **24,579** | **22,114** | **21,589** |

Where the fair value of the assets is lower than the carrying amount this is because the Authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the Balance Sheet date & vice versa. This shows, for 2011/12, a notional future loss (based on economic conditions at 31 March 2012) attributable to the commitment to receive interest below current market rates.

The fair values for loans and receivables have been determined by reference to the Public Works Loans Board (PWLB) redemption rules which provide a good approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

The differences are attributable to fixed interest instruments payable being held by the Authority whose interest rate is lower than the prevailing rate estimated to be available at 31st March 2012. This reduces the fair value of financial liabilities and lowers the value of loans and receivables.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

## 17. Inventories

| | Castle Stock | | Assembly Rooms | | Tourist Information Centre | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010/11 £000 | 2011/12 £000 | 2010/11 £000 | 2011/12 £000 | 2010/11 £000 | 2011/12 £000 | 2010/11 £000 | 2011/12 £000 | 2010/11 £000 | 2011/12 £000 |
| **Balance at 01 April 2011** | **9** | **9** | **2** | **4** | **3** | **5** | **1** | **-** | **15** | **18** |
| Movement | - | 2 | 2 | - | 2 | 5 | (1) | - | 3 | 7 |
| Write offs | - | - | - | - | - | - | - | - | - | - |
| **Balance at 31 March 2012** | **9** | **11** | **4** | **4** | **5** | **10** | **-** | **-** | **18** | **25** |

## 18. Debtors

| 2010/11 £000 | Debtors | 2011/12 £000 |
|---|---|---|
| 1,358 | Central Government bodies | 1,006 |
| 230 | Other Local Authorities | 181 |
| 69 | Council Taxpayers | 70 |
| 1,142 | Housing Rents | 1,326 |
| 1,577 | Other entities and individuals | 1,686 |
| (1,635) | Provision for bad debts | (1,913) |
| **2,741** | **Total** | **2,356** |

## 19. Cash and Cash Equivalents

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

| 2010/11 £000 | Cash & Cash Equivalents | 2011/12 £000 |
|---|---|---|
| 4 | Cash held by the Authority | 4 |
| (346) | Bank current accounts | (341) |
| 5,098 | Short-term deposits with Banks and Building Societies | 9,700 |
| - | Other | - |
| **4,756** | **Total Cash and Cash Equivalents** | **9,363** |

## 20. Assets Held for Sale

The Council held no assets for sale during 2011/12.

## 21. Creditors

| 2010/11 £000 | Creditors | 2011/12 £000 |
|---|---|---|
| 850 | Central Government bodies | 1,877 |
| 1,399 | Other Local Authorities | 839 |
| 58 | Council Taxpayers | 67 |
| 369 | Housing Rents | 385 |
| 239 | Precepting Authorities | 370 |
| - | Public Corporations and trading funds | - |
| 2,228 | Other entities and individuals | 1,533 |
| **5,143** | **Total** | **5,071** |

## 22. Provisions

| Provisions | Hoylake Trees £000 | Costs Associated with VR £000 | Housing Repairs Contract Pensions £000 | Total £000 |
|---|---|---|---|---|
| **2010/11** | | | | |
| **Balance at 01 April 2010** | **70** | **-** | **-** | **70** |
| Additional provisions made in year | 15 | 583 | - | 598 |
| Amount used in year | - | - | - | - |
| Unused amounts reversed in year | - | - | - | - |
| **Balance Outstanding at end of 31 March 2011** | **85** | **583** | **-** | **668** |
| **2011/12** | | | | |
| Additional provisions made in year | - | - | 518 | 518 |
| Amount used in year | (26) | (524) | - | (550) |
| Unused amounts reversed in year | (59) | - | - | (59) |
| **Balance Outstanding at end of 31 March 2012** | **-** | **59** | **518** | **577** |

### a) Hoylake Trees

The provision for the Tree Preservation Order claim has been cleared following settlement of the claim. The amounts remaining following the settlement have been returned to the revenue accounts in 2011/12.

### b) Costs Associated with VR

The provision for the Costs associated with VR has reduced by £524k to £59k (£583k in 2010/11). It was established to cover redundancy payments and associated costs arising from a cost reduction scheme introduced on 2010/11. The amount represents the remaining potential outstanding costs such as retraining schemes.

### c) Housing Repairs Contract Pensions

The Authority has included a new provision for 2011/12 in the sum of £518k for costs arising from a potential pension liability associated with staff transferred as part of a TUPE arrangement.

# 23. Unusable Reserves

| 31 March 2011 £000 | Unusable Reserves | 31 March 2012 £000 |
|---|---|---|
| 9,597 | Revaluation Reserve | 7,254 |
| - | Available for Sale Financial Instruments Reserve | - |
| 133,358 | Capital Adjustment Account | 89,805 |
| (12) | Financial Instruments Adjustment Account | (2) |
| (22,505) | Pensions Reserve | (28,118) |
| 12,828 | Deferred Capital Receipts Reserve | 13,083 |
| 40 | Collection Fund Adjustment Account | 47 |
| (224) | Accumulated Absences Account | (236) |
| **133,082** | **Total Unusable Reserves** | **81,833** |

## a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2010/11 £000 | Revaluation Reserve | 2011/12 £000 | |
|---|---|---|---|
| **24,794** | **Balance at 01 April 2011** | | **9,597** |
| 4,863 | Upward revaluation of assets | 904 | |
| (19,887) | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | (3,059) | |
| **(15,024)** | Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services | | (2,155) |
| (173) | Difference between fair value depreciation and historical cost depreciation | (188) | |
| - | Accumulated gains on assets sold or scrapped | - | |
| **(173)** | Amount written off to the Capital Adjustment Account | | (188) |
| **9,597** | **Balance at 31 March 2012** | | **7,254** |

**b) Available for Sale Financial Instruments Reserve**

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Disposed of and the gains are realised

There have been no material movements in available for sale financial instruments in 2011/12.

**c) Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2010/11 £000 | Capital Adjustment Account | 2011/12 £000 | |
|---|---|---|---|
| **169,812** | **Balance at 01 April 2011** | | **133,358** |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| (7,162) | Charges for depreciation and impairment of Non Current Assets | (6,885) | |
| (35,778) | Revaluation losses on Property, Plant and Equipment | 1,245 | |
| (50) | Amortisation of intangible assets | (80) | |
| (419) | Revenue expenditure funded from capital under statute | (45,107) | |
| (610) | Amounts of non-current assets written off on disposal or sale as part of the gains/loss on disposal to the Comprehensive Income and Expenditure Statement | (187) | |
| | | | (51,014) |
| 173 | Adjusting amounts written out of the Revaluation Reserve | | 188 |
| | Net written out amount of the cost of non-current assets consumed in the year | | (50,826) |
| | Capital financing applied in the year: | | |
| 877 | Use of Capital Receipts Reserve to finance new capital expenditure | 247 | |
| 2,801 | Use of Major Repairs Reserve to finance new capital expenditure | 2,833 | |
| 434 | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 372 | |
| 125 | Application of grants to capital financing from the Capital Grants Unapplied Account | 6 | |
| 195 | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances – Minimum Revenue Provision | 81 | |
| - | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances – Voluntary Revenue Provision | 2,147 | |
| 908 | Capital expenditure charged against the General Fund and HRA Balances | 1,706 | |
| | | | 7,392 |
| 2,052 | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | | (119) |
| **133,358** | **Balance at 31 March 2012** | | **89,805** |

## d) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

| 2010/11 £000 | Financial Instruments Adjustment Account | 2011/12 £000 | |
|---|---|---|---|
| **(45)** | **Balance at 01 April 2011** | | **(12)** |
| 33 | Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement | 10 | |
| - | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | - | |
| **33** | Amount by which finance costs charge to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in the year in accordance with statutory requirements | | **10** |
| **(12)** | **Balance at 31 March 2012** | | **(2)** |

## e) Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible.

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2010/11<br>£000 | Pensions Reserve | 2011/12<br>£000 |
|---|---|---|
| **(38,886)** | **Balance at 01 April 2011** | **(22,505)** |
| 8,370 | Actuarial gains or losses on pensions assets and liabilities | (5,128) |
| 6,352 | Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (2,029) |
| 1,659 | Employer's contributions and direct payments to pensioners payable in the year | 1,544 |
| **(22,505)** | **Balance at 31 March 2012** | **(28,118)** |

## f) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. The majority of the current balance relates to the accounting arrangements for finance leases under IFRS.

| 2010/11<br>£000 | Deferred Capital Receipts Reserve | 2011/12<br>£000 |
|---|---|---|
| **12,841** | **Balance at 01 April 2011** | **12,828** |
| - | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - |
| (6) | Transfer to Capital Receipts Reserve upon receipt of cash | (3) |
| (7) | Finance Leases | 165 |
| - | Transfer of Kickstart loans from Birmingham City Council | 93 |
| **12,828** | **Balance at 31 March 2012** | **13,083** |

## g) Collection Fund Adjustment Account

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

| 2010/11 £000 | Collection Fund Adjustment Account | 2011/12 £000 |
|---|---|---|
| **42** | **Balance at 01 April 2011** | **40** |
| (2) | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 7 |
| **40** | **Balance at 31 March 2012** | **47** |

## h) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2010/11 £000 | Accumulated Absences Account | 2011/12 £000 | |
|---|---|---|---|
| **(221)** | **Balance at 01 April 2011** | | **(224)** |
| 221 | Settlement or cancellation of accrual made at the end of the preceding year | 224 | |
| (224) | Amounts accrued at the end of the current year | (236) | |
| (3) | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | | (12) |
| **(224)** | **Balance at 31 March 2012** | | **(236)** |

## 24. Cash Flow Statement – Operating Activities

The cash flows for the operating activities include the following items:

| 2010/11 £000 | Cash Flow Statement - Operating Activities | 2011/12 £000 |
|---:|---|---:|
| 511 | Interest received | 421 |
| 1,601 | Interest paid | 1,459 |
| 2,972 | Other | 4,134 |
| **5,084** | **Net Cash Flows from Operating Activities** | **6,014** |

## 25. Cash Flow Statement – Investing Activities

| 2010/11 £000 | Cash Flow Statement - Investing Activities | 2011/12 £000 |
|---:|---|---:|
| 5,130 | Purchase of Property, Plant and Equipment; investment property and intangible assets | 4,726 |
| - | REFCUS | 45,107 |
| 1,016 | Purchase of short-term and long-term investments | - |
| - | Other payments for investing activities | - |
| (488) | Proceeds from the sale of Property, Plant and Equipment; investment property and intangible assets | (292) |
| - | Proceeds from short-term and long-term investments | (2,657) |
| (121) | Other receipts from investing activities | (372) |
| **5,537** | **Net Cash Flows from Investing Activities** | **46,512** |

## 26. Cash Flow Statement – Financing Activities

| 2010/11 £000 | Cash Flow Statement - Financing Activities | 2011/12 £000 |
|---:|---|---:|
| **-** | Cash receipts from short-term and long-term borrowing | **(44,668)** |
| **(93)** | Other receipts from financing activities | **(437)** |
| **-** | Cash payments for the reduction of the outstanding liabilities relating to finance leases | **-** |
| **2,000** | Repayments of short-term and long-term borrowing | **-** |
| **62** | Other payments for financing activities | **-** |
| | | **-** |
| **1,969** | **Net Cash Flows from Financing Activities** | **(45,105)** |

## 27. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across Directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)

The income and expenditure of the Authority's principal Directorates recorded in the budget reports for the year is as follows:

| **Directorate Income and Expenditure** | **Chief Executive & Assistant Chief Executive** £000 | **Corporate Director Community Services** £000 | **Corporate Director Resources** £000 | **DD Assets and Environmental Services** £000 | **DD Housing and Health** £000 | **DD Communities, Planning and Partnerships** £000 | **DD Corporate Finance** £000 | **Total** £000 |
|---|---|---|---|---|---|---|---|---|
| **2011/12** | | | | | | | | |
| Fees, charges & other service income | (192) | (84) | (1,256) | (4,831) | (19,209) | (1,683) | (638) | **(27,893)** |
| Government grants | - | - | (25,885) | - | - | (309) | (362) | **(26,556)** |
| **Total income** | **(192)** | **(84)** | **(27,141)** | **(4,831)** | **(19,209)** | **(1,992)** | **(1,000)** | **(54,449)** |
| Employee expenses | 1,379 | 2 | 1,434 | 2,914 | 2,241 | 1,925 | 1,006 | **10,901** |
| Other service expenses | 1,094 | 126 | 27,097 | 4,469 | 14,242 | 2,374 | 1,929 | **51,331** |
| Support service recharges | (1,088) | (41) | (1,064) | 20 | 885 | 749 | (1,003) | **(1,542)** |
| Depreciation, amortisation & impairment | 6 | - | 210 | 1,036 | 2,833 | 31 | (1,288) | **2,828** |
| REFCUS | - | - | - | - | - | - | - | **-** |
| Retirement Benefits | - | - | - | - | - | - | - | **-** |
| **Total operating expenses** | **1,391** | **87** | **27,677** | **8,439** | **20,201** | **5,079** | **644** | **63,518** |
| **Net Expenditure** | **1,199** | **3** | **536** | **3,608** | **992** | **3,087** | **(356)** | **9,069** |

| Directorate Income and Expenditure | Chief Executive & Assistant Chief Executive £000 | Corporate Director Community Services £000 | Corporate Director Resources £000 | DD Assets and Environmental Services £000 | DD Housing and Health £000 | DD Communities, Planning and Partnerships £000 | DD Corporate Finance £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| **2010/11 Comparative Figures** | | | | | | | | |
| Fees, charges & other service income | (253) | (15) | (1,099) | (4,398) | (21,994) | (1,966) | (1,460) | **(31,185)** |
| Government grants | (77) | - | (25,389) | (90) | (260) | (599) | (438) | **(26,853)** |
| **Total income** | **(330)** | **(15)** | **(26,488)** | **(4,488)** | **(22,254)** | **(2,565)** | **(1,898)** | **(58,038)** |
| Employee expenses | 1,723 | 141 | 1,640 | 3,622 | 2,675 | 2,317 | 1,334 | **13,452** |
| Other service expenses | 1,021 | 52 | 26,263 | 4,884 | 11,381 | 1,881 | 3,108 | **48,590** |
| Support service recharges | (1,077) | (16) | (1,081) | (28) | 4,647 | 792 | (1,147) | **2,090** |
| Depreciation, amortisation & impairment | 7 | - | 89 | 39 | 41,348 | (546) | (343) | **40,594** |
| REFCUS | - | - | - | - | 417 | 2 | - | **419** |
| Retirement Benefits | (2) | - | (4) | (13) | (1,607) | (9) | (6,306) | **(7,941)** |
| **Total Operating Expenses** | **1,672** | **177** | **26,907** | **8,504** | **58,861** | **4,437** | **(3,354)** | **97,204** |
| **Net Expenditure** | **1,342** | **162** | **419** | **4,016** | **36,607** | **1,872** | **(5,252)** | **39,166** |

**Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement**

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

| 2010/11 £000 | Reconciliation to Cost of Services in Comprehensive Income and Expenditure Statement | 2011/12 £000 |
|---|---|---|
| 39,166 | Net expenditure in the Directorate Analysis | 9,069 |
| - | Net expenditure of services and support services not included in the Analysis | - |
| - | Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | 48,507 |
| 2,559 | Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement | (1,103) |
| **41,725** | **Cost of Services in Comprehensive Income and Expenditure Statement** | **56,473** |

| **Reconciliation to the (Surplus) or deficit on the provision of services** | **Directorate Analysis £000** | **Services and support services not in Analysis £000** | **Amounts not reported to management for decision making £000** | **Amounts not included in the Comprehensive Income and Expenditure Statement £000** | **Allocation of recharges £000** | **Cost of Services £000** | **Corporate Amounts £000** | **Total £000** |
|---|---|---|---|---|---|---|---|---|
| **2011/12** | | | | | | | | |
| Fees, charges and other service income | (27,893) | - | (676) | 4,134 | - | **(24,435)** | (3,104) | **(27,539)** |
| Surplus or deficit on associates and joint ventures | - | - | - | - | - | **-** | - | **-** |
| Interest and investment income | - | - | - | - | - | **-** | - | **-** |
| Income from council tax | - | - | - | - | - | **-** | (3,509) | **(3,509)** |
| Government grants and contributions | (26,556) | - | (9) | 266 | - | **(26,299)** | (5,852) | **(32,151)** |
| **Total Income** | **(54,449)** | **-** | **(685)** | **4,400** | **-** | **(50,734)** | **(12,465)** | **(63,199)** |
| Employee expenses | 10,901 | - | 2 | (23) | - | **10,880** | 42 | **10,922** |
| Other service expenses | 51,331 | - | 1,250 | (6,564) | - | **46,017** | 2,889 | **48,906** |
| Support service recharges | (1,542) | - | (88) | 1,084 | - | **(546)** | (1,093) | **(1,639)** |
| Depreciation, amortisation and impairment | 2,828 | - | 2,892 | - | - | **5,720** | (2,436) | **3,284** |
| REFCUS | - | - | 45,107 | - | - | **45,107** | - | **45,107** |
| Retirement Benefits | - | - | 29 | - | - | **29** | 531 | **560** |
| Payments to Housing Capital Receipts Pool | - | - | - | - | - | **-** | 292 | **292** |
| Gain or Loss on Disposal of Fixed Assets | - | - | - | - | - | **-** | 187 | **187** |
| **Total Expenditure** | **63,518** | **-** | **49,192** | **(5,503)** | **-** | **107,207** | **412** | **107,619** |
| **(Surplus) or deficit on the provision of services** | **9,069** | **-** | **48,507** | **(1,103)** | **-** | **56,473** | **(12,053)** | **44,420** |

| Reconciliation to the (Surplus) or deficit on the provision of services | Directorate Analysis | Services and support services not in Analysis | Amounts not reported to management for decision making | Amounts not included in the Comprehensive Income and Expenditure Statement | Allocation of recharges | Cost of Services | Corporate Amounts | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **2010/11 Comparative Figures** | | | | | | | | |
| Fees, charges and other service income | (31,185) | - | - | 2,944 | - | **(28,241)** | (2,944) | **(31,185)** |
| Surplus or deficit on associates and joint ventures | - | - | - | - | - | **-** | - | **-** |
| Interest and investment income | - | - | - | - | - | **-** | - | **-** |
| Income from council tax | - | - | - | - | - | **-** | (3,505) | **(3,505)** |
| Government grants and contributions | (26,853) | - | - | 346 | - | **(26,507)** | (7,220) | **(33,727)** |
| **Total Income** | **(58,038)** | **-** | **-** | **3,290** | **-** | **(54,748)** | **(13,669)** | **(68,417)** |
| Employee expenses | 13,452 | - | - | (40) | - | **13,412** | 40 | **13,452** |
| Other service expenses | 48,590 | - | - | (3,208) | - | **45,382** | 3,208 | **48,590** |
| Support service recharges | 2,090 | - | - | 1,034 | - | **3,124** | (1,034) | **2,090** |
| Depreciation, amortisation and impairment | 40,594 | - | - | 2,395 | - | **42,989** | (2,395) | **40,594** |
| REFCUS | 419 | - | - | - | - | **419** | - | **419** |
| Retirement Benefits | (7,941) | - | - | (912) | - | **(8,853)** | 912 | **(7,941)** |
| Payments to Housing Capital Receipts Pool | - | - | - | - | - | **-** | 324 | **324** |
| Gain or Loss on Disposal of Fixed Assets | - | - | - | - | - | **-** | 126 | **126** |
| **Total Expenditure** | **97,204** | **-** | **-** | **(731)** | **-** | **96,473** | **1,181** | **97,654** |
| **Surplus or deficit on the provision of services** | **39,166** | **-** | **-** | **2,559** | **-** | **41,725** | **(12,488)** | **29,237** |

## 28. Acquired and Discontinued Operations

The Council did not acquire or discontinue any operations during 2011/12 (The market operation transferred at 31 March 2011 to LSD Promotions).

## 29. Trading Operations

The Authority has a number of trading operations required to operate in a commercial environment as follows:

| 2010/11 (Surplus)/ Deficit £000 | Trading Operations | 2011/12 Expenditure £000 | 2011/12 Income £000 | 2011/12 (Surplus)/ Deficit £000 |
|---|---|---|---|---|
| 79 | Markets | 31 | (11) | **20** |
| (555) | Industrial Estates | 173 | (658) | **(485)** |
| 410 | Other Land & Property | 134 | (764) | **(630)** |
| **(66)** | | **338** | **(1,433)** | **(1,095)** |

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement.

## 30. Agency Services

Staffordshire County Council is currently carrying out Highways Maintenance works on behalf of the Council under a management agreement. This amounted to £153k for 2011/12.

| 2010/11 £000 | Agency Services | 2011/12 £000 |
|---|---|---|
| 68 | Highways services | 111 |
| 51 | Management fee | 42 |
| **119** | **Total** | **153** |

## 31. Members' Allowances

The Authority paid the following amounts to members of the council during the year.

| 2010/11 £000 | Members Allowances | 2011/12 £000 |
|---|---|---|
| 153 | Basic allowance | 152 |
| 90 | Special responsibility | 94 |
| 3 | Other allowances/ expenses | 3 |
| **246** | **Total** | **249** |

## 32. Officers' Remuneration

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

| Officers Remuneration | | Salary, Fees and Allowances | Expenses Allowances | Compensation for Loss of Office | Pension Contribution | Total |
|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ |
| Chief Executive | **2011/12** | **105,610** | **1,419** | **-** | **19,353** | **126,382** |
| | 2010/11 | *106,773* | *1,419* | *-* | *18,767* | *126,959* |
| Corporate Director Community Services & Deputy Chief Executive | **2011/12** | **-** | **-** | **-** | **-** | **-** |
| | 2010/11 | *85,865* | *1,303* | *-* | *15,011* | *102,179* |
| Corporate Director Resources | **2011/12** | **91,235** | **1,302** | **-** | **16,952** | **109,489** |
| | 2010/11 | *81,382* | *1,302* | *-* | *14,081* | *96,765* |
| Assistant Chief Executive | **2011/12** | **69,370** | **1,302** | **-** | **12,897** | **83,569** |
| | 2010/11 | *69,421* | *1,302* | *-* | *12,204* | *82,927* |
| Deputy Director Assets & Environment | **2011/12** | **72,847** | **1,302** | **-** | **13,542** | **87,691** |
| | 2010/11 | *72,848* | *1,302* | *-* | *12,814* | *86,964* |
| Deputy Director Housing & Health | **2011/12** | **69,341** | **1,302** | **-** | **12,897** | **83,540** |
| | 2010/11 | *69,341* | *1,302* | *-* | *12,204* | *82,847* |
| Deputy Director Corporate Finance | **2011/12** | **65,406** | **1,302** | **-** | **12,157** | **78,865** |
| | 2010/11 | *63,511* | *1,301* | *-* | *11,087* | *75,899* |
| Assistant Director Environmental Health & Regulatory Services | **2011/12** | **-** | **-** | **-** | **-** | **-** |
| | 2010/11 | *15,402* | *310* | *64,027* | *2,711* | *82,450* |
| Deputy Director Communities, Planning & Partnerships | **2011/12** | **65,446** | **1,302** | **-** | **12,157** | **78,905** |
| | 2010/11 | *63,538* | *1,302* | *-* | *11,087* | *75,927* |
| Solicitor & Monitoring Officer | **2011/12** | **61,631** | **1,302** | **-** | **11,459** | **74,392** |
| | 2010/11 | *61,619* | *1,302* | *-* | *10,843* | *73,764* |
| Assistant Director Financial Operations | **2011/12** | **-** | **-** | **-** | **-** | **-** |
| | 2010/11 | *15,276* | *340* | *74,000* | *98,421* | *188,037* |
| Assistant Director Business Processes | **2011/12** | **56,204** | **465** | **-** | **10,454** | **67,123** |
| | 2010/11 | *56,225* | *63* | *-* | *9,892* | *66,180* |

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

| 2010/11 Number of employees | Remuneration Band | 2011/12 Number of employees left during year | 2011/12 Number employed at 31 March 2011 | 2011/12 Total number of employees |
|---|---|---|---|---|
| - | £50,000 - £54,999 | - | - | - |
| 2 | £55,000 - £59,999 | - | 1 | 1 |
| 5 | £60,000 - £64,999 | - | 1 | 1 |
| - | £65,000 - £69,999 | - | 5 | 5 |
| 3 | £70,000 - £74,999 | - | - | - |
| - | £75,000 - £79,999 | - | - | - |
| 1 | £80,000 - £84,999 | - | 1 | 1 |
| 1 | £85,000 - £89,999 | - | - | - |
| - | £90,000 - £94,999 | - | - | - |
| - | £95,000 - £99,999 | - | - | - |
| - | £100,000 - £104,999 | - | 1 | 1 |
| 1 | £105,000 - £109,999 | - | - | - |

The number of exit packages with total cost per band and total cost of redundancies are set out below:

| Exit Package Cost Band | Number of Departures Agreed | | Total Cost of Exit Packages | |
|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2010/11 | 2011/12 |
| | No. | No. | £ | £ |
| £0 - £20,000 | 18 | 24 | 178,277 | 204,132 |
| £20,001 - £40,000 | - | 12 | - | 317,014 |
| £40,001 - £60,000 | 1 | 3 | 58,738 | 139,047 |
| £60,001 - £80,000 | 1 | - | 64,027 | - |
| £80,001 - £100,000 | - | - | - | - |
| £100,001 - £150,000 | - | - | - | - |
| £150,001 - £200,000 | 1 | - | 170,000 | - |
| **Total** | **21** | **39** | **471,042** | **660,193** |

There were no compulsory redundancies during 2011/12.

## 33. External Audit Costs

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

| 2010/11 £000 | External Audit Costs | 2011/12 £000 |
|---|---|---|
| 106 | Fees payable to the Audit Commission with regard to the external audit services carried out by the appointed auditor for the year | 103 |
| 8 | Fees payable to the Audit Commission in respect of statutory inspections | - |
| 25 | Fees payable to the Audit Commission for the certification of grants and returns for the year | 38 |
| - | Fees payable in respect of other services provided by the Audit Commission during the year | - |
| - | Other entities and individuals | - |
| **139** | **Total** | **141** |

## 34. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

| 2010/11 £000 | Grant Income | 2011/12 £000 |
|---|---|---|
| | **Credited to Taxation and Non Specific Grant Income** | |
| 868 | Revenue Support Grant | 1,231 |
| 5,978 | NNDR | 3,983 |
| - | New Homes Bonus | 179 |
| 97 | Area Based Grant | - |
| - | Council Tax Freeze Grant | 87 |
| 277 | Capital Grants and Contributions | 373 |
| **7,220** | **Total** | **5,853** |

| 2010/11 £000 | Grant Income | 2011/12 £000 |
|---|---|---|
| | **Credited to Net Cost of Services** | |
| 586 | DWP Admin Grant | 539 |
| 94 | NNDR Cost of Collection | 94 |
| 25,154 | Benefits | 25,855 |
| 5 | Discretionary Housing Payment | 7 |
| 63 | Homelessness Prevention Strategy | 163 |
| - | Young Persons Homelessness Prevention | 7 |
| 132 | Safer Stronger Communities/Domestic Abuse | 72 |
| 44 | Children's Fund | - |
| 45 | IEWM Grant - refuse/recycling | - |
| 120 | Supporting People | 123 |
| 337 | National Concessionary Travel Scheme | - |
| 7 | Business Rate Deferral Scheme | 2 |
| - | Housing Benefits Reform Transition | 8 |
| 155 | Private Sector Housing Improvement Grants | - |
| 159 | Anti Social Behaviour | - |
| 6 | Alcohol Abuse | - |
| - | Mortgage Rescue Programme | 36 |
| 16 | Habitat Directive | - |
| 25 | Free Swimming | - |
| 8 | IEWM Transforming Tamworth | 12 |
| 38 | Future Jobs Fund | - |
| 34 | New Burdens - Land Charges | - |
| 35 | Benefits Atlas Funding/Local Authority Housing Allowance | 8 |
| 8 | Apprentice Scheme - Greenskill | - |
| 37 | Lottery Play Funds | - |
| 67 | Castle HLF | - |
| 10 | Tenant Fraud Initiative | - |
| - | PAS - Planning Improvement Proposal | 22 |
| | **Other contributions** | |
| 265 | Locality Working -LPSA2 | - |
| 99 | Local Strategic Partnerships | - |
| 116 | SCC Public Spaces | - |
| 36 | Other contributions SCC | - |
| 20 | Participatory budgeting | - |
| 12 | Community Engagement | - |
| - | DWP - Visual Aids | 3 |
| - | Think Local - BIS LEP | 10 |
| **27,733** | **Total** | **26,961** |

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year end are as follows:

| 31 March 11 £000 | Grant Income | 31 March 12 £000 |
|---|---|---|
| | **Capital Grants Receipts in Advance** | |
| 1 | Lottery Grant Wiggington Park | - |
| 2 | DCMS Free Swimming Grant | 1 |
| 14 | HLF Lottery re Castle | - |
| 50 | Staffordshire Primary Care Trust | - |
| **67** | **Total** | **1** |

## 35. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have control or joint control, or significant influence over the Authority, or are a member of the key management personnel of the Authority. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

### a) Central Government

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 27 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in Note 34.

| 2010/11 £000 | Related Parties | 2011/12 £000 |
|---|---|---|
| | **Grant type** | |
| 5,978 | Redistributed Non Domestic Rates | 1,231 |
| 868 | Revenue Support Grant | 3,983 |
| 25,744 | Benefit grant | 26,416 |
| 337 | Concessionary travel grant | - |
| **32,927** | **Total** | **31,630** |

Amounts payable to central government include the following:

| 2010/11 £000 | Central Government payable | 2011/12 £000 |
|---|---|---|
| 2,686 | Housing Subsidy | 3,434 |
| **2,686** | **Total** | **3,434** |

The balances outstanding as at 31 March 2012 were:

| 31 March 2011 £000 | Central Government Grant Due | 31 March 2012 £000 |
|---|---|---|
| | **Amount Receivable** | |
| 657 | Benefit Grant | 788 |
| - | Housing Subsidy | 3 |
| 286 | Non Domestic Rates due to the Pool | - |
| **943** | **Total** | **791** |
| | **Amount Payable** | |
| - | Non Domestic Rates due to the Pool | (1,288) |
| (193) | Housing Subsidy | - |
| **(193)** | **Total** | **(1,288)** |

### b) Members

Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in Note 31. During the financial year ended 31st March 2012, there were no material transactions between the Council and its Members, other than the payment of Member Allowances. Details of all transactions are recorded in the Register of Members' Interest, open to public inspection at the Town Hall during office hours.

### c) Officers

During the financial year ended 31st March 2012, there were no material transactions between the Council and its Chief Officers, other than the payment of officer salaries. The total of senior officers' remuneration is shown in Note 32.

### d) Staffordshire County Council, Police Authority and Fire Authority Precepts.

Staffordshire County Council and Police Authority, and Stoke on Trent and Staffordshire Fire and Rescue Authority, issue precepts on the Council, as follows:

| 31 March 2011 £000 | Precepts | 31 March 2012 £000 |
|---|---|---|
| 23,914 | Staffordshire County Council | 23,975 |
| 4,128 | Staffordshire Police Authority | 4,139 |
| 1,572 | Stoke on Trent & Staffordshire Fire & Rescue Authority | 1,576 |
| **29,614** | **Total** | **29,690** |

## e) Staffordshire County Council

The County Council is the Administering Authority for the Pension Fund and details of the employer's contributions paid by this Council are detailed in Note 40.

The Council receives a number of grants from Staffordshire County Council, including:

| 31 March 2011 £000 | Staffordshire County Council | 31 March 2012 £000 |
|---|---|---|
| 120 | Supporting People Grant | 123 |
| 96 | Safer Stronger Communities & Domestic Abuse Fund | 72 |
| **216** | **Total** | **195** |

Under the Recycling Credit Scheme, the Council also receives recycling credits from Staffordshire County Council. These are then paid over to the Joint Waste Unit under arrangements with Lichfield District Council.

| 31 March 2011 £000 | Recycling Credit Scheme | 31 March 2012 £000 |
|---|---|---|
| 83 | Recycling Credits | (537) |
| **83** | **Total** | **(537)** |

## f) JOINTLY CONTROLLED OPERATION – JOINT WASTE MANAGEMENT SERVICES

The Joint Waste Service for Tamworth Borough Council and Lichfield District Council was launched in July 2010, and a joint committee - 'Lichfield and Tamworth Waste Collection Services' - was established. The organisation provides waste and recycling services to approximately 73,000 properties across the two councils. Lichfield District Council is responsible for hosting the employment of staff.

The partner councils share the assets and liabilities of the Joint Committee in agreed proportions, based on the number of properties in each area.

The forecast revenue outturn of the Joint Waste Service for the year ended 31st March 2012 is as follows:-

| 2010-11 £'000s | | 2011-12 £'000s |
|---|---|---|
| | **Expenditure** | |
| 1,875 | Employee Costs | 2,290 |
| 0 | Premises Related Expenses | 19 |
| 1,067 | Transport Costs | 1,539 |
| 415 | Supplies and Services | 412 |
| 190 | Central Support Costs | 185 |
| 0 | Capital Charges | 141 |
| **3,547** | **Total expenditure** | **4,586** |
| | | |
| | **Income** | |
| 746 | Recycling Credits | 1,043 |
| 95 | Other Income | 86 |
| **851** | **Total income received** | **1,129** |
| | | |
| **2,696** | **Total Net Expenditure** | **3,457** |

Lichfield DC are the lead Authority for this arrangement, with the Council reimbursing Lichfield for services on the basis of a proportion of actual spend. For 2011/12, the cost of the joint arrangement to the Council was £1.42m.

# 36. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

| 2010/11<br>£000 | Capital Expenditure & Financing | 2011/12<br>£000 |
|---:|---|---:|
| **26,942** | **Opening Capital Financing Requirement** | **27,227** |
| | **Capital Investment** | |
| 5,098 | Property, Plant and Equipment | 4,650 |
| 4 | Heritage Assets | 64 |
| - | HRA Self Financing Settlement | 44,668 |
| 13 | Investment Properties | - |
| 90 | Intangible Assets | 12 |
| 419 | Revenue Expenditure Funded from Capital under Statute | 439 |
| | **Sources of Finance** | |
| (877) | Capital receipts | (247) |
| (402) | Government grants and other contributions | (127) |
| (3,709) | Sums set aside from revenue - direct revenue contributions | (4,539) |
| (195) | Sums set aside from revenue - Minimum Revenue Provision | (81) |
| - | Sums set aside from revenue - Voluntary Revenue Provision | (2,146) |
| (156) | Grants - Revenue Expenditure Funded from Capital Under Statute | (252) |
| **27,227** | **Closing Capital Financing Requirement** | **69,668** |
| | **Explanation of movements in year:** | |
| | Increase in underlying need to borrow: | |
| 480 | Supported by Government financial assistance | - |
| - | Unsupported Borrowing - HRA Self Financing Settlement | 44,668 |
| - | Unsupported by government financial assistance | - |
| (195) | Sums set aside from revenue - Minimum Revenue Provision | (81) |
| - | Sums set aside from revenue - Voluntary Revenue Provision | (2,146) |
| **285** | **Increase/(decrease) in Capital Financing Requirement** | **42,441** |

## 37. Leases

### a) Authority as Lessee

i) Finance Leases

In the year 2011/12 rentals payable under finance leases in respect of Vehicles and Plant was £nil (2010/11 £nil).

The Council has no finance lease liabilities for any assets where it is the lessee.

ii) Operating Leases

The Council currently uses vehicles, plant and equipment financed under terms of an operating lease. The amounts paid under these arrangements in 2011/12 was £271k (£291k in 2010/11).

The Council was committed at 31st March 2012 to making payments of £286k under operating leases, comprising the following elements:

| 31 March 2011 £000 | Operating Leases | 31 March 2012 £000 |
|---|---|---|
| 271 | Not later than one year | 143 |
| 286 | Later than one year not later than five years | 143 |
| - | Later than five years | - |
| **557** | **Total** | **286** |

The expenditure charged to the Cultural & Environmental Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| 2010/11 £000 | Minimum Lease Payments | 2011/12 £000 |
|---|---|---|
| 291 | Minimum lease payments | 271 |
| - | Contingent rents | - |
| - | (sublease payments receivable) | - |
| **291** | **Total** | **271** |

**b) Authority as Lessor**

i) Finance Leases

The Authority has leased out property at the Ankerside Shopping Centre inc. Car Park, and the Golf Course Club House on a finance lease with remaining terms of 77 & 46 years respectively.

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

| **31 March 2011 £000** | **Assets held for leases (Lessor)** | **31 March 2012 £000** |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments) | |
| - | Current | - |
| 12,718 | Non current | 12,944 |
| 53,674 | Unearned finance income | 52,262 |
| 73 | Unguaranteed residual value of property | 12 |
| **66,465** | **Gross investment in the lease** | **65,218** |

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

| **Minimum Lease Payments 31 March 2011 £000** | **Gross Investment in the Lease 31 March 2011 £000** | **Minimum Lease Payments** | **Minimum Lease Payments 31 March 2012 £000** | **Gross Investment in the Lease 31 March 2012 £000** |
|---|---|---|---|---|
| 863 | 863 | Not later than one year | 863 | 863 |
| 3,451 | 3,451 | Later than one year not later than five years | 3,451 | 3,451 |
| 62,078 | 62,151 | Later than five years | 60,892 | 60,904 |
| **66,392** | **66,465** | **Total** | **65,206** | **65,218** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

ii) Operating Leases

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

- for the provision of community services, such as community centres
- for investment purposes to provide suitable affordable accommodation for local businesses.

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

| **31 March 2011 £000** | **Future Minimum Lease Payments** | **31 March 2012 £000** |
|---|---|---|
| | Operating Leases | |
| 1,143 | Not later than one year | 1,031 |
| 3,783 | Later than one year not later than five years | 3,759 |
| 54,394 | Later than five years | 52,024 |
| **59,320** | **Total** | **56,814** |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

The minimum lease payments do not include cancellable rents received during the period, these amounted to £424k in 2011/12 (£339k in 2010/11). There were 31 void units at the 31/03/12 (23 voids at the 31/03/11).

## 38. Impairment Losses

Charges for impairment of £4.541m have been made during 2011/12. This included an amount of £4.537m where the expenditure on Council Dwellings has not produced a similar increase in the value. The remaining £4k is in respect of council garages held within Other Land and Buildings which are no longer available for letting. This amount was charged direct to the Comprehensive Income and Expenditure Statement for the Housing Revenue Account.

The expenditure of £4.537m mainly related to improvements to bathrooms, kitchens, central heating, electrical upgrades and disabled adaptations. The impairment has been recognised as the advice of the Council's internal valuer is that such improvements have not increased the overall value of the asset.

The Council's car parks have also been impaired by £3.197m in 2011/12. This represents a material impairment arising from a revaluation based on likely lower future income levels as experienced during 2011/12.

Of this £2.947m was charged to the revaluation reserve with the remaining £250k being charged direct to the Highways and Transport Services within the Comprehensive Income and Expenditure Statement.

## 39. Termination Benefits

The Authority terminated the contracts of a number of employees in 2011/12, incurring liabilities of £660k (£471k in 2010/11) – see Note 32 Officers' Remuneration for detail of the number of exit packages with total cost per band and total cost of redundancies. Termination benefits were mainly due to the completion of a voluntary redundancy process in December 2011.

## 40. Defined Benefit Pension Schemes

**a) Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Staffordshire County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

**b) Transactions Relating to Post-employment Benefits**

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

## Defined Benefit Pension Schemes

| Local Government Pension Scheme 2010/11 £000 | Discretionary Benefit Arrangements 2010/11 £000 | Defined Benefit Pension Schemes | Local Government Pension Scheme 2011/12 £000 | Discretionary Benefit Arrangements 2011/12 £000 |
|---|---|---|---|---|
| | | **Comprehensive Income and Expenditure Statement:** | | |
| | | **Cost of Services:** | | |
| 1,543 | 69 | Current service costs | 1,334 | 75 |
| (8,891) | - | Past service costs | 42 | - |
| 84 | - | Settlements and curtailments | 120 | - |
| | | **Financing and Investment Income and Expenditure** | | |
| 4,500 | - | Interest costs | 4,004 | - |
| (3,588) | - | Expected return on scheme assets | (3,471) | - |
| **(6,352)** | **69** | **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **2,029** | **75** |
| (8,267) | (103) | Actuarial (gains) and losses | 4,942 | 186 |
| **(14,619)** | **(34)** | **Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | **6,971** | **261** |
| | | **Movement in Reserves Statement:** | | |
| 14,619 | 34 | Reversal of net charges made to the surplus/deficit on the provision of services for post employment benefits in accordance with the code | (6,971) | (261) |
| | | **Actual amount charged against the General Fund Balance for pensions in the year:** | | |
| 1,659 | - | Employers' contributions payable to the scheme | 1,544 | - |
| - | 69 | Retirement benefits payable to pensioners | - | 75 |

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £22.630m (£17.502m 2010/11).

Under the Housing Repairs contract, a separate pension scheme is operated for staff transferred as part of a TUPE arrangement.– for 2011/12 (the final year of the contract), a provision has been included within the accounts for £518k (the Council's element from a total liability of £569k) for costs arising from the potential pension liability associated with the ending of the contract.

### c) Assets and Liabilities in Relation to Post Employment Benefits

| Local Government Pension Scheme 2010/11 £000 | Discretionary Benefit Arrangements 2010/11 £000 | Reconciliation of present value of scheme liabilities (defined benefit obligation) | Local Government Pension Scheme 2011/12 £000 | Discretionary Benefit Arrangements 2011/12 £000 |
|---|---|---|---|---|
| **87,646** | **1,201** | **Balance at 1 April 2011** | **72,105** | **1,029** |
| 1,612 | - | Current service costs | 1,409 | - |
| 4,500 | - | Interest cost | 4,004 | - |
| 527 | - | Contributions by scheme participants | 487 | - |
| (11,012) | (103) | Actuarial gains and losses | 3,719 | 186 |
| (2,361) | (69) | Benefits paid | (2,669) | (75) |
| (8,891) | - | Past service costs | 42 | - |
| 84 | - | Curtailments | 120 | - |
| **72,105** | **1,029** | **Balance at 31 March 2012** | **79,217** | **1,140** |

| Local Government Pension Scheme 2010/11 £000 | Reconciliation of fair value of scheme assets | Local Government Pension Scheme 2011/12 £000 |
|---|---|---|
| **49,961** | **Balance at 1 April 2011** | **50,629** |
| 3,588 | Expected rate of return | 3,471 |
| (2,745) | Actuarial gains and losses | (1,223) |
| 1,659 | Employer contributions | 1,544 |
| 527 | Contributions by scheme participants | 487 |
| (2,361) | Benefits paid | (2,669) |
| 69 | Contributions in respect of unfunded benefits | 75 |
| (69) | Unfunded benefits paid | (75) |
| **50,629** | **Balance at 31 March 2012** | **52,239** |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £2.256m (£4.227m in 2010/11).

| **Scheme History** | **2007/08 £000** | **2008/09 £000** | **2009/10 £000** | **2010/11 £000** | **2011/12 £000** |
|---|---|---|---|---|---|
| **Present value of liabilities:** | | | | | |
| Local Government Pension Scheme | (54,449) | (52,850) | (87,646) | (72,105) | (79,217) |
| Discretionary Benefits | (1,016) | (966) | (1,201) | (1,029) | (1,140) |
| **Fair value of assets in the Local Government Pension Scheme** | 46,096 | 35,200 | 49,961 | 50,629 | 52,239 |
| **Surplus/ (deficit) in the scheme:** | (9,369) | (18,616) | (38,886) | (22,505) | (28,118) |
| Local Government Pension Scheme | (8,353) | (17,650) | (37,685) | (21,476) | (26,978) |
| Discretionary Benefits | (1,016) | (966) | (1,201) | (1,029) | (1,140) |
| **Total** | **(9,369)** | **(18,616)** | **(38,886)** | **(22,505)** | **(28,118)** |

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £28.1m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary

- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £1.362m.

**d) Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

| Local Government Pension Scheme 2010/11 | Discretionary Benefit Arrangements 2010/11 | Assumptions | Local Government Pension Scheme 2011/12 | Discretionary Benefit Arrangements 2011/12 |
|---|---|---|---|---|
| | | Long-term expected rate of return on assets in the scheme: | | |
| 7.5% | - | Equity Investments | 6.2% | - |
| 0.0% | - | Government Bonds | 0.0% | - |
| 4.9% | - | Other Bonds | 3.3% | - |
| 5.5% | - | Property Managed Funds | 4.4% | - |
| 4.6% | - | Cash | 3.5% | - |
| 0.0% | - | Other | 0.0% | - |
| | | Mortality assumptions: | | |
| | | Longevity at 65 for current pensioners: | | |
| 21.2 | 21.2 | Men | 21.2 | 21.2 |
| 23.4 | 23.4 | Women | 23.4 | 23.4 |
| | | Longevity at 65 for future pensioners: | | |
| 23.3 | 23.3 | Men | 23.3 | 23.3 |
| 25.6 | 25.6 | Women | 25.6 | 25.6 |
| 2.8% | 2.8% | CPI Rate | 2.5% | 2.5% |
| 5.1% | 5.1% | Rate of increase in salaries | 4.8% | 4.8% |
| 2.8% | 2.8% | Rate of increase in pensions | 2.5% | 2.5% |
| 5.5% | 5.5% | Rate for discounting scheme liabilities | 4.8% | 4.8% |
| 50%/75% | - | Take-up of option to convert annual pension into retirement lump sum | 50%/75% | - |

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

| 2010/11 £000 | 2010/11 % | Details of scheme assets | 2011/12 £000 | 2011/12 % |
|---|---|---|---|---|
| | | **Assets held at year end:** | | |
| 39,491 | 78% | Equity Investments | 40,747 | 78.% |
| - | 0% | Government Bonds | - | 0% |
| 5,569 | 11% | Other Bonds | 6,269 | 12% |
| 3,544 | 7% | Property Managed Funds | 4,701 | 9% |
| 2,025 | 4% | Cash | 522 | 1% |
| - | 0% | Other | - | 0% |
| **50,629** | **100%** | **Total** | **52,239** | **100%** |

### e) History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

| **History of experience gains & losses** | **2007/08** | **2008/09** | **2009/10** | **2010/11** | **2011/12** |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Difference between the expected and actual return on assets | (7,066) | (13,982) | 12,626 | (2,745) | (1,223) |
| Experience gains on losses on liabilities | 719 | 17 | (56) | 3,946 | (1,188) |

| **History of experience gains & losses** | **2007/08** | **2008/09** | **2009/10** | **2010/11** | **2011/12** |
|---|---|---|---|---|---|
| | **%** | **%** | **%** | **%** | **%** |
| Difference between the expected and actual return on assets | (15.33)% | (39.72)% | 25.27% | (5.42)% | (2.34)% |
| Experience gains on losses on liabilities | (1.32)% | (0.03)% | 0.06% | (5.47)% | 1.50% |

## 41. Contingent Liabilities

Following recent legal challenges made in the last municipal year by private search companies to the Information Commissioner's Office, claiming that all property search information is 'environmental information' and therefore should be provided free of charge, there is currently uncertainty over future charges for such information, or whether the Council might be liable to repay charges levied in the past. The Council does not agree with the guidance of the Information Commissioner's Office, which is not statutory, and continues to charge for such information, however, further advice from Central Government is awaited. The Council received a total of £65k in land charges income during 2011/12. The legal action raised by the private search companies is ongoing and settlement should be made at some stage but agreement on settlement terms has yet to be reached. At this stage a contingent liability of £100k has been established.

Following the Government announcement that the West Midlands Councils organisation would no longer be supported, a potential liability exists for the Council members. We have recently entered an agreement in relation to this matter and have agreed liability for a sum in the region of £43k amongst all West Midlands Councils.

Following a Supreme Court decision handed down on 28th March 2012, if Municipal Mutual Insurance (MMI) are unable to foresee a position in which future investment income net of operating expenses would be adequate to achieve payment of agreed claims in full then appropriate alternative arrangements, which might involve the triggering of the Scheme of Arrangement (SOA), would be made. Under the SOA, the Council could be liable to pay a levy up to the value of claims paid since 1993. The value of claims paid amounts to £250k.

## 42. Contingent Assets

There were no contingent assets for the Council in 2011/12.

# 43. Nature and Extent of Risks Arising from Financial Instruments

**a) Key Risks**

The Authority's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Authority

- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments

- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

**b) Overall Procedures for Managing Risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the *Local Government Act 2003* and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance (regulations – Scotland);

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 22nd February 2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £36.1m This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £27.6m This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £14.6m and £2.7m based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are shown at Appendix 3 of the report.

These policies are implemented by the treasury team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

**c) Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on the Council's website the key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

This Council uses the creditworthiness service provided by Sector. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2011/12 was approved by Full Council on 22nd February 2011 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £7.494m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

The following analysis summarises the Council's maximum exposure to credit risk on other financial assets, based on experience of default, adjusted to reflect current market conditions.

| **Credit Risk** | **Amount at 31 March 2012 £000 A** | **Historical experience of default % B** | **Historical experience adjusted for market conditions at 31 March 2012 % C** | **Estimated maximum exposure to default and uncollectability at 31 March 2012 £000 (A x C)** | **Estimated maximum exposure at 31 March 2011 £000** |
|---|---|---|---|---|---|
| AAA rated counterparties | - | 0.03% | 0.03% | - | - |
| AA rated counterparties | - | 0.22% | 0.22% | - | 14 |
| A rated counterparties | 6,000 | 0.52% | 0.52% | 31 | - |
| BBB rated counterparties | - | 15.77% | 15.77% | - | - |
| Caa rated counterparties | 913 | 33.61% | 33.61% | 307 | 755 |
| Escrow | 581 | | | | |
| Trade Debtors | 1,739 | 60.00% | 60.00% | 1,043 | 893 |
| Total | **9,233** | | | **1,381** | **1,662** |

No credit limits were exceeded during the reporting period and apart from the monies invested with the Icelandic banks the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £7.5m invested in this sector at that time. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements. The impact of the principal invested has been mitigated in the accounts according to government regulations, although all related investment income has been fully impaired.

Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties.

The Authority does not generally allow credit for customers, such that £1.74m is past its due date for payment. The past due amount as at 31 March 2012 but not impaired amount can be analysed by age as follows:

| **Arrears** | **31 March 2012 £000** | **31 March 2011 £000** |
|---|---|---|
| Less than six months | 618 | 554 |
| Six months to one year | 231 | 169 |
| More than one year | 247 | 271 |
| More than two years | 643 | 497 |
| **Total** | **1,739** | **1,491** |

The Council initiates a legal charge on property where, for instance, works have to be carried out in default but those responsible cannot afford to pay immediately. The total collateral at 31st March 2012 was £44.2k (£33.5k 2010/11).

### d) Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The maturity analysis of financial liabilities is as follows:

| **Financial Liabilities** | | **31 March 2012** | | **31 March 2011** | |
|---|---|---|---|---|---|
| | | **Average Rate %** | **Amount £000** | **Average Rate %** | **Amount £000** |
| PWLB | | 4.47% | 65,429 | 6.61% | 20,737 |
| Other Lenders | | - | - | - | - |
| Total | | **4.47%** | **65,429** | **6.61%** | **20,737** |
| less than one year | Interest Due | - | 369 | - | 345 |
| less than one year | | - | - | - | - |
| Maturing in 1 - 2 years | | - | - | - | - |
| Maturing in 2 - 5 years | | 9.08% | 5,000 | 7.29% | 3,000 |
| Maturing in 5 - 10 years | | - | - | 11.75% | 2,000 |
| Maturing in 10 - 15 years | | - | - | - | |
| Maturing in over 15 years | | 4.09% | 60,060 | 5.80% | 15,392 |
| Total | | **4.47%** | **65,429** | **6.61%** | **20,737** |

**Refinancing and Maturity Risk**

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial assets is as follows:

| **Financial Assets** | **31 March 2012** | | **31 March 2011** | |
|---|---|---|---|---|
| | **Average Rate %** | **Amount £000** | **Average Rate %** | **Amount £000** |
| less than one year | - | 7,296 | - | 8,880 |
| Maturing in 1 – 2 years | - | 238 | - | 781 |
| Maturing in 2 – 5 years | - | - | - | 521 |
| Maturing in 5 - 10 years | - | - | - | - |
| Maturing in 10 - 15 years | - | - | - | - |
| Maturing in over 15 years | - | - | - | - |
| Total | **-** | **7,534** | **-** | **10,182** |

All trade and other payables are due to be paid in less than one year – debtors of £2.4m are not included in the table above.

**e) Market Risk**

i) Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- **Borrowings at variable rates:** The interest expense charged to the Comprehensive Income and Expenditure Statement will rise;

- **Borrowings at fixed rates:** The fair value of the borrowing will fall (no impact on revenue balances);
- **Investments at variable rates:** The interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- **Investments at fixed rates:** The fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants (i.e. HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

As at 31st March 2012, the Council had no variable rate debt or investments. There would therefore be no material impact if all interest rates had been higher or lower during the year.

ii) Price Risk

The Authority, excluding the pension fund, does not generally invest in instruments with this type of risk.

iii) Foreign Exchange Risk

The Council has foreign exchange exposure resulting from an element of the settlement received from the Icelandic bank Glitnir. This is being held in Icelandic Krona in an ESCROW account  due to the current imposition of currency controls in Iceland.

## f) Impairment of Financial Assets – Deposits with Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander (KSF) went into administration.

The authority had £7.5m deposited across 3 of these institutions, with varying maturity dates and interest rates as follows:

| Bank | Date Invested | Maturity Date | Amount Invested £ | Interest Rate % | Carrying Amount £ | Impairment £ | Principal Default % |
|---|---|---|---|---|---|---|---|
| Glitnir | 10/10/2007 | 09/10/2008 | 1,000,000 | 6.28 | - | (752,525) | - |
| Glitnir | 31/08/2007 | 28/08/2009 | 1,000,000 | 6.55 | - | (794,879) | - |
| Glitnir | 14/12/2007 | 12/12/2008 | 1,000,000 | 6.16 | - | (753,827) | - |
| KSF | 31/08/2008 | 09/08/2010 | 1,000,000 | 6.69 | 209,287 | (12,307) | 16.50 |
| KSF | 31/10/2007 | 29/10/2008 | 1,000,000 | 6.16 | 206,951 | (12,392) | 16.50 |
| KSF | 14/01/2008 | 14/10/2010 | 1,000,000 | 5.90 | 204,496 | (11,573) | 16.50 |
| Heritable | 12/09/2008 | 13/10/2008 | 500,000 | 5.38 | 97,517 | (12,556) | 12.00 |
| Heritable | 15/09/2008 | 22/10/2008 | 1,000,000 | 5.45 | 194,871 | (25,036) | 12.00 |
| **Total** | | | **7,500,000** | | **913,122** | **(2,375,095)** | |

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the Authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

### Glitnir Bank hf

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affaires of Old Glitnir being placed in the hands of a resolution committee. The Icelandic Supreme Court decision to grant UK local authorities priority status, enabled the winding up board to make a distribution to creditors in a basket of currencies in March 2012.

An element of the distribution is in Icelandic Krona which has been placed in an ESCROW account in Iceland and is earning interest of 3.4%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

The distribution has been made in full settlement, representing 100% of the claim.

The Council has made an impairment of 2.8% of the claim amount due to currency fluctuations.

**Kaupthing Singer and Friedlander Ltd (KSF)**

The current position on actual payments received and estimated future payouts is as shown in the table The authority has decided to recognise an impairment based on it recovering 83.5p in the £.

| Date | Repayment |
|---|---|
| Received to date | 63.0% |
| May 2012 | 10.00% |
| January 2013 | 5.00% |
| January 2014 | 5.50% |

Recoveries are expressed as a percentage of the Authority's claim in the administration, which includes interest accrued up to 7th October 2008.

**Heritable Bank**

Heritable bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. The current position on actual payments received and estimated future payouts is as shown in the table below and this Council has used these estimates to calculate the impairment based on recovering 88p in the £.

| Date | Repayment |
|---|---|
| Received to date | 67.90% |
| April 2012 | 3.79% |
| July 2012 | 3.50% |
| October 2012 | 3.50% |
| January 2013 | 3.50% |
| April 2013 | 5.81% |

Recoveries are expressed as a percentage of the Authority's claim in the administration, which includes interest accrued up to 6th October 2008.

**Accounting for Impairment**

The total impairment gain (principal plus interest) recognised in the Comprehensive Income and Expenditure Statement in 2011/12 of £2.375m has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the Authority until monies are recovered. Adjustments to the assumptions will be made in future accounts as more information becomes available.

**Note to the Accounts - Impairment of Investments**

Investments included in current assets figure in the Balance Sheet include the following investments that have been impaired because of the financial difficulties experienced by Icelandic Banks.

| Cumulative | Amount Invested £ | Interest £ | Impairment £ | Repaid £ | Held in Escrow Account £ | Carrying Value £ |
|---|---|---|---|---|---|---|
| GLITNIR | 1,000,000 | 190,268 | (157,447) | (851,477) | (181,344) | - |
| GLITNIR | 1,000,000 | 206,643 | (130,043) | (851,477) | (225,123) | - |
| GLITNIR | 1,000,000 | 175,075 | (143,585) | (851,477) | (180,013) | - |
| | **3,000,000** | **571,987** | **(431,075)** | **(2,554,432)** | **(586,481)** | **-** |
| | | | | | | |
| KSF | 1,000,000 | 165,389 | (279,451) | (666,804) | - | 219,134 |
| KSF | 1,000,000 | 141,580 | (268,160) | (666,804) | - | 206,616 |
| KSF | 1,000,000 | 123,738 | (261,949) | (666,804) | - | 194,985 |
| | **3,000,000** | **430,707** | **(809,561)** | **(2,000,411)** | **-** | **620,735** |
| | | | | | | |
| HERITABLE | 500,000 | 49,398 | (111,021) | (340,770) | - | 97,607 |
| HERITABLE | 1,000,000 | 99,543 | (223,223) | (681,540) | - | 194,781 |
| | **1,500,000** | **148,941** | **(334,244)** | **(1,022,309)** | **-** | **292,388** |
| | **7,500,000** | **1,151,635** | **(1,574,879)** | **(5,577,152)** | **(586,481)** | **913,123** |

The carrying amounts of the investments included in the balance sheet have been calculated using the present value of the expected repayments, discounted using the investment's original interest rate. The expected repayments (including interest accruals) have been estimated as follows, based on the statements made by the administrator:

| Date | Glitnir £ | KSF £ | Heritable £ |
|---|---|---|---|
| 31st March 2013 | - | 476,288 | 215,083 |
| 31st March 2014 | - | 174,639 | 87,448 |
| 31st March 2015 | - | - | - |
| 31st March 2016 | - | - | - |
| | | | |
| Total | - | 650,927 | 302,531 |

Interest credited to the Income and Expenditure Account in respect of the investments is as follows:

| Bank | Credited 2010/11 £ | Received 2010/11 £ | Credited 2011/12 £ | Repayments 2011/12 £ |
|---|---|---|---|---|
| Glitnir | 48,234 | - | 51,379 | 3,140,912 |
| KSF | 49,261 | 317,526 | 43,385 | 317,526 |
| Heritable | 33,360 | 268,130 | 19,109 | 268,130 |
| **Total** | **130,855** | **585,656** | **113,873** | **3,726,568** |

**Note to the Accounts - Financial Instruments Adjustment Account (FIAA)**

The balance on the FIAA relating to impairment of Icelandic investments was written off following capitalisation of the impairment losses in 2009/2010.

Following return of the deposits placed with Glitnir during March 2012 (as well as the balance held in an Escrow account in Iceland), the element of the capitalisation relating to the Glitnir deposits has been reversed – equating to a net reversal of £2.15m within the 2011/12 accounts (£2.26m since 2010/11).

## 44. Heritage Assets - Five Year Summary of Transactions

| | **2007/08 £000** | **2008/09 £000** | **2009/10 £000** | **2010/11 £000** | **2011/12 £000** |
|---|---|---|---|---|---|
| **Cost of Acquisitions of Heritage Assets** | | | | | |
| Art Collection | - | - | - | - | - |
| Civic Regalia | - | - | - | - | - |
| Museum exhibits | - | - | - | - | - |
| Statues | - | - | - | - | - |
| Castle Museum | 56 | 156 | 10 | 4 | 64 |
| Total cost of purchases | 56 | 156 | 10 | 4 | 64 |

## 45. Heritage Assets: Further information on the Collections

### Art Collection

The collection consists principally of views of Tamworth by local artists although some are nationally recognised. The mediums covered include oil, watercolour, lithographs, mezzotints and prints.

### Museum Collection

Councillor Frederick A. Allsopp made a significant contribution to Tamworth Castle's collections when he donated his own private collections to Tamworth Castle in 1952. The contents of this range across all the fields of classification, from a large collection of approximately 450 books, (which have now been audited and the list sent to the British Library in London for assessment as to their significance, some of the publications being as early as 1560's), to weapons and armour, general social history objects, ephemera, and some art. Included is the donation was the William MacGregor, the eminent Egyptologist, collection, which included items from the excavations of Professor Flinders Petrie, Professor Garstang and Sir Oliver Lodge.

There is also a small but significant collection of Skeys pottery, including vases and earthenware jugs. Based at the Wilnecote works, it was a local firm set up by George Skeys who was influential in the community, work life, church and political life of Tamworth. Skeys was eventually absorbed into Royal Doulton in the 20th century.

**Statues**

There are a variety of Statues dating from three Portland stone Urns probably imported in to the castle grounds around 1807 when 'the gardens were newly laid out and the mound was planted' to the Colin Grazier Memorial of 2003.

**Civic Regalia**

The collection includes the Mayoral chain and badge of office dating from 1889. It was presented to the borough by Mr Philip Albert Muntz in 1890, in commemoration of his performing the opening ceremony of the Assembly Rooms in the previous year on 8th October 1889.There are also two silver ceremonial maces dating from the Charles II period.

**Tamworth Castle**

It is likely the original motte and bailey castle was built c1070. it was given to Robert le Dispenser. He was the main steward for Duke William of Normandy, later William the Conqueror (1066-1087). Tamworth Castle was inherited by Robert Marmion c1100 through his marriage to Matilda, daughter of Urse of d'Abitot. The castle was occupied by a number of families significant to the area until in 1897 the Townhend family sold the Castle to Tamworth Corporation, later Tamworth Borough Council for the people of Tamworth. The Castle cost £3k and opened as a museum two years later in 1899

**Heritage Assets of particular importance**

There are a number of art and museum collections which although important to the local area do not in themselves carry a significant value. Significant amongst the collection is the Statue of Sir Robert Peel standing in front of the Town Hall, dating back to 1852. The Civic Regalia Collection includes 2 silver Charles II maces that have been identified as particularly rare and interesting examples of their type by the regional Assay office when recently valued.

**Preservation and Management**

The Heritage services Manager manages the majority of the Heritage Assets, excluding some of the Statues and the Civic Regalia, and manages the assets in accordance with the policies and procedures as set out in the museums accreditation scheme. The Castle Museum is a fully accredited Museum. Tamworth Castle will comply with standards of good practice widely accepted in the Museums sector in the UK, for example, the code of ethics published by the Museums Association and United Kingdom Institute for Conservation; and the standards expected by MLA. Further information is provided in the Museums separate document *Tamworth Castle Collections Care Manual* which has been produced in accordance with national guidelines.

Acquisitions are rare and primarily made by donation. However, on rare occasions when particularly important asset is available for purchase, the Authority will undertake the purchase provided that it meets the objectives of the Museum and the Authority in terms of its collection of Heritage Assets.

Assets are collated, preserved and managed in accordance with the documented procedural manual. The full *Catalogue of Collection* records the nature, provenance, condition and current location on each asset. The Museum has also initiated a project to computerise these records. The project will allow the public to access images of the assets. It is estimated that the project will be fully complete in three years' time.

## 46. Heritage Assets: Change in Accounting Policy Required by the Code of Practice For Local Authority Accounting in the United Kingdom

The *Code of Practice on local Authority accounting in the United Kingdom 2011/12* introduced a change to the treatment in accounting for Heritage Assets held by the authority. As set out in our summary of significant accounting policies, the Authority now requires Heritage Assets to be carried in the Balance Sheet at valuation.

**Heritage Assets**

For 2011/2 the Authority is required to change its accounting policy for Heritage Assets and recognise them at valuation. Previously, Heritage Assets were either recognised as Community Assets (at cost) in the Property, Plant and Equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as Heritage Assets) that were donated to the Authority were held at valuation as a proxy for historical cost. The Authority's accounting policies for recognition and measurement of Heritage Assets are set out in the Authority's summary of significant accounting policies (see Note 1 on page 27).

In applying the new accounting policy, the Authority has identified that the assets that were previously held as Community Assets within Property, Plant and Equipment at £658k should now be recognised as Heritage Assets and measured at £658k. These assets relate to a proportion of the Statue Collection and the Castle Museum. The authority will also recognise an additional £864k for the recognition of Heritage Assets that were not previously recognised in the Balance Sheet. This increase is also recognised in the Revaluation Reserve. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £1.522 million. The element that was previously recognised in Property, Plant and Equipment has been reclassified and written down by £658k. The Revaluation Reserve has increased by £658k.

- The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

| **Restatement Table 1 April 2010 (Balance Sheet Extract)** | **Opening Balances as at 1 April 2010** | **Category Transfer** | **Restatement** | **Restatement required to opening balances as at 1 April 2010** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Property, Plant and Equipment | 203,488 | (658) | - | 202,830 |
| Heritage Assets | - | 658 | 864 | 1,522 |
| **Long Term Assets** | **235,574** | **235,574** | **236,438** | **236,438** |
| **Total Net Assets** | **186,856** | **186,856** | **187,720** | **187,720** |
| Unusable Reserves | (167,430) | - | (864) | (168,294) |
| **Net Worth/Total Reserves** | **(186,856)** | **(186,856)** | **(187,720)** | **(187,720)** |

| Restatement Table 31 March 2011 (Balance Sheet Extract) | Closing Balances as at 31 March 2011 | category transfer | Restatement | Restatement required to Closing balances as at 31 March 2011 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| PPE | 150,045 | (662) | 0 | 149,383 |
| Heritage Assets | 0 | 662 | 907 | 1,569 |
| Long-term assets | 183,690 | 183,690 | 184,597 | 184,597 |
| Total Net Assets | 150,965 | 150,965 | 151,872 | 151,872 |
| Unusable reserves | (132,175) | - | (907) | (133,082) |
| Net Worth/Total Reserves | (150,965) | (150,965) | (151,872) | (151,872) |

## Approval of Accounts

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on 27th September 2012

Signed on behalf of Tamworth Borough Council

Councillor M. Gant, Chair of the Audit and Governance Committee

Dated 27th September 2012

*This is an electronic copy without an electronic signature. The original was signed as dated above and a copy can be obtained from the Executive Director Corporate Services.*

## Housing Revenue Account

This statement reflects the statutory requirement to maintain a separate account for Council Housing.

| 2010/11 £000 | HRA Comprehensive Income & Expenditure Statement | 2011/12 £000 | £000 |
|---|---|---|---|
| | **EXPENDITURE:** | | |
| 4,003 | Repairs and maintenance | 4,741 | |
| 4,537 | Supervision and management | 4,052 | |
| 31 | Rents, rates, taxes and other charges | 26 | |
| 2,686 | Negative HRA subsidy payable | 3,434 | |
| (13,969) | Depreciation and impairment of non-current assets | 4,879 | |
| 3 | Debt management costs | 26 | |
| 116 | Movement in the allowance for bad debts | 163 | |
| - | Sums directed by the Secretary of State that are expenditure in accordance with the Code | - | |
| **(2,593)** | **Total Expenditure** | | **17,321** |
| | **INCOME** | | |
| (15,160) | Dwelling rents | (16,125) | |
| (460) | Non-dwelling rents | (434) | |
| (542) | Charges for services and facilities | (365) | |
| (405) | Contributions towards expenditure | (532) | |
| - | HRA Subsidy receivable | - | |
| - | Sums directed by the Secretary of State that are income in accordance with the Code | - | |
| **(16,567)** | **Total Income** | | **(17,456)** |
| **(19,160)** | **Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement** | | **(135)** |
| 3 | HRA services' share of Corporate and Democratic Core | | 4 |
| - | HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services | | - |
| - | Exceptional Item - HRA Self Financing Settlement (Note 5a) | | 44,668 |
| 55,316 | Exceptional Item - Change in EUSHV | | - |
| (1,780) | Exceptional Item - Change in Pension | | - |
| **34,379** | **Net Cost/ (Income) for HRA Services** | | **44,537** |
| | **HRA Share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:** | | |
| 156 | (Gain) or loss on sale of HRA non-current assets | | (215) |
| 1,209 | Interest payable and similar charges | | 1,224 |
| (54) | Interest and investment income | | (61) |
| 184 | Pensions interest cost and expected return on pensions assets | | 107 |
| (90) | Capital grants and contributions receivable | | - |
| **35,784** | **(Surplus)/ deficit for the year on HRA Services** | | **45,592** |

## Statement of Movement on the HRA Balance

| 2010/11 £000 | Statement of Movement on the HRA Balance | 2011/12 £000 | £000 |
|---|---|---|---|
| 4,712 | Balance on the HRA at the end of the previous year | | 5,087 |
| (35,784) | Surplus or (deficit) for the year on the HRA Income and Expenditure Statement | (45,592) | |
| 36,081 | Adjustments between accounting basis and funding basis under statute | 44,905 | |
| **297** | **Net increase or (decrease) before transfers to or from reserves** | **(687)** | |
| 78 | Transfers (to)/ from reserves | 87 | |
| 375 | Increase or (decrease) on the HRA | | (600) |
| **5,087** | **Balance on the HRA at the end of the current year** | | **4,487** |

## Analysis of Adjustments

| 2010/11 £000 | Analysis of Adjustments | 2011/12 £000 |
|---|---|---|
| - | Difference between any other item of income and expenditure determined in accordance with the code and determined in accordance with HRA requirements | 8 |
| 156 | Gain or loss on sale of HRA non-current assets | (215) |
| (1,605) | HRA share of contributions to or from the Pensions Reserve | 113 |
| - | Revenue Expenditure Funded from Capital Under Statute (REFCUS) | 44,668 |
| (893) | Capital expenditure funded by the HRA | (1,704) |
| (2,801) | Transfer to/ from the Major Repairs Reserve | (2,833) |
| (33) | Transfer to/ from the FIAA | (10) |
| 41,257 | Transfer to/ from the Capital Adjustment Account | 4,878 |
| **36,081** | **Total Adjustments between Accounting Basis and Funding Basis under Regulations** | **44,905** |

## NOTES TO THE HRA

## HRA1. Number & Type of Dwelling

The Council is responsible for managing a housing stock, made up as follows:

| | Houses and Bungalows | High and Medium Rise Flats | Low Rise Flats | Total |
|---|---|---|---|---|
| **Housing Stock as at 01 April 2011** | **2,878** | **767** | **887** | **4,532** |
| Demolitions | - | - | - | **-** |
| Sales | (3) | (3) | (1) | **(7)** |
| Purchases | - | - | - | **-** |
| Reclassification of Assets | - | - | - | - |
| **Housing Stock as at 31 March 2012** | **2,875** | **764** | **886** | **4,525** |

In order to comply with the requirements of Resource Accounting, garages are now identified within other property. Non-operational assets are those held by an authority but not directly occupied or used in the delivery of its services. There are no non-operational assets held by the Housing Revenue Account.

## HRA2. Vacant possession value of dwellings

The Vacant Possession Valuation as at 31st March 2012 is £367.272m (31st March 2011 Vacant Possession Value was £366.49m).

However, assets are valued on the balance sheet at their existing use reflecting the valuation of a property if it were to be disposed with sitting tenants enjoying sub-market rents. This reflects the economic cost to the Government of providing council housing at less than open market value.

Council dwellings are held on the balance sheet at Existing Use Social Housing Value (EUSHV) which for 2011/12, a nationally set adjustment factor for the West Midlands of 34% of vacant possession value has been used (34% for 2010/11).

| Vacant Possession Value of Dwellings | Non-current assets Council Dwellings £000 | Other Land and Buildings £000 | Current assets Assets Held for Sale £000 | Total £000 |
|---|---|---|---|---|
| **Cost or Valuation** | | | | |
| **As at 01 April 2011** | **128,869** | **2,557** | **-** | **131,426** |
| | - | | | |
| Additions | 4,537 | - | - | **4,537** |
| Donations | - | - | - | **-** |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 258 | - | - | **258** |
| Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on the Provision of Services | 1,436 | - | - | **1,436** |
| Derecognition - Disposals | (179) | - | - | **(179)** |
| Derecognition - Other | (1,249) | - | - | **(1,249)** |
| Assets reclassified to/ from Held for Sale | - | - | - | **-** |
| Other movements in cost or valuation | - | - | - | **-** |
| **As at 31 March 2012** | **133,672** | **2,557** | **-** | **136,229** |
| **Accumulated Depreciation & Impairment** | | | | |
| **As at 01 April 2011** | **(5,435)** | **(239)** | **-** | **(5,674)** |
| Depreciation and Impairment Charge | (1,702) | (71) | - | **(1,773)** |
| Depreciation written out on Revaluation | - | - | - | **-** |
| Impairment losses/ (reversals) recognised in the Revaluation Reserve | - | (14) | - | **(14)** |
| Impairment losses/ (reversals) recognised in the Surplus/ Deficit on the Provision of Services | (4,537) | (4) | - | **(4,541)** |
| Derecognition - disposals | 3 | - | - | **3** |
| Derecognition - other | 1,249 | - | - | **1,249** |
| Other movements in depreciation and impairment | - | - | - | **-** |
| **As at 31 March 2012** | **(10,422)** | **(328)** | **-** | **(10,750)** |
| **Net Book Value** | | | | |
| As at 01 April 2011 | 123,434 | 2,318 | - | 125,752 |
| **As at 31 March 2012** | **123,250** | **2,229** | **-** | **125,479** |
| **Nature of holdings at year end** | | | | |
| **Owned** | **123,250** | **2,229** | **-** | **125,479** |

## HRA3. Movement on the Major Repairs Reserve (MRR)

The Major Repairs Allowance (MRA) represents the long term average amount of capital spending required to maintain the stock in its current condition. The amount of MRA received is determined by the subsidy calculations and paid into the Housing Revenue Account and is then transferred to the MRR.

The capital expenditure shown was spent in total on maintaining council dwellings.

| 2010/11 £000 | Major Repairs Reserve | 2011/12 £000 |
|---|---|---|
| | **Balance at 1 April 2010** | |
| 2,801 | Contributions to the Major Repairs Reserve | 2,833 |
| (2,801) | Capital Spending on Dwellings | (2,833) |
| **-** | **Balance at 31 March 2012** | **-** |

## HRA4. Capital Expenditure Summary

The following table details how £49.205m capital expenditure was financed during the year.

| 2010/11 £000 | Capital Expenditure | 2011/12 £000 |
|---|---|---|
| | **Capital Expenditure Type:** | |
| 4,288 | Dwellings | 4,471 |
| 64 | Land | 66 |
| - | PVE | - |
| - | HRA Self Financing Settlement | 44,668 |
| - | Other | - |
| **4,352** | **Total Capital Expenditure** | **49,205** |
| | **Funded by:** | |
| 480 | Borrowing attracting Government support | - |
| - | Borrowing not attracting Government support | - |
| 88 | Usable capital receipts | - |
| 893 | Revenue contributions | 1,704 |
| - | REFCUS | 44,668 |
| 90 | External grants and contributions | - |
| 2,801 | Major Repairs Reserve | 2,833 |
| **4,352** | **Total Funding** | **49,205** |

## HRA5. Capital Receipts

During the year capital receipts totalling £395k were received in respect of dwellings sold, of which £292k was repaid to CLG under the pooling regime. The un-pooled element of capital receipts are retained for financing housing capital investment and regeneration works

| 2010/11 £000 | Capital Receipts | 2011/12 £000 |
|---|---|---|
| 432 | Sale of dwellings under right to buy | 395 |
| (324) | Amounts pooled to Central Government | (292) |
| **108** | **Net Capital Receipts** | **103** |

## HRA6. Depreciation and Impairment Charges

Council Dwellings are depreciated on a straight line basis over the period of their useful economic life. The charge for the year was £1.702m.

The charge for depreciation of £72k on non council dwellings has been calculated on a straight line basis over the period of their useful economic life.

Charges for impairment of £4.541m have been made during 2011/12. This included an amount of £4.537m where the expenditure on capital assets has not produced a similar increase in the value of the asset and £4k in respect of council garages no longer available for letting.

## HRA7. Subsidy

HRA subsidy is paid to meet any shortfall between expenditure and income based on central governments assumptions about the Council's need to spend and the income it can reasonably be expected to receive. The amount of Housing Revenue Account Subsidy payable is calculated as follows:

| 2010/11 £000 | Housing Subsidy | 2011/12 £000 |
|---|---|---|
| 7,296 | Management and maintenance allowance | 7,360 |
| 2,801 | Major repairs allowance | 2,833 |
| 1,888 | Charges for capital | 1,883 |
| (14,675) | Guideline rental income | (15,533) |
| (3) | Interest on receipts | (3) |
| | Interest on Self Financing Settlement Payment | 16 |
| **(2,693)** | **Net Housing Subsidy payable to Government** | **(3,444)** |
| 7 | Prior year adjustment | 10 |
| **(2,686)** | **Net amount payable to Government** | **(3,434)** |

## HRA8. HRA Pensions Reserve

| 2010/11 £000 | Pensions | 2011/12 £000 |
|---|---|---|
| 2,266 | Difference between current service cost of pensions and past service cost in accordance with IAS 19 and actual employers' contributions | 482 |
| 909 | Interest on share of pensions liability | 806 |
| (725) | Expected return on share of assets | (699) |
| **2,450** | **Total** | **589** |

## HRA9. Rent Arrears

| 2010/11 £000 | Rent Arrears | 2011/12 £000 |
|---|---|---|
| 838 | Gross arrears | 1,018 |
| 5.5% | Gross arrears as percentage of gross rent income | 6.3% |

Approximately 29% of rent arrears refer to former tenants.

| 2010/11 £000 | Provision for Bad Debts | 2011/12 £000 |
|---|---|---|
| | **Rent Arrears** | |
| **608** | **Balance at 1 April 2010** | **657** |
| 128 | Contribution from / (to) HRA in year | 173 |
| (79) | Written off in year | (28) |
| **657** | **As at 31 March 2012** | **802** |
| | **Sundry Debtors** | |
| **98** | **Balance at 1 April 2010** | **85** |
| (13) | Contribution from / (to) HRA in year | (9) |
| - | Written off in year | (8) |
| **85** | **As at 31 March 2012** | **68** |
| **742** | **Total Provision for Bad Debts** | **870** |

| 2010/11 £000 | Collection Fund Income and Expenditure Statement | 2011/12 £000 |
|---|---|---|
| | **INCOME** | |
| (27,943) | Income from council tax | (28,138) |
| | Transfers from General Fund | |
| (5,552) | - Council tax benefits | (5,398) |
| - | -Transitional relief | - |
| - | -Discounts for prompt delivery | - |
| (28,952) | Income collectable from business ratepayers | (30,381) |
| | Contributions | |
| - | -Towards previous year's Collection Fund deficit | - |
| - | -Adjustment of previous years' community charges | - |
| **(62,447)** | **Total Income** | **(63,917)** |
| | **EXPENDITURE** | |
| | Precepts | |
| 3,476 | - Tamworth Borough Council | 3,485 |
| 4,128 | - Staffordshire Police Authority | 4,139 |
| 1,572 | - Staffordshire Fire Authority | 1,576 |
| 23,914 | - Staffordshire County Council | 23,975 |
| | Business rate | |
| 28,678 | -Payment to national pool | 29,943 |
| 94 | -Costs of collection | 94 |
| 306 | Provisions for bad and doubtful debts/appeals | 470 |
| | Distribution of previous year's council tax surpluses | |
| 31 | - Tamworth Borough Council | 18 |
| 37 | - Staffordshire Police Authority | 21 |
| 14 | - Staffordshire Fire Authority | 8 |
| 217 | - Staffordshire County Council | 121 |
| **62,467** | **Total Expenditure** | **63,850** |
| 20 | **(Surplus)/ Deficit for the year** | (67) |
| (402) | Fund Balance Brought Forward | (382) |
| **(382)** | **Fund Balance at 31 March 2012** | **(449)** |
| | **Analysis of Fund Balance (Surplus)/ Deficit** | |
| (40) | - Tamworth Borough Council | (47) |
| (48) | - Staffordshire Police Authority | (56) |
| (18) | - Staffordshire Fire Authority | (22) |
| (276) | - Staffordshire County Council | (324) |
| **(382)** | **Total** | **(449)** |

# NOTES TO THE COLLECTION FUND

## CF 1. NNDR Rateable Value

The rateable value of Non Domestic properties in the Borough as at 31st March 2012 was £80,110,656 (£76,047,456 at 31st March 2011).

The NNDR multiplier for 2011/12 was 43.3p in the pound (2010/11 41.4p). The qualifying small business multiplier for 2011/12 was 42.6p in the pound (2010/11 40.7p).

## CF 2. Council Tax Base Calculation

The Council base was as follows

| Number of chargeable properties 2010/11 | Adjusted property base (Band D Equivalent) 2010/11 | Calculation of Ctax Base | Number of chargeable properties 2011/12 | Adjusted property base (Band D Equivalent) 2011/12 |
|---|---|---|---|---|
| | | **Valuation Band (Multiplier)** | | |
| 23 | 13 | **A - Disabled Relief Reduction (5/9)** | **24** | 13 |
| 7,970 | 5,313 | **A - (6/9)** | **8,010** | 5,340 |
| 10,399 | 8,088 | **B - (7/9)** | **10,450** | 8,128 |
| 4,872 | 4,331 | **C - (8/9)** | **4,910** | 4,364 |
| 3,288 | 3,288 | **D - (9/9)** | **3,261** | 3,261 |
| 1,577 | 1,927 | **E - (11/9)** | **1,574** | 1,924 |
| 375 | 542 | **F - (13/9)** | **367** | 530 |
| 56 | 93 | **G - (15/9)** | **57** | 95 |
| 1.5 | 3 | **H - (18/9)** | **1.5** | 3 |
| 28,561.5 | 23,598 | **Totals** | **28,654.5** | **23,658** |
| | 98.50% | **Assumed Collection Rate** | | **98.50%** |
| | - | **Plus adjustment for Armed Forces Dwellings** | | **-** |
| | 23,244 | **Total Taxbase** | | **23,303** |

## CF 3. Name of each Authority which made precept or demand on the fund

| Precept 2010/11 £ | Distribution of previous years estimated surplus/ (deficit) 2010/11 £ | Total movement on the Collection Fund 2010/11 £ | Precepts Analysis | Precept 2011/12 £ | Distribution of previous years estimated surplus/ (deficit) 2011/12 £ | Total movement on the Collection Fund 2011/12 £ |
|---|---|---|---|---|---|---|
| 3,476,143 | 40,057 | 3,516,200 | **Tamworth Borough Council** | **3,485,109** | **47,135** | **3,532,244** |
| 4,128,367 | 47,573 | 4,175,940 | **Staffordshire Police Authority** | **4,139,023** | **55,979** | **4,195,002** |
| 1,572,135 | 18,116 | 1,590,251 | **Staffordshire Fire Authority** | **1,576,194** | **21,318** | **1,597,512** |
| 23,913,669 | 275,566 | 24,189,235 | **Staffordshire County Council** | **23,975,423** | **324,262** | **24,299,685** |
| **33,090,314** | **381,312** | **33,471,626** | **Total** | **33,175,749** | **448,694** | **33,624,443** |

## CF 4. NNDR credits

National Non Domestic Rates (NNDR) - Credits Transferred to the General Fund

NNDR credit accounts – credit balances that remained in the Collection Fund but could not be repaid to the businesses concerned as they cannot be traced, have not responded to efforts made to repay funds or no longer exist.

No credits have been transferred during 2011/12. However, as a prudent measure £63,755.09 remains held as a retained fund within the General Fund to meet the cost of any refunds requested in the future.

## CF 5. Bad & Doubtful Debts

The following provisions and write offs were made in the year:

| 2010/11 £000 | Provision for Bad Debts | 2011/12 £000 |
|---|---|---|
| | **Council Tax** | |
| **477** | **Balance at 01 April 2011** | **583** |
| 126 | Increase /(decrease) in provision | 126 |
| (20) | Written off in year | - |
| **583** | **As at 31 March 2012** | **709** |
| | **Business Rates** | |
| **514** | **Balance at 01 April 2011** | **599** |
| 180 | Increase /(decrease) in provision | 344 |
| (95) | Written off in year | (222) |
| **599** | **As at 31 March 2012** | **721** |

## ANNUAL GOVERNANCE STATEMENT 2011 - 12

## 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 2012 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 for Tamworth. The TSP Executive Board is made up of Chief Officers and Elected Members of partner organisations. It functions as an outcome based Public Sector Commissioning Board with actions commissioned via an established Commissioning Framework and delivered via either Task & Finish Groups or commissioned service providers;

3.2 Based upon the corporate vision and priorities, the Council produces a Corporate Plan which in turn, informs annual business plans produced by each Service Area in order to identify and monitor strategic outcomes, performance targets and community impact;

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

3.4 Performance management arrangements are in place ensure that progress on business plans and achievement of corporate objectives are reported quarterly but managed on a reactive 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 Counter Fraud and Corruption Policy Statement, Strategy and guidance notes and Whistleblowing 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 Counter Fraud and Corruption Policy Statement, Strategy identifies the Council's commitment to Counter Fraud. The Counter Fraud and Corruption Policy Statement, Strategy and Guidance Notes and Whistleblowing Policy have been reviewed and updated and were approved by the Audit & Governance In May 2012;

3.9 Value for money is measured through participation in benchmarking exercises. A Corporate Change Programme is in place which is a fully integrated corporate project which looks at services, methods of working, systems and processes in order to establish where efficiencies can be gained and improvements made;

3.10 The quality of services is measured through performance indicators and service delivery milestones all of which are based upon either best practice or service specific standards 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 2011/12;

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

3.17 Compliance with the statutory officer roles, i.e. Head of Paid Service (the Chief Executive), Section 151 Officer (Executive Director – Corporate Services) 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 Executive Director – Corporate Services 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 aligned to the Strategic Priorities i.e. Aspire & Prosper Scrutiny Committee and Healthier and Safer Scrutiny Committee and their roles are 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. Frequent training sessions are provided for statutory committees in particular in response to legislative changes and policy reforms;

3.26 A 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;

3.33 The Regulation of Investigatory Powers Act (RIPA) Policy is in place which is regularly reviewed and updated;

3.34 There is a Safeguarding Children and Vulnerable Adults Policy in place which is regularly reviewed and updated;

3.35 A risk assessment of the impact of the Localism Act has been completed and working groups set up to monitor and review the impacts of the Act;

3.36 Freedom of Information requests are monitored and regularly reviewed by Corporate Management Team.

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 (e.g. Corporate Change Programme, Senior Management Review 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/Head of Service, and 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 An Annual Ombudsman's report is presented to the Audit & Governance Committee;

4.14 CMT meet on a fortnightly basis and part of their remit is to address matters concerning performance;

4.15 The Corporate Change Programme is a fully integrated corporate project, a primary aspect of which looks at services, methods of working, systems and processes in order to establish where efficiencies can be gained and improvements made. Various services engage in benchmarking to aid performance improvement. The Audit Commission VFM profile tool is being used to allow high level analysis of comparative spend and performance;

4.16 The CMT is 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 Director Technology & Corporate Programmes is chair of the Group and liaises with other authorities within Staffordshire, co-ordinated through the Civil Contingencies Unit of Staffordshire Fire and Rescue Service which seeks to support 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**<br><br>The Council should continue vigorous monitoring and scrutiny of its financial position to ensure the savings plan can be delivered with the planned use of reserves; and that there is no impact on the quality and range of services provided. | The Medium Term Financial Strategy is under continuous review by CMT and the Executive Board to take account of current circumstances and that planned savings are implemented / achieved to enable minimum impact on service delivery. |

Signed:

D Cook, Leader A Goodwin, Chief Executive

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

Date: 28th June 2012

This information can be produced on request in other formats and languages. Please contact Internal Audit Services on 01827 709234 or email enquiries@tamworth.gov.uk

*This is an electronic copy without an electronic signature. The original was signed as dated above and a copy can be obtained from the Executive Director Corporate Services..*

# GLOSSARY

**Accrual**
A sum included in the final accounts to cover income or expenditure attributable to the previous financial year for goods or work done, but for which payment has not been received / made by the end of that financial year.

**Agency Services**
The provision of services by one body (the agent) on behalf of, and generally reimbursed by, the responsible body.

**Available for Sale Financial Instruments Reserve**

This contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

**Balances**
The total sum available to the Council, including the accumulated surplus of income over expenditure. Balances form part of the Council's reserves.

**Balance Sheet**
This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

**Capital Adjustment Account**
This reserve reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

**Capital Expenditure**
Expenditure on the acquisition and enhancement of significant fixed assets that will be of use or benefit to the Council in providing its services beyond the year of the account e.g. land and buildings.

**Capital Financing Requirement**
This represents the Council's underlying need to borrow for capital purposes.

**Capital Grants Unapplied**
Capital grants received with no conditions attached are transferred to the capital grants unapplied account until they are used to finance capital expenditure.

**Capital Receipts**
Proceeds from the sale of assets e.g. land or buildings, which may be used to finance new capital expenditure or are payable to the Central Government Housing Capital Receipts Pool.

**Capital Receipts Reserve**

Capital receipts available to finance capital expenditure in future years are normally held in the usable capital receipts reserve.

**Cash and Cash Equivalents**
Cash includes bank balances and on demand deposits. Cash Equivalents are 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.

**Cash Flow Statement**
This shows the changes in cash and cash equivalents of the Council during the reporting period.

**CIPFA**
The Chartered Institute of Public Finance and Accountancy (CIPFA) is the professional body for accountants working in the public service.

**Code of Practice**
The Code of Practice on Local Authority Accounting in the United Kingdom is produced by CIPFA and complied with by local authorities in the production of the financial statements.

**Collection Fund**
A fund administered by the Borough Council into which Business Rates and Council Tax monies are paid.

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

**Component Accounting**
Where a Property, Plant or Equipment asset has major components, with a cost significant in relation to the total cost of the item, the components are separately identified and depreciated.

**Comprehensive Income and Expenditure Statement**
This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

**Contingency**
The sum of money set aside to meet unforeseen expenditure.

**Contingent Assets**
A contingent asset arises where an event has taken place that gives the Council a possible asset which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Council's control. 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.

**Contingent Liabilities**
A potential liability at the balance sheet date when the accounts are submitted for approval. The liability will be included in the balance sheet if it can be estimated reasonably accurately. Otherwise the liability will be disclosed as a note to the accounts.

**Creditors**
Amounts owed by the Council for work done, goods received or services rendered which have not been paid for by the end of the financial year.

**Debtors**
Amounts due to the Council for work done or services supplied which have not been paid for by the end of the financial year.

**Deferred Capital Receipts Reserve**
The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place.

**Depreciation**
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technical or other changes.

**Fixed Assets**
Tangible assets that yield benefits to the Council for a period of more than one year.

**Financial Instruments Adjustment Account**
An account which allows the adjustments relating to the accounting for Financial Instruments to be managed in line with statute. It records the timing differences between the rate at which gains and losses are recognised under the Code of Practice and the rate at which debits and credits are required to be made against council tax / rent.

**Housing Revenue Account**
The Housing Revenue Account reflects the statutory requirement to maintain a separate account for Council Housing.

**IFRS**
International Financial Reporting Standards (IFRS) are to be used for the production of accounts from 2010/11 onwards. The introduction of IFRS is intended to make the Statement of Accounts more robust and comparable with other local authorities and the wider public sector.

**Intangible Assets**
Non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (eg software licences).

**Investment Property**
Under IFRS, 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 - not used directly to deliver the Council's services.

**Jointly Controlled Assets**
These 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.

**Jointly Controlled Operations**
These are activities undertaken by the Council 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.

**Leasing**
A method of financing capital expenditure where rental charges are paid over a specified period of time. There are two main types of leasing arrangements:

(a) finance leases which transfer all the risks and rewards of ownership of a fixed asset to the lessee and such assets are included within the fixed assets in the balance sheet:
(b) operating leases where the ownership of the asset remains with the lessor and annual rental is charged direct to the revenue account.

**Liabilities**
Amounts due to individuals or organisations which will have to be paid some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

**Liquid Resources**
Current asset investments that are readily disposable by the Council without disrupting its business and are either:-
- readily convertible to known amounts of cash at or close to the carrying amount; or
- traded in an active market.

**Major Repairs Allowance**
The Major Repairs Allowance was introduced in 2001/02 and represents the estimated long-term average amount of capital spending required to maintain the Council's housing stock in its current condition.

**Materiality**
An item is material if its omission, non disclosure or misstatement could be expected to lead to a distortion of the view given by the financial statements.

**Minimum Revenue Provision**
The minimum amount which must be charged to a revenue account each year and set aside to repay debt, presently 4% of the General Fund Capital Financing Requirement. No MRP is required for the Housing Revenue Account.

**Movement in Reserves Statement**
This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

**National Non-Domestic Rate (NNDR)**
The tax paid on non domestic properties. It is set annually by government, on whose behalf it is collected by billing authorities. The Council receives a share of the national pool as part of its resources used to meet the total net expenditure.

**Non-Current Assets Held For Sale**
Non-current assets held for sale are those where the value of the asset will be recovered mainly by selling the asset rather than through usage.

**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 requires financial information to be analysed by Deputy or Assistant Director.

**Pension Reserve**
This absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

**Post Balance Sheet Events**
Those events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

**Prior Period Adjustments**
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of material errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Precept**
This is a demand for payment made by Staffordshire County Council, Staffordshire Police Authority and the Stoke-on-Trent and Staffordshire Fire & Rescue Authority as a means of obtaining income. The payment is met from the Council's collection fund and is based on the council tax bases.

**Provision**
An amount set aside to meet a liability that is likely to be incurred but the exact amount and the date on which it will arise is uncertain.

**Public Works Loans Board (PWLB)**
A government agency that provides longer-term loans to local authorities, at interest rates below market rate. It also acts as a lender of last resort (at a higher rate of interest).

**Related Party**
A related party is a body or individual that has control or joint control, or significant influence over the Authority, or is a member of the key management personnel of the Authority

**Remuneration**
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)**
This is expenditure that is defined as Capital but where there is no matching asset in the accounts - legislation allows the treatment of some expenditure as capital where it does not result in the creation of a fixed asset. An example of this is where grants are awarded to third parties for capital expenditure. These have traditionally been accounted for as deferred charges and written out through the Income and Expenditure Account.

**Revaluation Reserve**
This reserve records the net gain from revaluations of the Council's plant, property and equipment, and intangible assets, made after 1st April 2007.

**Revenue Expenditure**
The day-to-day expenditure incurred by an authority in providing services. It is financed by government grants, non-domestic rates, council tax and fees and charges.

**Revenue Support Grant (RSG)**
A general government grant in support of local authority expenditure.

**Specific Grants**
Government Grants to local authorities in aid of particular projects or services.

**Supported Capital Expenditure**
Authorisations given by the Government to local authorities which enable them to finance capital expenditure by either borrowing or government grant.

**Usable Reserves**

The purpose of each usable reserve is detailed below:

General Fund Working Balance
These funds are available to meet the future running costs for the Council for non-housing services.

Housing Revenue Account
This reserve holds funds that are available to meet future running costs relating to the Council's housing stock.

Capital Receipts Reserve
This reserve holds all of the Council's receipts generated from the disposal of non-current assets and although this is in the usable reserves section, this reserve can only be used to finance new capital investment or to repay debt. (A fixed proportion of Housing Capital Receipts must be paid over to the Government - as detailed in the accounting policy on disposals).

Major Repairs Reserve
This reserve is to meet the capital investment requirements of the Council's housing programme.

Capital Grants Unapplied
This reserve is used to hold capital grants without conditions or where conditions have been satisfied, but the grant has yet to be used to finance capital expenditure.

Earmarked Reserves – General Fund / Housing Revenue Account
Earmarked Reserves are amounts set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years. Further details of the significant reserves within this heading are shown in Note 8.

# Appendix to the Comprehensive Income & Expenditure Statement

**Central Services to the Public**

- Local Tax Collection
- Elections
- Emergency Planning and Civil Contingencies
- Local Land Charges

**Cultural and Related Services**

- Culture and Heritage
- Recreation and Sport
- Open Spaces
- Tourism
- Service Management and Support Services

**Environmental and Regulatory Services**

- Cemetery, Cremation and Mortuary Services
- Community Safety/ Crime Reduction
- Environmental Health
- Licensing
- Flood Defence and Land Drainage
- Agricultural and Fisheries Services
- Consumer Protection
- Street Cleansing
- Waste Collection
- Waste Disposal
- Service Management and Support Services

**Planning and Development Services**

- Building Control
- Development Control
- Planning Policy
- Environmental Initiatives
- Economic Development
- Community Development
- Service Management and Support Services

**Highways, Roads and Transport Services**

- Transport, Planning, Policy and Strategy
- Highways/Roads (Structural)
- Highways/Roads (Routine)
- Street Lighting
- Traffic Management
- Parking Services
- Public Transport
- Service Management and Support Services

**Local Authority Housing (HRA)**

- Costs associated with management of Council Dwellings
- Welfare Services for tenants

**Other Housing Services**

- Housing Strategy
- Housing Advice
- Housing Advances
- Licensing of Private Sector Landlords
- Private Sector Housing Renewal
- Homelessness
- Housing Benefit Payments and Administration
- Other Council Property
- Service Management and Support Services

**Corporate and Democratic Core Costs**

- Democratic Representation and Management
- Corporate Management

**Non Distributed Costs**

- Pension Costs Relating to Added Years and Early Retirement

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TAMWORTH BOROUGH COUNCIL**

**Opinion on the Authority accounting statements**

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

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

**Respective responsibilities of the Executive Director Corporate Services and auditor**

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

**Scope of the audit of the financial statements**

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

**Opinion on accounting statements**

In my opinion the financial statements:

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

**Opinion on other matters**

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

**Matters on which I report by exception**

I report to you if:

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

I have nothing to report in these respects.

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

**Respective responsibilities of the Authority and the auditor**

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

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

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

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

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

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

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

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

**Conclusion**

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

**Certificate**

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

James Cook

Officer of the Audit Commission

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

27th September 2012

*This is an electronic copy of the opinion and certificate without an electronic signature. The original was signed as dated above and a copy can be obtained from the Executive Director Corporate Services.*

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27th SEPTEMBER 2012

REPORT OF THE DIRECTOR OF FINANCE

# REVIEW OF THE TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2012/13 AND THE ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2011/12

## EXEMPT INFORMATION

None

## PURPOSE

To review the Treasury Management Strategy Statement, Minimum Revenue Provision Statement and Annual Investment Statement 2012/13 and Annual Report on the Treasury Management Service and Actual Prudential Indicators 2011/12 approved by Council on 28th February 2012 and 11th September 2012 respectively.

## RECOMMENDATIONS

**That Members consider the Treasury Management Reports, as detailed within the reports attached at Appendix 1 and Appendix 2 and highlight any changes for recommendation to Cabinet.**

## EXECUTIVE SUMMARY

At its meeting on 23rd February 2010, the Council approved the Treasury Management Strategy and Prudential Indicators including, as required by the Code, that the Audit & Governance Committee be given the opportunity to scrutinise the strategy and policies, as well as receiving regular monitoring reports.

With regard to the appointment of a Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies, the code suggests:

- This involves reviewing the Treasury Management policy and procedures and making recommendations to the responsible body;
- Public Service Organisations have a responsibility to ensure that those charged with governance have access to the skills and knowledge they require to carry out this role effectively;
- Those charged with Governance also have a personal responsibility to ensure they have the appropriate skills and training in their role;
- The procedures for monitoring Treasury Management activities through audit, scrutiny and inspection should be sound and rigorously applied, with an openness of access to information and well-defined arrangements for the review and implementation of recommendations for change; and
- This includes the provision of monitoring information and regular review by Councillors in both Executive and Scrutiny functions.

In compliance with the above, a copy of the Treasury Management Strategy and Prudential Indicators for 2012/13 is attached at **Appendix 1**, together with a copy of the Annual Report on the Treasury Management Service and Actual Prudential Indicators 2011/12 at **Appendix 2.**

**RESOURCE IMPLICATIONS**

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

**LEGAL/RISK IMPLICATIONS BACKGROUND**

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

**SUSTAINABILITY IMPLICATIONS**

None

**REPORT AUTHOR**

Please contact Phil Thomas, Financial Accountant or Stefan Garner, Director of Finance, extension 239 or 242.

**LIST OF BACKGROUND PAPERS**

Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2011/12 to 2014/15 Including Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2012/13 Council 22nd February 2011.
Annual Treasury Report 2010/11 Council 13th September 2011.
Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2010/11 Council 23rd February 2010.
Treasury Management Practices 2012/13 (Operational Detail).

**APPENDICES**

**Appendix 1 - Treasury Management Strategy Statement, Minimum Revenue Provision Statement and Annual Investment Statement 2012/13**

**Appendix 2 - Annual Report on the Treasury Management Service and Actual Prudential Indicators 2011/12**

**Appendix 1**

# TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2012/13

## Purpose

To comply with the requirement of the Council's Treasury Management Policy in reporting to Council the proposed strategy for the forthcoming year and the Local Government Act 2003 with the reporting of the Prudential Indicators.

## Executive Summary

The Local Government Act 2003 (LGA 2003) requires the Council to produce prudential indicators in line with the Prudential Code.

This report outlines the Council's prudential indicators for 2012/13 – 2014/15 and sets out the expected Treasury operations for this period. This report and associated tables fulfil the statutory requirement of the LGA 2003 by:

- Reporting the prudential indicators as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities;

- Setting the Council's Minimum Revenue Provision (MRP) Policy, which defines how the Council will pay for capital assets through revenue contributions each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);

- Setting the Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management;

- Adopting the Council's Treasury Management Policy Statement as recommended within the CIPFA Code of Practice 2011;

- Setting the Investment Strategy (in accordance with the Department for Communities and Local Government (CLG) investment guidance);

- Affirming the effective management and responsibility for the control of risk and clearly identify our appetite for risk. The Authority's risk appetite is low in order to give priority to **S**ecurity, **L**iquidity then **Y**ield (or return on investments).

The main issues for Members to note are:

1. The CIPFA Code of Practice and associated Guidance Notes adopted by the Council in February 2010 require that:

   - Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support;

   - There needs to be, at a minimum, a mid year review of Treasury Management Strategy and Performance. The review is intended to highlight any areas of concern that have arisen since the original strategy was approved;

   - Each Council must delegate the role of scrutiny of Treasury Management Strategy and policies to a specific named body – the Audit and Governance Committee has been given this role;

   - Members should be provided with access to relevant training – Members are also personally responsible for ensuring they have the necessary skills and training.

     The aim is for all Members to have ownership and understanding when making decisions on Treasury Management matters.

2. With regard to Counterparty selection for investment, rather than adopt a Lowest Common Denominator (LCD) methodology, a broader counterparty evaluation criteria is used by Sector (the Council’s Treasury Management consultants). This methodology has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element – but in line with best practice/guidance also includes the following as overlays: -

   - credit watches and credit outlooks from credit rating agencies;
   - Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
   - Sovereign ratings to select counterparties from only the most creditworthy countries.

   The adoption of the above approach will help mitigate risks associated with the investment portfolio.

3. As agreed in past Treasury Management Strategies, it is proposed that the Council (following consultation with our advisors) will not use the approach suggested by CIPFA of using the lowest common denominator rating from all three rating agencies to determine creditworthy counterparties (as Moodys are currently very much more aggressive in giving low ratings than the other two agencies). The use of the Lowest Common Denominator rating would give the Authority a very restrictive/unworkable counterparty list which would result in a disproportional (high) level of investment in a few institutions which would as a consequence increase investment risk with the investments being held with a limited number of counterparties which would be counter-productive in not allowing the sharing / spreading of risk over a higher number of counterparties. This would therefore be unworkable and leave the Council with few banks on its approved lending list.

   The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue importance to just one agency’s ratings.

The approach taken in item 2 and 3 above allows officers charged with the Treasury responsibilities to have the most appropriate/market assessment to aid the investment decision making process and provides a broad methodology for identifying High Credit Quality counterparties.

**Equalities implications**

There are no equalities implications arising from the report.

**Legal implications**

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

**Resource and Value for Money implications**

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

**Risk implications**

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

A Glossary of terms utilised within the report can be found at **ANNEX 8**.

**Report Author**

Please contact Phil Thomas, Financial Accountant, extension 239 or via email
phil-thomas@tamworth.gov.uk

| | |
|---|---|
| ***Background Papers:-*** | ***Local Government Act 2003*** |
| | ***CIPFA Code of Practice on Treasury Management in Public Services 2011*** |
| | ***CLG Guidance on Local Government Investments March 2010*** |
| | ***Annual Treasury Report 2010/11*** |
| | ***Mid-year Treasury Report 2011/12*** |
| | ***Budget & Medium Term Financial Strategy 2012/13*** |
| | ***CLG Housing Determinations and Local Government Finance Settlement 2011/12 & 2012/13*** |
| | ***Treasury Management Practices 2012/13 (Operational Detail)*** |

## 1. Introduction

### 1.1 The Treasury Management Policy Statement

This Council defines its Treasury Management activities as:

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

- This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- This organisation acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury Management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

- The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

- The second main function of the Treasury Management service is the funding of the Council's Capital Programmes. These Capital Programmes provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

### 1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by a Committee. This role is undertaken by the Audit and Governance Committee.

**i) Prudential and Treasury Indicators and Treasury Strategy** (this report) - The first, and most important report covers:

- the Capital Programmes (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including Treasury Indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

**ii) A Mid Year Treasury Management Report** – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and detail whether Treasury operations comply with the Strategy or whether any policies require revision.

**iii) An Annual Treasury Report** – This provides details of a selection of actual Prudential and Treasury Indicators and actual Treasury Operations compared to the estimates within the Strategy.

**1.3 Treasury Management Strategy for 2012/13**

The Strategy for 2012/13 covers two main areas:

**a) Capital Issues**

- the Capital Programmes and the Prudential Indicators;
- the MRP Strategy.

**b) Treasury Management Issues**

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIFPA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

**2. The Capital Prudential Indicators 2012/13 – 2014/15**

The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist Members' overview and confirm Capital Expenditure plans.

A key issue facing the Council is the impact of planned HRA Reform. This would essentially end the impact of the Housing Subsidy System and will see the HRA as a stand alone business.

The Council currently pays into the HRA Housing Subsidy System, and in order to stop future payments from 1 April 2012 the Council is required to pay the CLG £44.668m. This payment is effectively HRA debt, and so the prudential indicators have been adjusted to reflect this change. The actual payment will be made on the 28 March 2012 and so the indicators will take immediate effect from the approval of these limits by Council. The change is expected to be beneficial to the Council.

**a) Capital Expenditure**. This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle:

| Capital Expenditure | 2010/11 Actual £m | 2011/12 Probable Outturn £m | 2012/13 Estimate £m | 2013/14 Estimate £m | 2014/15 Estimate £m |
|---|---|---|---|---|---|
| **Non-HRA** | **1.273** | **0.883** | **3.145*** | **2.944** | **0.521** |
| HRA existing | 4.352 | 4.450 | 7.816 | 7.550 | 7.739 |
| HRA settlement | - | 44.668 | - | - | - |
| **HRA** | **4.352** | **49.118** | **7.816** | **7.550** | **7.739** |
| **Total** | **5.625** | **50.001** | **10.961** | **10.494** | **8.260** |

** includes projected slippage from 2011/12*

- Other long term liabilities. The above financing need, excludes other long term liabilities, such as Private Finance Initiatives (PFI) and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

| Capital Expenditure | 2010/11 Actual £m | 2011/12 Probable Outturn £m | 2012/13 Estimate £m | 2013/14 Estimate £m | 2014/15 Estimate £m |
|---|---|---|---|---|---|
| Non-HRA | 1.273 | 0.883 | 3.145 | 2.944 | 0.521 |
| HRA | 4.352 | 4.450 | 7.816 | 7.550 | 7.739 |
| HRA settlement | - | 44.668 | - | - | - |
| **Total** | **5.625** | **50.001** | **10.961** | **10.494** | **8.260** |
| **Financed by:** | | | | | |
| Capital receipts | 0.877 | 0.462 | 1.029 | 0.213 | 0.176 |
| Capital grants | 0.559 | 0.421 | 1.324 | 2.422 | 0.295 |
| Capital reserves | 0.908 | 1.617 | 1.098 | 0.300 | 0.050 |
| Revenue | 2.801 | 2.833 | 7.510 | 7.559 | 7.739 |
| **Total** | **5.145** | **5.333** | **10.961** | **10.494** | **8.260** |
| **Net financing need for the year** | **0.480** | **44.668** | **-** | **-** | **-** |

**b) The Council's Borrowing Need (the Capital Financing Requirement)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The Council is asked to approve the CFR projections below:

| CFR Projections | 2010/11 Actual £m | 2011/12 Estimate £m | 2012/13 Estimate £m | 2013/14 Estimate £m | 2014/15 Estimate £m |
|---|---|---|---|---|---|
| **Capital Financing Requirement** | | | | | |
| CFR – Non-HRA | 3.833 | 0.429* | 0.412 | 0.396 | 0.380 |
| CFR - HRA | 23.395 | 23.395 | 68.063 | 68.063 | 68.063 |
| HRA Settlement | - | 44.668 | - | - | - |
| **Total CFR** | **27.228** | **68.492** | **68.475** | **68.459** | **68.443** |
| **Movement in CFR (increase / (decrease)** | **0.286** | **41.264** | **(0.017)** | **(0.016)** | **(0.016)** |

| **Movement in CFR represented by** | | | | | |
|---|---|---|---|---|---|
| Net financing need for the year (above) | 0.480 | - | - | - | - |
| HRA Settlement | - | 44.668 | - | - | - |
| Less MRP/VRP and other financing movements | (0.194) | (3.404)* | (0.017) | (0.016) | (0.016) |
| **Movement in CFR (increase / (decrease)** | **0.286** | **41.264** | **(0.017)** | **(0.016)** | **(0.016)** |

* *Assumes reversal of estimated Capitalisation Directive of £3.386m re anticipated Icelandic Banking receipt – actual figure subject to finalisation as part of Annual Accounts production*

**c) MRP Policy Statement**

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

CLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement*:*

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

No revenue charge is currently required for the HRA. However under HRA reform the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, regulations will allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years.

**d) The Use of the Council's Resources and the Investment Position**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

| Year End Resources | 2010/11 Actual £m | 2011/12 Estimate £m | 2012/13 Estimate £m | 2013/14 Estimate £m | 2014/15 Estimate £m |
|---|---|---|---|---|---|
| Fund balances | 9.598 | 8.920 | 7.029 | 5.555 | 3.969 |
| Capital receipts | 1.907 | 1.445 | 0.416 | 0.202 | 0.026 |
| Earmarked Reserves | 7.237 | 5.279 | 4.179 | 3.895 | 3.845 |
| Other | 0.048 | - | - | - | - |
| **Total Core Funds** | **18.790** | **15.644** | **11.624** | **9.652** | **7.840** |
| Working capital* | 1.039 | 0.720 | 3.403 | 4.344 | 5.087 |
| (Under)/over borrowing | (6.836) | (3.432) | (3.415) | (3.399) | (3.383) |
| **Expected Investments** | **12.993** | **12.932** | **11.612** | **10.597** | **9.544** |

*Working capital balances shown are estimated year end; these may be higher mid year

**e) Affordability Prudential Indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

**f) Actual and estimates of the ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

| Fund | 2010/11 Actual % | 2011/12 Revised Estimate % | 2012/13 Estimate % | 2013/14 Estimate % | 2014/15 Estimate % |
|---|---|---|---|---|---|
| Non-HRA | 3.70 | 37.18* | (2.15) | (3.12) | (3.60) |
| HRA (inclusive of settlement) | (6.91) | (5.41) | 15.88 | 14.27 | 13.83 |

* *Assumes one off reversal of estimated Capitalisation Directive of £3.386m re anticipated Icelandic Banking receipt – actual figure subject to finalisation as part of Annual Accounts production*

*** Shown as (negative) as income exceeds costs*

The estimates of financing costs include current commitments and the proposals in this budget report.

**g) Estimates of the incremental impact of capital investment decisions on council tax.** This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period.

**Incremental impact of capital investment decisions on the Band D Council Tax**

| Council tax impact | 2010/11 Actual £ | 2011/12 Estimate £ | 2012/13 Estimate £ | 2013/14 Estimate £ | 2014/15 Estimate £ |
|---|---|---|---|---|---|
| **Council Tax - band D** | 3.52 | 1.04 | 0.28 | 0.52 | 0.26 |

**h) Estimates of the incremental impact of capital investment decisions on housing rent levels.** Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

**Incremental impact of capital investment decisions on housing rent levels**

| Housing Rent impact | 2010/11 Actual £ | 2011/12 Estimate £ | 2012/13 Estimate £ | 2013/14 Estimate £ | 2014/15 Estimate £ |
|---|---|---|---|---|---|
| **Weekly housing rent levels** | 0.05 | 0.07 | 0.08 | 0.13 | 0.12 |

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

## 3 . Treasury Management Strategy

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The Treasury Management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 3.1 Current Portfolio Position

The Council's Treasury Portfolio position at 31 March 2011, with forward projections are summarised below. The table shows the actual external debt (the Treasury Management Operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| Current Portfolio | 2010/11 Actual £m | 2011/12 Estimate £m | 2012/13 Estimate £m | 2013/14 Estimate £m | 2014/15 Estimate £m |
|---|---|---|---|---|---|
| **External Debt** | | | | | |
| Debt at 1 April | 22.392 | 20.392 | 65.060 | 65.060 | 65.060 |
| Expected change in Debt | (2.000) | - | - | - | - |
| HRA settlement | - | 44.668 | - | - | - |
| **Actual debt at 31 March (A)** | **20.392** | **65.060** | **65.060** | **65.060** | **65.060** |
| **The Capital Financing Requirement** | **27.228** | **68.492** | **68.475** | **68.459** | **68.443** |
| **Under / (over) borrowing** | **6.836** | **3.432** | **3.415** | **3.399** | **3.383** |

| Current Portfolio | 2010/11 Actual £m | 2011/12 Estimate £m | 2012/13 Estimate £m | 2013/14 Estimate £m | 2014/15 Estimate £m |
|---|---|---|---|---|---|
| **Total Investments at 31 March** | | | | | |
| Investments **(B)** | **12.993*** | **12.932** | **11.612** | **10.597** | **9.544** |
| Investment change | (0.779) | (0.061) | (1.320) | (1.015) | (1.053) |
| **Net Debt (A-B)** | **7.399** | **52.128** | **53.448** | **54.463** | **55.516** |

**Excludes investments 'at risk' with Icelandic Banks*

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total borrowing, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Corporate Director Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### 3.2. Treasury Indicators: Limits to Borrowing Activity

**The Operational Boundary -** This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

| Operational boundary | 2011/12 Estimate £m | 2012/13 Estimate £m | 2013/14 Estimate £m | 2014/15 Estimate £m |
|---|---|---|---|---|
| Borrowing | 27.600 | 72.268 | 72.268 | 72.268 |
| Add HRA settlement | 44.668 | - | - | - |
| Other long term liabilities | - | - | - | - |
| Total | 72.268 | 72.268 | 72.268 | 72.268 |

**The Authorised Limit for external borrowing -** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following Authorised Limit:

| Authorised limit | 2011/12 Estimate £m | 2012/13 Estimate £m | 2013/14 Estimate £m | 2014/15 Estimate £m |
|---|---|---|---|---|
| Borrowing | 33.100 | 89.112 | 89.112 | 89.112 |
| Add HRA settlement | 56.012 | - | - | - |
| Other long term liabilities | 3.000 | 3.000 | 3.000 | 3.000 |
| Total | 92.112* | 92.112 | 92.112 | 92.112 |

** Includes £79.407m HRA Self Financing Cap – Including Headroom of £11.344m.*

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

| HRA Debt Limit | 2011/12 Estimate £m | 2012/13 Estimate £m | 2013/14 Estimate £m | 2014/15 Estimate £m |
|---|---|---|---|---|
| Total | 79.407 | 79.407 | 79.407 | 79.407 |

### 3.3. Prospects for Interest Rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **ANNEX 1** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

| Annual Average | Bank Rate % | Money Rates | | PWLB Borrowing Rates | | |
|---|---|---|---|---|---|---|
| | | 3 month % | 1 year % | 5 year % | 25 year % | 50 year % |
| March 2012 | 0.50 | 0.70 | 1.50 | 2.30 | 4.20 | 4.30 |
| June 2012 | 0.50 | 0.70 | 1.50 | 2.30 | 4.20 | 4.30 |
| Sept 2012 | 0.50 | 0.70 | 1.50 | 2.30 | 4.30 | 4.40 |
| Dec2012 | 0.50 | 0.70 | 1.60 | 2.40 | 4.30 | 4.40 |
| March 2013 | 0.50 | 0.75 | 1.70 | 2.50 | 4.40 | 4.50 |
| June 2013 | 0.50 | 0.80 | 1.80 | 2.60 | 4.50 | 4.60 |
| Sept 2013 | 0.75 | 0.90 | 1.90 | 2.70 | 4.60 | 4.70 |
| Dec 2013 | 1.00 | 1.20 | 2.20 | 2.80 | 4.70 | 4.80 |
| March 2014 | 1.25 | 1.40 | 2.40 | 2.90 | 4.80 | 4.90 |
| June 2014 | 1.50 | 1.60 | 2.60 | 3.10 | 4.90 | 5.00 |

Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until Quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

### 3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing excluding the HRA reform settlement.

Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Corporate Director Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

The requirement for the HRA reform settlement to be made to the CLG on 28 March 2012 will require a separate consideration of a borrowing strategy. The Council will need to have the cash settlement amount of £44.668m available by the 28th March 2012, so separate borrowing solely for this purpose is anticipated. The PWLB are providing loans at interest rates 0.85% lower than the usual PWLB interest rates solely for the settlement requirements. This provides a compelling reason to utilise this borrowing availability. The exact structure of debt to be drawn is curently being considered by officers to ensure it meets the requirements of the HRA business plan and the overall requirements of the Council. Whilst the debt can be drawn earlier than needed, this may incur a revenue cost, and will be considered when a review of the structure of actual prevailing borrowing and investment interest rates is undertaken nearer to the time.

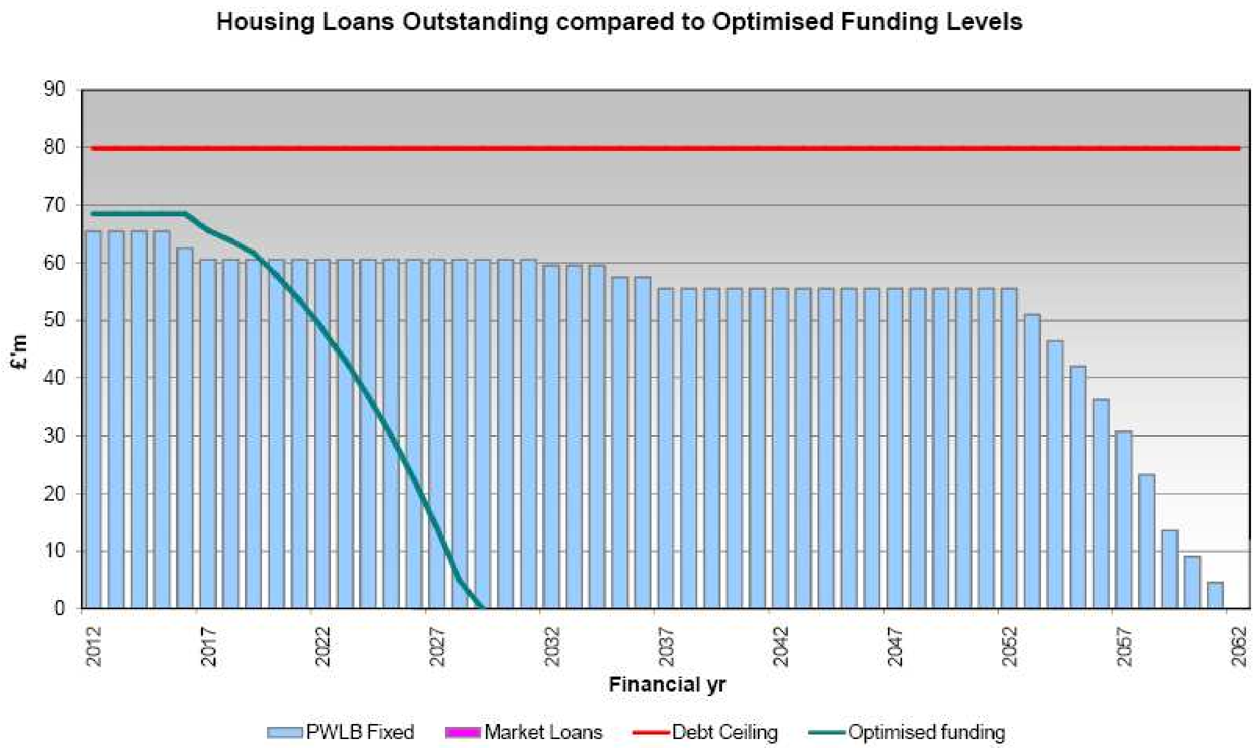
Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Following detailed review of the business plan and after consultation with our Treasury consultants (Sector) the Treasury management team are proposing to fund the settlement payment by taking loans from the Public Works Loans Board (PWLB). Up to ten individual loans with a long term maturity pattern of 40 to 50 years will be taken and debt for the HRA will be held separately from General Fund under a two pool option. It is also proposed to continue with the use of internal resources to fund the difference between the new Capital Financing Requirement and the new levels of borrowing resulting from the reform. This will benefit both the HRA and General Fund as the special rate would not be available for this debt and it would also reduce the overall level of exposure for Council investments.

This approach has been adopted based on the following factors;

- By taking advantage of the PWLB special terms mentioned above, the Authority will obtain a lower rate and at a lower cost than currently available from other sources.
- By breaking down the sum required into smaller individual loans, this will make the debt more manageable and flexible should circumstances/priorities change.
- By taking long term loans, the HRA will have certainty over its borrowing costs throughout and past the business plan period.

The graph below shows a comparison of the debt ceiling, outstanding loans within the housing pool (as per the two pool option) and optimised funding levels. All existing debt would become Housing debt. The vertical bars show the outstanding loans in the housing pool for each year and the red line at the top shows the debt ceiling or cap for the Authority as determined by the CLG. The green line shows the optimised funding level from the PwC LA model, or in other words, the loans outstanding after taking account of surpluses in the business plan to repay loans.
As you can see, beyond 2020, the Authority has outstanding loans above the funding requirement identified from the business plan. This allows the Authority to have some flexibility within its housing capital expenditure plans (for redevelopment etc.) in the future.




Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

| Year: | 2012/13 £m | 2013/14 £m | 2014/15 £m |
|---|---|---|---|
| **Interest rate Exposures** | | | |
| | **Upper** | **Upper** | **Upper** |
| **Limits on fixed interest rates based on net debt** | 58 | 58 | 58 |
| **Limits on variable interest rates based on net debt** | 7 | 7 | 7 |
| **Maturity Structure of fixed interest rate borrowing 2012/13** | | | |
| | | **Lower** | **Upper** |
| Under 12 months | | 0% | 20% |
| 12 months to 2 years | | 0% | 20% |
| 2 years to 5 years | | 0% | 25% |
| 5 years to 10 years | | 0% | 75% |
| 10 years and above | | 0% | 100% |

### 3.5 Policy on Borrowing in Advance of Need

The Council will not borrow more than, or in advance of, its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### 3.6. Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Council, at the earliest meeting following its action.

### 3.7. Annual Investment Strategy

### 3.7.1 Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings, service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Sector, in producing its colour codings which show the varying degreees of creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in **ANNEX 3** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Investment instruments identified for use in the financial year are listed in **ANNEX 3** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

### 3.7.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties.

These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands*:*

- Yellow 5 years *
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

** this category is for AAA rated Government debt or its equivalent; please also see collateralised deposits added into ANNEX 3 as an investment instrument.*

The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, Viability ratings of BB+, and a Support rating of 3. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a daily basis/as and when notified. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

**3.7.3 Country limits**

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in **ANNEX 4**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Sector also recommends that no more than 20% of the Council's investment portfolio should be placed with an individual counterparty, in order to spread risk. The approach at the Council is to set monetary limits of up to £4m with individual institutions, which equates approximately to Sector's recommendation (based on current average investment levels).

### 3.7.4 Investment Strategy

**a) In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**b) Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before strating to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:

- 2011/ 2012 0.50%
- 2012/ 2013 0.50%
- 2013/ 2014 1.25%
- 2014/ 2015 2.50%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

Sector's suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

- 2012/2013 0.70%
- 2013/2014 1.00%
- 2014/2015 1.60%
- 2015/2016 3.30%
- 2016/2017 4.10%

**c) Invesment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

| Maximum principal sums invested > 364 days | | | |
|---|---|---|---|
| **Year:** | **2012/13 £m** | **2013/14 £m** | **2014/15 £m** |
| Principal sums invested > 364 days | 3.0 | 2.5 | 2.0 |

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, Call accounts and 15 and 30 day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

### 3.7.5 Icelandic Bank Investments

The Icelandic courts have supported the view that the Councils' investments in Glitnir will be treated as a preferred creditor, thereby seeing a high proportion of the investment being returned. The actual repayment is currently expected to be partially in foreign currency assets. It is currently too early to provide a definitive policy on how this exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earilest opportunity. We are currently still receiving dividend distributions from the administrators of Heritable and Kaupthing Singer & Friedlander with anticpated total recoveries of 85% and 82% respectively.

### 3.8 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

### 3.9 Policy on the use of external service providers

The Council uses Sector as its external Treasury Management advisors.

The Council recognises that responsibility for Treasury Management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

### 3.10 Scheme of delegation

Please see **ANNEX 5**.

### 3.11 Role of the Section 151 Officer

Please see **ANNEX 6.**

**Annexes**

| Annex |
| --- |
| 1. Interest Rate Forecasts |
| 2. Economic Background |
| 3. Specified and Non-Specified Investments |
| 4. Approved Countries for investments |
| 5. Treasury Management Scheme of Delegation |
| 6. The Treasury Management Role of the Section 151 Officer |
| 7. Treasury Management Practices |
| 8. Treasury Management Glossary of Terms |

ANNEX 1

## Interest Rate Forecasts 2011 - 2015

| Sector's Interest Rate View | Now | Dec-11 | Mar-12 | Jun-12 | Sep-12 | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sector's Bank Rate View | **0.50%** | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 2.00% | 2.25% | 2.50% |
| 3 Month LIBID | **0.87%** | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.75% | 0.80% | 0.90% | 1.20% | 1.40% | 1.60% | 2.10% | 2.40% | 2.60% |
| 6 Month LIBID | **1.16%** | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.10% | 1.20% | 1.40% | 1.60% | 1.80% | 2.00% | 2.50% | 2.70% | 2.90% |
| 12 Month LIBID | **1.65%** | 1.50% | 1.50% | 1.50% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.20% | 2.40% | 2.60% | 3.10% | 3.20% | 3.30% |
| 5yr PWLB Rate | **2.25%** | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.10% | 3.30% | 3.50% | 3.70% |
| 10yr PWLB Rate | **3.33%** | 3.30% | 3.30% | 3.30% | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 4.00% | 4.20% | 4.40% | 4.60% | 4.80% |
| 25yr PWLB Rate | **4.24%** | 4.20% | 4.20% | 4.20% | 4.30% | 4.30% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% |
| 50yr PWLB Rate | **4.26%** | 4.30% | 4.30% | 4.30% | 4.40% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% | 5.30% |
| **Bank Rate** | | | | | | | | | | | | | | | |
| Sector's View | **0.50%** | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 2.00% | 2.25% | 2.50% |
| UBS | **0.50%** | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | - | - | - | - | - | - | - | - | - |
| Capital Economics | **0.50%** | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | - | - | - | - | - |
| **5yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | **2.25%** | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.10% | 3.30% | 3.50% | 3.70% |
| UBS | **2.25%** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Capital Economics | **2.25%** | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | - | - | - | - | - |
| **10yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | **3.33%** | 3.30% | 3.30% | 3.30% | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 4.00% | 4.20% | 4.40% | 4.60% | 4.80% |
| UBS | **3.33%** | 3.45% | 3.45% | 3.50% | 3.60% | 3.65% | - | - | - | - | - | - | - | - | - |
| Capital Economics | **3.33%** | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | - | - | - | - | - |
| **25yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | **4.24%** | 4.20% | 4.20% | 4.20% | 4.30% | 4.30% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% |
| UBS | **4.24%** | 4.80% | 4.90% | 4.90% | 4.90% | 4.90% | - | - | - | - | - | - | - | - | - |
| Capital Economics | **4.24%** | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | 4.30% | - | - | - | - | - |
| **50yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector's View | **4.26%** | 4.30% | 4.30% | 4.30% | 4.40% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% | 5.30% |
| UBS | **4.26%** | 4.80% | 4.95% | 4.95% | 5.00% | 5.00% | - | - | - | - | - | - | - | - | - |
| Capital Economics | **4.26%** | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | - | - | - | - | - |

**ANNEX 2**

## Economic Background

### 4.1. Global Economy

The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers solid optimistim for the outlook for 2012, or possibly even into 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.

At the centre of much of the uncertainty is the ongoing **Eurozone sovereign debt crisis** which has intensified, rather than dissipated throughout 2011. The main problem has been **Greece**, where, even with an Eurozone/IMF/ECB bailout package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems. These look certain to result in a default of some kind but it currently remains unresolved if this will be either "orderly" or "disorderly". Most commentators currently view that it is now inevitable that Greece will have to exit the Eurozone in 2012.

There is also growing concern about the situation in **Italy** and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world but its prospects are limited given the poor rate of economic growth over the last decade and likely difficulties in implementing the required level of fundamental reforms in the economy. The Eurozone now has a well established track record of always doing too little too late to deal with this crisis; this augurs poorly for future prospects, especially given the rising level of electoral opposition in northern EU countries to bailing out profligate southern countries.

The US economy has encouraged with some positive news around the start of 2012 but any improvement in the weak rate of growth is likely to only generate slow progress in reducing the high level of unemployment which is acting as such a dampener on the economy. With Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started "Operation Twist" in an effort to re-ignite the rate of growth in the economy. However, high levels of consumer indebtedness, a moribund housing market together with stubbornly high unemployment, will continue to weigh heavily on consumer confidence and so on the ability to generate a healthy and consistent rate of economic growth.

Hopes for broad based recovery have, therefore, focussed on the **emerging markets** but these areas have been struggling with inflationary pressures in their previously fast growth economies. China, though, has maintained its growth pattern, despite a major thrust to tighten monetary policy during 2011 to cool inflationary pressures which are now subsiding. However, some forward looking indicators are causing concern that there may not be a soft landing ahead, which would then be a further dampener on world economic growth.

### 4.2 UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, have yet to fully impact on the economy. However, coming at a time when economic growth has been weak and concerns at the risk of a technical recession (two quarters of negative growth) in 2012, it looks likely that the private sector will not make up for the negative impact of these austerity measures given the lack of an export led recovery due to the downturn in our major trading partner – the EU. The housing market, a gauge of consumer confidence, remains weak and the outlook is for house prices to be little changed for a prolonged period.

**a) Economic Growth.** GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forcecasts for 2012 and beyond have been revised lower on a near quarterly basis. With concerns of a potential return to recession, the Bank of England embarked on a second round of Quantitive Easing to stimulate economic activity. It appears very likely that there will be another expansion of quantitative easing in quarter 1 2012 in order to stimulate economic growth.

**b) Unemployment.** With the impact of the Government's austerity strategy resulting in steadily increasing unemployment during 2011, there are limited prospects for any improvement in 2012 given the prospects for weak growth.

**c) Inflation and Bank Rate.** For the last two years, the MPC's contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT); that view remains in place with CPI inflation starting quarter 1 of 2012 at 4.8%, having peaked at 5.2% in September 2011. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.

**d) AAA rating.** The ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy for deficit reduction. They have, though, warned that this could be reviewed if the policy were to change, or was seen to be failing to achieve its desired outcome. This credit position has ensured that the UK government is able to fund itself at historically low levels and, with the safe haven status from Eurozone debt also drawing in external investment, the pressure on rates has been down, and looks set to remain so for some time.

### 4.3 Sector's forward view

Economic forecasting remains troublesome with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that increasingly seem likely to be undershot;
- a continuation of high levels of inflation ;
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before mid-2013 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

**<u>Specified and Non-Specified Investments</u>**:

**1. Specified Investments:**
These investments are **sterling** denominated investments of **not more than one-year maturity,** meeting the minimum 'high' quality criteria where applicable. They are of relatively high security, high liquidity and are low risk assets where the possibility of loss of principal or investment income is small, they could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. The investments could be managed In-House or by Fund Managers.

These would include investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or Gilts with less than one year to maturity);
- A Local Authority, Parish Council or Community Council;
- Pooled investment vehicles or Collective Investment Schemes structured as Open Ended Investment Companies (OEIC's) such as Money Market Funds (MMF's) Government Liquidity Funds, Enhanced Cash Funds, Bond Funds (but not Corporate Bonds) and Gilt Funds, that have a high credit quality and been awarded a high credit rating of AAA by Standard and Poor's, Moody's or Fitch rating agencies and a Low Long Term Volatility rating;
- A body that has a high credit quality and been awarded a high credit rating by a credit rating agency (such as a bank or building society) and complies with the Sector Credit Worthiness service;
- A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes and/or is part or wholly nationalised by that Government. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.

| SPECIFIED INVESTMENTS | Minimum 'High' Credit Criteria | Limits |
|---|---|---|
| UK Government/ Debt Management Agency Deposit Facility | Defined by Regulation UK Treasury (AAA) | £4m |
| Term deposits – Local Authorities | Defined by Regulation (Sec 23 of the 2003 act) | £4m |
| Treasury Bills | Defined by Regulation UK Treasury (AAA) | £4m |
| Term deposits and Callable deposits – Banks and Building Societies | In accordance with Sector's Creditworthiness Service up to 'Orange' or 'Blue' | £4m individual institutions<br>£6m Group limit |
| Pooled investment vehicles *(OEIC's, MMF's etc) | AAA (Moody's MR1+, Fitch MMF and S&P M). | £4m |
| Banks and Building Societies – Forward deals up to 1 year from arrangement to maturity | In accordance with Sector's Creditworthiness Service up to 'Orange 'or 'Blue' | £4m |

*For pooled investment vehicles or Collective Investment Schemes (such as MMF's) that have a high credit quality and have been rated AAA by Standard and Poor's, Moody's or Fitch rating agencies and have a Constant Net Asset Value (CNAV).

**2. Non-Specified Investments:**

Non-specified investments are any other type of investment (i.e. not defined as Specified above) and could be managed In-House or by Fund Managers. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

| | Non Specified Investment Categories | Credit Rating | Comment |
|---|---|---|---|
| 1 | **Supranational Bonds greater than 1 year to maturity**<br>• **Multilateral development bank bonds** – These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).<br>• **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO})<br>The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. | AAA | Would not use in-house due to size of investment portfolio limiting benefit to authority. |
| 2 | **UK Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (1) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. | AAA Sovereign Rated | Not currently in use - requires approved Custodian to trade on our behalf |
| 3 | **Certificates of Deposit** with credit rated deposit takers (Banks and Building Societies) | Sector Minimum Credit Worthiness rating | Not currently in use - requires approved Custodian to trade on our behalf |
| 4 | **Term deposit with a body which has been nationalised/part nationalised** by high credit rated (sovereign rating AAA) countries and provided with a **Government issued guarantee** for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee. | AAA Sovereign Rated<br><br>Sector Credit Worthiness rating 'Blue' | Under the current criteria this applies in the UK to Lloyds Banking Group plc and Royal Bank of Scotland Group institutions |

| | Non Specified Investment Categories | Credit Rating | Comment |
|---|---|---|---|
| 5 | A Term Deposit with a body which is an **Eligible Institution** for the HM Treasury Credit Guarantee Scheme initially announced on 13th October 2008*(1)*. The Credit Guarantee Scheme forms part of the Government's measures to ensure the stability of the financial system and protect ordinary savers, depositors, businesses and borrowers, by; a) providing sufficient liquidity in the short term, b) making available new capital to UK banks and Building Societies to strengthen their resources c) ensuring the banking system has the funds necessary to maintain lending in the medium term. | In accordance with Sector Credit Worthiness rating | Use restricted by Sector Credit Worthiness rating |
| 6 | Government guarantee on ALL deposits by high credit rated (AAA sovereign rating non UK) countries. | AAA Sovereign Rated | Not in Use, currently restricting investments to UK only |
| 7 | The **Council's Own Banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible. | Out of range | Currently fails to meet criteria, balances reviewed and minimised on daily basis |
| 8 | Any **Bank or Building society** that has at minimum a long term credit rating of A-, an Individual Rating of B/C and a Support rating of 3 or above, or equivalent, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment). | In accordance with Sector Credit Worthiness rating | Use restricted by Sector Credit Worthiness rating |
| 9 | **Callable Deposits** with a **Bank or Building society** that has at minimum a long term credit rating of A-, an Individual Rating of B/C and a Support rating of 3 or above, or equivalent. | In accordance with Sector Credit Worthiness rating | Use restricted by Sector Credit Worthiness rating |
| 10 | **Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. | N/A | Unlikely to use due to size of portfolio and high risk associated. Also requires additional approval as deemed as capital expenditure. |

Within categories 3, 4, 5 and 6, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. All investments will be made in sterling to eliminate exchange rate risk.

The criteria are detailed in the table below and will be used in conjunction with Sector's Creditworthiness service.

| **Counterparty Type (TBC's minimum credit ratings for approved lending list)** | **Minimum Credit Criteria** | **Limits*** | |
|---|---|---|---|
| Bank or Building Society (a minimum Long Term Credit Rating of AAA, an Individual Rating of B/C and a Support rating of 3 (or equivalent)) | Sector 'Yellow' | 5 yrs | £4m |
| Bank or Building Society (a minimum Long Term Credit Rating of AA-, an Individual Rating of B/C and a Support rating of 3 (or equivalent)) | Sector 'Yellow' | 4 yrs | £4m |
| Bank (a minimum Long Term Credit Rating of A-, an Individual Rating of B/C and a Support rating of 3 (or equivalent)) | Sector 'Yellow' | 3 yrs | £4m |
| Banks Nationalised/Part nationalised by high credit rated (sovereign rating AAA) countries *(a)* | Sector 'Blue' (UK) | Specified in Guarantee | £4m |
| An Eligible Institution eligible under the HM Treasury Credit Guarantee Scheme *(C)* | Sector 'Blue' | Specified in Guarantee | £4m |
| Government guarantee on ALL deposits by high credit rated (AAA sovereign rating) countries *(b).* | Sector 'Blue' | Specified in Guarantee | £4m |
| The Council's own Banker - if it fails to meet basic criteria | n/a | Overnight | £2m |
| Building Society (a minimum Long Term Credit Rating of A- an Individual Rating of B/C and a Support rating of 3 (or equivalent /if applicable) AND assets > £4bn) | Sector 'Yellow' | 3 yrs | £4m |
| Building Society (a Long Term Credit Rating of A- an Individual Rating of B/C and a Support rating of 3 (or equivalent/if applicable) AND assets < £4bn but > £1bn) | Sector 'Purple' | 2 yrs | £4m |
| Group Limits **-** Maximum investments in Institutions within the same financial group | As above for individual investment | As above for individual investment | £6m |
| Territory Limits **-** Maximum investments in Institutions within the same Country (Approx 15% of investment programme) Non- UK | As above for individual investment | As above for individual investment | £2m |
| Territory Limits - Maximum investments in Institutions within the same Continent (Approx 30% of investment programme) Non UK | As above for individual investment | As above for individual investment | £4m |

* Under current Sector credit worthiness criteria, only institutions with a rating of 'Purple' or 'Yellow' are suggested as appropriate counterparties for investments over 1 year, with limit ranges of 2 years and 5 years respectively.

*(a)* **Nationalised/Part Nationalised Banks** in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch has assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government.

However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

*(b)* **Blanket (explicit) guarantees on all deposits.** Some countries have supported their banking system by giving a blanket guarantee on ALL deposits e.g. Ireland and Singapore. Authorities may view that the sovereign rating of that country then takes precedence over the individual credit ratings for the banks covered by that guarantee.

*(c)* **UK banking system support package (implicit guarantee).** It should be noted that the UK Government did NOT give a blanket guarantee on all deposits but underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package. The Council will need to decide if we wish to authorise lending to those named banks on the basis of that implicit guarantee on local authority deposits placed with these eight banks or to rely on the credit ratings of the individual banks.

The original list of banks covered when the support package was initially announced was: -

- Abbey (now part of Santander)
- Barclays
- HBOS (now part of the Lloyds Group)
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28.2.10. The banks which have used this explicit guarantee are as follows: -

- Bank of Scotland
- Barclays
- Clydesdale
- Coventry Building Society
- Investec bank
- Nationwide Building Society
- Rothschild Continuation Finance plc
- Standard Life Bank
- Tesco Personal Finance plc
- Royal Bank of Scotland
- West Bromwich Building Society
- Yorkshire Building Society

*(d)* **Other countries.** The US, countries within the EU and Switzerland (and other countries) are currently providing major support packages to their banking systems.

**Approved Countries for Investments**

**AAA**

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.*

* At its meeting of the 15th September 2009, full Council approved a recommendation that;

**‘*authorises the use of institutions currently supported by the UK Government should its Sovereign rating be downgraded below the current requirement for a ‘AAA’ rating by all three rating agencies’***

this approval continues to form part of the strategy in 2012/13.

**Treasury Management Scheme of Delegation**

**(i) Full Council**

- receiving and reviewing reports on Treasury Management policies, practices and activities,
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, Treasury Management Policy statement and Treasury Management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.

**(ii) Cabinet**

- receiving and reviewing Treasury Management policy statement and Treasury Management practices and making recommendations to the full Council.
- receiving and reviewing regular monitoring reports and making recommendations to the full Council.
- approving the selection of external service providers and agreeing terms of appointment.

**(iii) Audit and Governance Committee**

- reviewing the Treasury Management policy and procedures and making recommendations to the Cabinet.
- receiving and reviewing regular monitoring (quarterly/half yearly) and making recommendations to the Cabinet.

**The Treasury Management Role of the Section 151 Officer**

**The S151 (responsible) Officer is responsible for:**

- recommending clauses, Treasury Management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular Treasury Management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the Treasury Management function;
- ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

**ANNEX 7**

## TREASURY MANAGEMENT PRACTICES

The Treasury Management Practices document (TMP's) forms detailed operational procedures and processes for the Treasury Management function. This document can be found on the Council's Internet by following the following link;

http://www.tamworth.gov.uk/council_and_democracy/council_budgets_and_spending/treasury_management.aspx

and clicking on the TMP's folder

The items below are summaries of the individual TMP's which the Council has to produce and adopt under the Treasury Code of Practice.

## TMP1 : RISK MANAGEMENT

### General Statement

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of Treasury Management risk; will report at least annually on the adequacy / suitability of the arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives. The reports will be in accordance with the procedures contained in TMP6.

### 1.1 Credit and Counterparty Risk Management

*Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.*

This organisation regards a key objective of its Treasury Management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and are detailed in the TMP Operational document.
It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

### 1.2 Liquidity Risk Management

*This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.*

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### 1.3 Interest Rate Risk Management

*The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.*

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.
It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

### 1.4 Exchange Rate Risk Management

*The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.*

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

### 1.5 Refinancing Risk Management

*The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.*

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.
It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

### 1.6 Legal and Regulatory Risk Management

*The risk that the organisation itself, or an organisation with which it is dealing in its Treasury Management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.*

This organisation will ensure that all of its Treasury Management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its Treasury Management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

### 1.7 Fraud, Error and Corruption, and Contingency Management

*The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its Treasury Management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.*

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its Treasury Management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its Treasury Management activities so that there can be no possible confusion as to what proper procedures are.
c) Staff will not be allowed to take up Treasury Management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.

Records will be maintained of all Treasury Management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

### 1.8 Market Risk Management

*The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated Treasury Management policies and objectives are compromised, against which effects it has failed to protect itself adequately.*

This organisation will seek to ensure that its stated Treasury Management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

## TMP2 : BEST VALUE AND PERFORMANCE MEASUREMENT

The Borough Council is committed to the pursuit of best value in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Treasury Management Policy Statement.
The Treasury Management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal, grant or subsidy incentives, and the scope for other potential improvements. The performance of the Treasury Management function will be measured using the criteria set out in the detailed TMP Operational document.

## TMP3 : DECISION-MAKING AND ANALYSIS

The Council will maintain full records of its Treasury Management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are set out in the detailed TMP Operational document.

## TMP4 : APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Council will undertake its Treasury Management activities by employing only those instruments, methods and techniques which are set out in the detailed TMP Operational document and within the limits and parameters defined in TMP1.

## TMP5 : ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Council considers it essential, for the purposes of the effective control and monitoring of its Treasury Management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of Treasury Management responsibilities.

The principle, on which this will be based is the clear distinction between those charged with setting Treasury Management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of Treasury Management decisions and the audit and review of the Treasury Management function.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principals, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TPM6 and the implications properly considered and evaluated.

The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in Treasury Management, and the arrangements for absence cover. He will also ensure that at all times those engaged in Treasury Management will follow the policies and procedures set out. The present arrangements are set out in the detailed TMP Operational document.

The Section 151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are set out in the detailed TMP Operational document.
The delegations to the Section 151 Officer in respect of Treasury Management are set out in the detailed TMP Operational document.
He will fulfil all such responsibilities in accordance with the Council’s policy statement and TMP’s and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

## TMP6 : REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Council will ensure that regular reports are prepared and considered on the implementation of its Treasury Management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its Treasury Management activities; and on the performance of the Treasury Management function.

As a minimum Cabinet and Council will receive:

- An annual report on the planned strategy to be pursued in the coming year and the reporting of Prudential Indicators.
- A mid-year review
- An annual report on the performance of the Treasury Management function including the performance against the Prudential Indicators, the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Council's Treasury Management policy statement and TMP's.

Cabinet will receive regular monitoring reports on Treasury Management activities and risks.

The Audit and Governance Committee will have responsibility for the scrutiny of Treasury Management policies and practices.

The Treasury Management indicators will be considered together with the Treasury Management indicators in the Prudential Code as part of the budget approval process.
The present arrangements and the form of these reports are set out in the detailed TMP Operational document.

## TMP7 : BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Section 151 Officer will prepare and Council will approve and, if necessary, from time to time will amend, an annual budget for Treasury Management, which will bring together all of the costs involved in running the Treasury Management function together with associated income. The matters to be included will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1, TMP2 and TMP4.

The Section 151 Officer will exercise effective controls over this budget and report upon and recommend any changes required in accordance with TMP6.

The Council will account for its Treasury Management activities, for decisions made and transactions executed in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

## TMP8 : CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Section 151 Officer will ensure that these are adequate for the purpose of monitoring compliance with TMP1. The present arrangements for preparing cash flow projections, and their form, are set out in the detailed TMP Operational document.

## TMP9 : MONEY LAUNDERING

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The Council will, therefore, maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that all staff involved are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are set out in the detailed TMP Operational document.

## TMP10 : TRAINING AND QUALIFICATIONS

The Council recognises the importance of ensuring that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them. It will seek to appoint individuals, who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.

The Section 151 Officer will ensure that Council members tasked with Treasury Management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

## TMP11 : USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for the Treasury Management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of Treasury Management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. Terms of appointment will be properly agreed, documented and subject to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the detailed TMP Operational document.

## TMP12 : CORPORATE GOVERNANCE

The Council is committed to the pursuit of proper corporate governance throughout its services, and to establishing the principles and practices by which this can be achieved. Accordingly the Treasury Management function and its activities will be undertaken with openness, transparency, honesty, integrity and accountability.

The Council has adopted and implemented the key recommendations of the Code. This, together with the other arrangements are set out in the detailed TMP Operational document and are considered vital to the achievement of proper governance in Treasury Management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

**Treasury Management Glossary of Terms**

| | |
|---|---|
| Bank Rate | The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets. |
| Base Rate | Minimum lending rate of a bank or financial institution in the UK. |
| Capital Financing Requirement | The Council's underlying need for borrowing for a capital purpose. |
| Counterparty | The organisations responsible for repaying the Council's investment upon maturity and for making interest payments. |
| Credit Default Swap (CDS) | A specific kind of counterparty agreement which allows the transfer of third party credit risk from one party to the other. One party in the swap is a lender and faces credit risk from a third party, and the counterparty in the credit default swap agrees to insure this risk in exchange of regular periodic payments (essentially an insurance premium). If the third party defaults, the party providing insurance will have to purchase from the insured party the defaulted asset. In turn, the insurer pays the insured the remaining interest on the debt, as well as the principal. |
| Credit Rating | This is a scoring system that lenders issue organisations with, to determine how credit worthy they are. |
| Gilts | These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest for the period. |
| iTraxx | This is an index published by Markit who are a leading company in CDS pricing and valuation. The index is based on an equal weighting of the CDS spread of 25 European financial companies.<br>Clients can use the iTraxx to see where an institutions CDS spread is relative to that of the market and judge its creditworthiness in that manner, as well as looking at the credit ratings. |
| Liquidity | An asset is perfectly liquid if one can trade immediately, at a price not worse than the uninformed expected value, the quantity one desires. |
| Long term | A period of one year or more. |
| Maturity | The date when an investment is repaid or the period covered by a fixed term investment. |

| | |
|---|---|
| Minimum Revenue Provision | Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision |
| Monetary Policy Committee (MPC) | This is a body set up by the Government in 1997 to set the 'Repo' rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation at or around a 2%. |
| Security | An investment instrument, issued by a corporation, government, or other organization which offers evidence of debt or equity. |
| Short Term | A period of 364 days or less |
| S.L.Y | The Authority's risk appetite is low in order to give priority to **S**ecurity, **L**iquidity then **Y**ield (or return on investments) |
| Treasury Management | The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. |
| Working Capital | Cash and other liquid assets needed to finance the everyday running of a business such as the payment of salaries and purchases. |
| Yield | The annual rate of return on an investment, expressed as a percentage. |

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**COUNCIL**

**11th September 2012**

**REPORT OF THE PORTFOLIO HOLDER FOR CORE SERVICES AND ASSETS**

# ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2011/12

## EXEMPT INFORMATION

None

## PURPOSE

The Annual Treasury report is a requirement of the Council's reporting procedures. It covers the Treasury activity for 2011/12, and the actual Prudential Indicators for 2011/12.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes in accordance with Regulations issued under the Local Government Act 2003.

## RECOMMENDATIONS

**That Council be asked to,**

1. **Approve the actual 2011/12 Prudential Indicators within the report and shown at APPENDIX 1;**

2. **Accept the Treasury Management stewardship report for 2011/12.**

## EXECUTIVE SUMMARY

This report covers Treasury operations for the year ended 31st March 2012 and summarises:

- the Council's Treasury position as at 31st March 2012;
- performance measurement.

The key points raised for 2011/12 are:

- The Economy and Interest Rates
- Treasury Position as at 31 March 2012
- The Strategy for 2011/12
- The Council's Borrowing Requirement and Debt
- Borrowing Rates in 2011/12
- Borrowing Outturn for 2011/12
- Investment Rates in 2011/12
- Investment Outturn for 2011/12
- Performance Measurement
- Icelandic Bank Defaults.

The Treasury Function has achieved the following favourable results:

- The Authority has complied with the professional codes, statutes and guidance;
- There are no issues to report regarding non-compliance with the approved prudential indicators;

- Excluding the Icelandic investments (currently identified ‘at risk’) the Council maintained an average investment balance externally invested of £17.32m and achieved an average return of 1.25% (budgeted at £22.7m 1.13%);

  These results compare favourably with the Council’s own Benchmarks of the average 7 day and the 3 month LIBID rates for 2011/12 of 0.48% and 0.82% respectively, and above the CIPFA Treasury Benchmarking Club average rate of 1.19%. This is not considered to be a poor result in light of the current financial climate, our lower levels of deposits/funds and shorter investment timelines due to Banking sector uncertainty, when compared to other Authorities;

- The closing weighted average internal rate on borrowing has reduced from 6.61% to 6.55%;
- The Treasury Management Function has achieved an outturn investment income of £218k compared to a budget of £256k, the shortfall being due to the exceptional circumstances that have continued over the year.

During 2011/12 the Council complied with its legislative and regulatory requirements.

The Executive Director Corporate Services confirms that no borrowing was undertaken within the year and the Authorised Limit was not breached.

At 31st March 2012, the Council’s external debt was £65.060m (£20.392 at 31st March 2011) and it’s external investments totalled £15.699m (£12.990m at 31st March 2011) this excludes £1.66m Icelandic Banking sector deposits that were ‘At Risk’ at the year end (£5.16m at the 31st March 2011).

**RESOURCE IMPLICATIONS**

There are no financial implications or staffing implications arising from the report.

**LEGAL/RISK IMPLICATIONS BACKGROUND**

The Council is aware of the risks of passive management of the Treasury Portfolio and with the support of Sector, the Council’s current Treasury advisers, has proactively managed its debt and investments over this very difficult year.

**SUSTAINABILITY IMPLICATIONS**

None

**CONCLUSIONS**

That Members approve the above recommendations, following consideration of the information contained within the report.

**BACKGROUND INFORMATION**

## 1. Introduction and Background.

This Council is required by regulations issued under the Local Government Act 2003 to produce an Annual Treasury Management review of activities and the actual prudential and treasury indicators for 2011/12. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2011/12 the minimum reporting requirements were that the full Council should receive the following reports:

- an Annual Treasury Strategy in advance of the year (Council 22nd February 2011);
- a Mid - Year (minimum) Treasury Update Report (Council 13th December 2011);
- an Annual Review following the end of the year describing the activity compared to the strategy (this report).

In addition, the Cabinet has received quarterly treasury management updates as part of the Financial Healthcheck Reports.

Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of the Treasury Management Policy and Activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code for Scrutiny of Treasury Management Reports by the Audit and Governance Committee. Member training on treasury management issues was undertaken in February and October 2010 in order to support Members' scrutiny role.

## 2. The Economy and Interest Rates.

The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011-12 was that Bank Rate would start gently rising from Quarter 4 2011. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the EU. The EU sovereign debt crisis grew in intensity during the year until February when a second bailout package was eventually agreed for Greece. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.

Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of quantitative easing during the year, combined to depress PWLB rates to historically low levels.

**Investment rates:**

Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

## 3. Overall Treasury Position as at 31March 2012.

At the beginning and the end of 2011/12 the Council's treasury position was as follows*:

| GENERAL FUND | 31 March 2011 Principal £m | Rate/ Return % | Average Life Years | 31 March 2012 Principal £m | Rate/ Return % | Average Life Years |
|---|---|---|---|---|---|---|
| Total debt | *0* | *0* | *0* | *0* | *0* | *0* |
| CFR | *3.833* | | | *1.606* | | |
| Over / (under) borrowing | *(3.833)* | | | *(1.606)* | | |
| Total investments | *10.693* | *1.33* | *0.32* | *12.060* | *1.25* | *0.22* |
| Net debt | *(10.693)* | | | *(12.060)* | | |

| HOUSING REVENUE ACCOUNT | 31 March 2011 Principal £m | Rate/ Return % | Average Life Years | 31 March 2012 Principal £m | Rate/ Return % | Average Life Years |
|---|---|---|---|---|---|---|
| Total debt | *20.392* | *6.61* | *32.66* | *65.060* | *6.55* | *37.44* |
| CFR | *23.395* | | | *68.063* | | |
| Over / (under) borrowing | *(3.003)* | | | *(3.003)* | | |
| Total investments | *4.573* | *1.33* | *0.32* | *5.150* | *1.25* | *0.22* |
| Net debt | *15.819* | | | *59.910* | | |

*As a result of adopting the two pool financing option of the Housing Self Financing Reform, the Authority is required to separate the General Fund (GF) and Housing Revenue Account (HRA) financing.

In terms of its Capital Financing Requirement (CFR) the Authority has maintained the split as determined by the Local Government Act 2003, however, external borrowing (some of which was taken in the early 1990's) and external investments have not been 'earmarked' against one fund or the other, but pooled in line with the previous capital financing code.

Under the new arrangements, it was determined that the Authority's existing external debt of £20.392m would be all classified as HRA debt and would be added to the £44.668m new borrowing undertaken as part of the new financing structure. This means that although General fund has a small CFR of £1.606m, this is financed notionally from internal resources and is not earmarked against any specific external borrowing. With regard to investments, by identifying the value of each funds balances, reserves etc. at the year end, this will provide a basis of a notional split of investments for calculation purposes.

## 4. The Strategy for 2011/12.

The expectation for interest rates within the strategy for 2011/12 anticipated low but rising Bank Rate (starting in Quarter 4 of 2011) with similar gradual rises in medium and longer term fixed borrowing rates over 2011/12.

Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

The actual movement in gilt yields meant PWLB rates fell sharply during the year and to historically very low levels.

This was caused by a flight to quality into UK gilts from EU sovereign debt and also from shares as investors became very concerned about the potential for a Lehmans type meltdown of financial markets if the Greek debt crisis were to develop into a precipitous default and exit from the Euro.

## 5. The Borrowing Requirement and Debt.

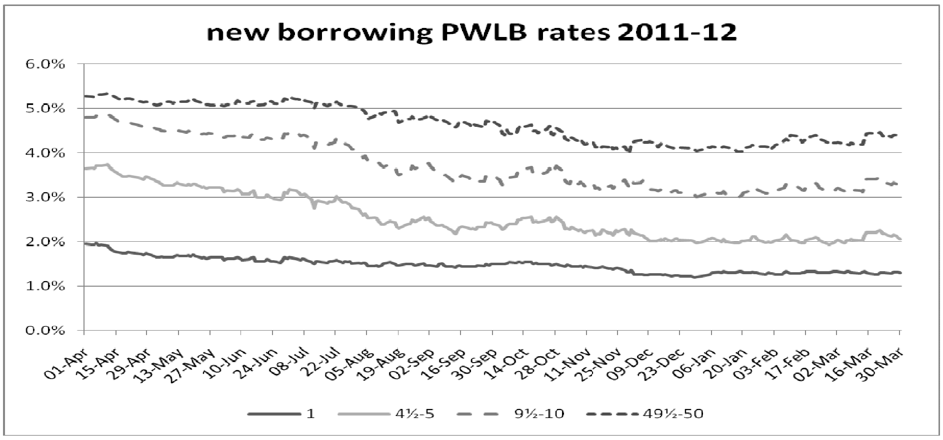
The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

The implementation of Housing Finance Reform at the end of the year abolished the Housing Subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £44.7m. Towards the end of the year the Authority also received a repayment of £2.1m from the administrators of the Icelandic bank Glitnir HLF. As the Authority obtained a capitalisation approval for this sum and increased the General Fund CFR in 2009/10, it is prudent to reverse this element of the capitalisation. This, together with the revised annual MRP contribution, results in a net increase in the CFR of £42.5m with new borrowing specifically for the HRA of £44.7m at the end of the year which was financed by new external borrowing. There has been no impact on HRA revenue finances in 2011/12 due to compensating adjustments being made in the HRA determination.

| | 31 March 2011 Actual £m | 31 March 2011 Original £m | 31 March 2012 Actual £m |
|---|---|---|---|
| CFR General Fund | 3.833 | 3.639 | 1.606 |
| CFR HRA | 23.395 | 23.395 | 68.063 |
| Total CFR | 27.228 | 27.034 | 69.669 |

## 6. Borrowing Rates in 2011/12.

PWLB borrowing rates - the graph below shows how PWLB rates fell to historically very low levels during the year.



## 7. Borrowing Outturn for 2011/12

Borrowing – the Authority borrowed a total of £44.668m for the Housing Revenue Account in 2011/12 from the Public Works Loans Board to finance the Housing Self Financing requirement. The following loans were taken during the year:

| Principal | Loan Type | Interest Rate | Years | Maturing |
|---|---|---|---|---|
| 5,000,000 | Fixed | 3.52% | 41 | 28/03/2053 |
| 5,000,000 | Fixed | 3.51% | 42 | 28/03/2054 |
| 5,000,000 | Fixed | 3.51% | 43 | 28/03/2055 |
| 5,000,000 | Fixed | 3.51% | 44 | 28/03/2056 |
| 5,000,000 | Fixed | 3.50% | 45 | 28/03/2057 |
| 3,000,000 | Fixed | 3.50% | 46 | 28/03/2058 |
| 1,000,000 | Fixed | 3.50% | 47 | 28/03/2059 |
| 5,000,000 | Fixed | 3.49% | 48 | 28/03/2060 |
| 5,000,000 | Fixed | 3.49% | 49 | 28/03/2061 |
| 5,668,000 | Fixed | 3.48% | 50 | 28/03/2062 |

The above Borrowing requirement in respect of the Housing Self Financing Reform was not included within the budget assumptions for 2011/12 due to the late passage of the legislation through Parliament. Borrowing in year of £7.1m assumed within the base budget to align the Authority's borrowings to its CFR was deferred, as a result of new financing regime and the revised strategy to postpone borrowing to avoid the cost of holding investments and counterparty risk.

No new borrowing was undertaken in year, in respect of the General Fund.

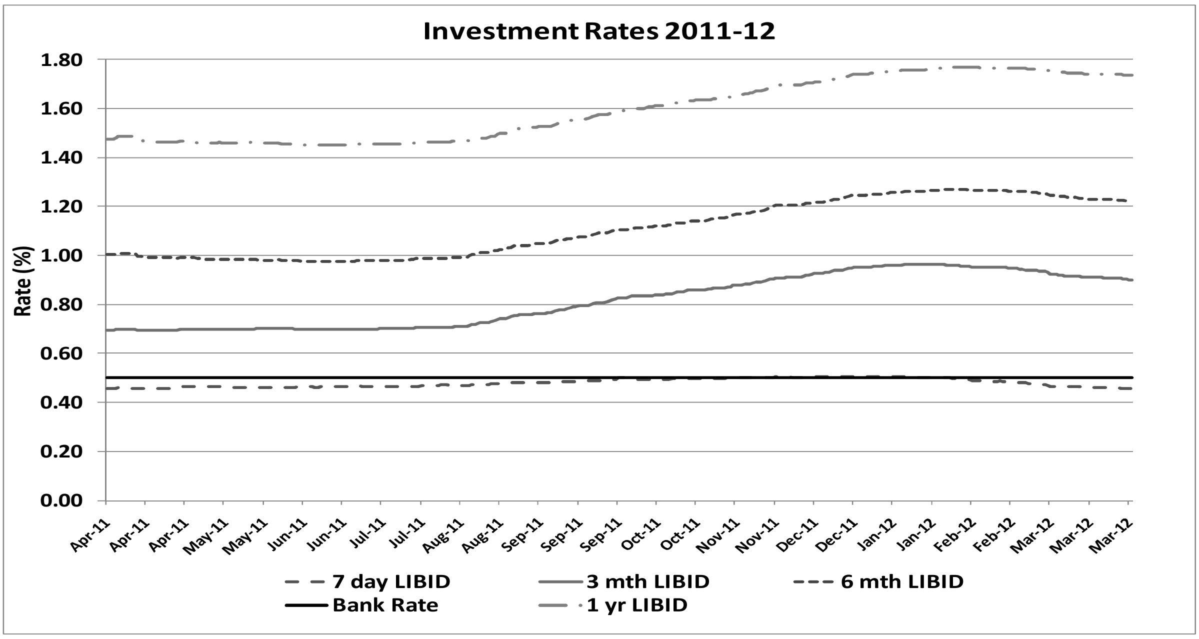
Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

## 8. Investment Rates in 2011/12

The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of monetary tightening were gradually pushed further and further back during the year to the second half of 2013 at the earliest.

Overlaying the relatively poor investment returns were the continued counterparty concerns generated by the Eurozone sovereign debt crisis.




## 9. Investment Outturn for 2011/12.

Investment Policy – the Council's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Council on 22nd February 2011. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

The Council maintained an average balance of £17.4m of internally managed funds which earned an average rate of return of 1.25%.

This compares with a budget assumption of interest earned of £256k based on average investment balances of £22.8m at 1.13% investment return

**Performance Management;**

This service had set the following local performance indicators:

- *To Maximise investment returns by ensuring that the average balance held in the Council's current accounts (non-interest earning) is maintained below £5,000*;

  The actual average balance held in the current accounts for 2011/12 was £2,219 cr (in hand) (£4,459 cr in hand in 2010/11);

  The net loss of interest for 2011/12 (loss of investment interest on un-invested balances less any overdraft interest incurred) was £64 compared to £19 for 2010/11 (approximately 18p per day);

- *Average external interest receivable in excess of 3 month LIBID rate;*

  Whilst the assumed benchmark for local authorities is the 7 day LIBID rate, a higher target is set for internal performance.

  The actual return of 1.25% compared to the 3 month LIBID of 0.817% (0.433% above target).

**CIPFA Benchmarking Club;**

The Council is a member of the CIPFA Treasury Management Benchmarking Club which is a means to assess our performance for the year against other members. Our average return for the year (as mentioned above) was 1.25% compared to the group average of 1.19% (information from CIPFA Benchmarking Report 2011/12) excluding the impaired investments in Icelandic banks.

This can be analysed further into the following categories:

| | **Average Balance Invested £ m** | | **Average Rates Received %** | |
|---|---|---|---|---|
| Category | Tamworth Borough Council | CIPFA Benchmarking Club | Tamworth Borough Council | CIPFA Benchmarking Club |
| Investments < 365 days Managed in-house | 9.5 | 46.1 | 1.57 | 1.21 |
| Investments > 365 days Managed in-house | 0.5 | 19.9 | 1.91 | 2.53 |
| Notice Accounts | 4.9 | 25.4 | 0.84 | 0.83 |
| DMADF | 0 | 6.6 | 0 | 0.25 |
| CD's Gilts and Bonds | 0 | 43.4 | 0.00 | 3.29 |
| Callable and Structured Deposits | 0 | 19.7 | 0.00 | 1.75 |
| Money Market Funds | 2.4 | 21.3 | 0.70 | 0.72 |
| **All Investments Managed in-house** | **17.4** | **105.3** | **1.25** | **1.19** |

The data above displays that despite the Council being a small investor in the markets, performance is marginally better when compared with other members of the benchmarking club.

The graphs reproduced at **APPENDIX 2** highlight Tamworth's investment performance compared to other members of the benchmarking club.

**10. Icelandic Bank Defaults**

The Authority currently has the following investments 'at risk' in Icelandic banks;

| Bank | Original Deposit £m | Accrued Interest £m | Total Claim £m | Reduction due to Exchange rate fluctuations £m | Repayments Received @ 31/03/2012 £m | Balance Outstanding | Anticipated Total Recovery % |
|---|---|---|---|---|---|---|---|
| Glitnir | 3.000 | 0.232 | 3.232 | 0.092 | 2.554 | 0.586 | 100 |
| Kaupthing Singer & Friedlander | 3.000 | 0.175 | 3.175 | 0.000 | 2.000 | 1.175 | 83.5 |
| Heritable | 1.500 | 0.005 | 1.505 | 0.000 | 1.022 | 0.483 | 88 |
| TOTALS | 7.500 | 0.412 | 7.912 | 0.092 | 5.577 | 2.243 | |

At the current time, the process of recovering assets is still ongoing with the administrators. In the cases of Heritable Bank plc and Kaupthing, Singer and Friedlander Ltd, the administrators have made a number of dividend payments to date, with further payments and updates anticipated during 2012/13.

Investments outstanding with the Iceland domiciled bank Glitnir Bank HLF have been subject to decisions of the Icelandic Courts.

Following the successful outcome of legal test cases in the Icelandic Supreme Court, the Administrators have committed to a full repayment and the authority received a significant sum in late March 2012. However, due to Icelandic currency restrictions, elements of our deposits which are held in Icelandic Krona have been held back pending changes to Icelandic law. This sum has been placed in an interest bearing account and negotiations are continuing for their early release.

Members will be periodically updated on the latest developments of these efforts.

**REPORT AUTHOR**

Phil Thomas 709239

**LIST OF BACKGROUND PAPERS**

- Local Government Act 2003
- Statutory Instruments: 2003 No 3146 & 2007 No 573
- CIPFA Code of Practice on Treasury Management in Public Services
- Treasury Management Strategy & Prudential Indicators (Council 22nd February 2011)
- Treasury Outturn Report 2010/11 (Council 13/09/2011)
- CIPFA Treasury Benchmarking Club Report 2012

**APPENDICES**

Appendix 1 : Prudential & Treasury Indicators 2011 / 12

Appendix 2 : Benchmarking Data

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## Prudential and Treasury Indicators

| PRUDENTIAL INDICATORS | 2010/11 | 2011/12 | 2011/12 |
|---|---|---|---|
| *Extract from budget and rent setting report* | Actual | Original | Actual |
| | £000's | £000's | £000's |
| | | | |
| **Capital Expenditure** | | | |
| Non - HRA | 1.273 | 1.998 | 0.627 |
| HRA | 4.352 | 4.298 | 49.206 |
| TOTAL | 5.625 | 6.296 | 49.833 |
| | | | |
| **Net Borrowing Requirement - General Fund/HRA*** | | | |
| Brought Forward 1st April | 8.616 | 8.810 | 7.399 |
| Carried Forward 31st March | 7.399 | 8.627 | 47.850 |
| In Year Borrowing Requirement | (1.217) | (0.183) | 40.451 |
| | | | |
| **Net Debt** | 7.402 | 9.028 | 47.850 |
| | | | |
| **Capital Financing Requirement - General Fund** | 3.833 | 3.639 | 1.606 |
| | | | |
| **Capital Financing Requirement - HRA** | 23.395 | 23.395 | 68.063 |
| | | | |
| **Annual Change in Capital Financing Requirement** | | | |
| Non - HRA | (0.195) | (0.194) | (2.227) |
| HRA | 0 | 0 | 44.668 |
| TOTAL | (0.195) | (0.194) | 42.441 |
| | | | |
| **Incremental Imapact of Capital Financing Decisions** | £:p | £:p | £:p |
| Increase in Council Tax (Band D) per Annum | 3.52 | 1.04 | 1.04 |
| Increase in Average Housing Rent per Week | 0.45 | 0.07 | 0.07 |
| | | | |
| **Ratio of Financing Costs to Net Revenue Stream** | % | % | % |
| Non - HRA | 3.52 | 1.04 | 21.94 |
| HRA | 0.45 | 0.07 | (3.48) |

** Previous years figures are not maintained in a format that enables an accurate split between General fund and the HRA*

| Table 2. TREASURY MANAGEMENT INDICATORS | 2010/11 | 2011/12 | 2011/12 |
|---|---|---|---|
| | actual | original | actual |
| | £'000 | £'000 | £'000 |
| **Authorised Limit for external debt -** | | | |
| borrowing | 32,800 | 33,100 | 83,600 |
| other long term liabilities | 3,000 | 3,000 | 3,000 |
| TOTAL | 35,800 | 36,100 | 86,600 |
| | | | |
| **Operational Boundary for external debt -** | | | |
| borrowing | 27,300 | 27,600 | 72,750 |
| other long term liabilities | 0 | 0 | 0 |
| TOTAL | 27,300 | 27,600 | 72,750 |
| | | | |
| **Actual external debt** | 20,392 | 20,392 | 65,060 |
| | | | |
| **Upper limit for fixed interest rate exposure** | | | |
| Net principal re fixed rate borrowing / investments | 11,797 | 14,570 | 14,570 |
| | | | |
| **Upper limit for variable rate exposure** | | | |
| Net principal re variable rate borrowing / investments | 2,278 | 2,737 | 2,737 |
| | | | |
| **Upper limit for total principal sums invested for over 364 days** | 3,500 | 3,500 | 3,500 |
| (per maturity date) | | | |

| **Table.3 Maturity structure of fixed rate borrowing during 2011/12 for General Fund and HRA** | upper limit % | lower limit % |
|---|---|---|
| under 12 months | 20 | 0 |
| 12 months and within 24 months | 20 | 0 |
| 24 months and within 5 years | 25 | 0 |
| 5 years and within 10 years | 75 | 0 |
| 10 years and above | 100 | 0 |

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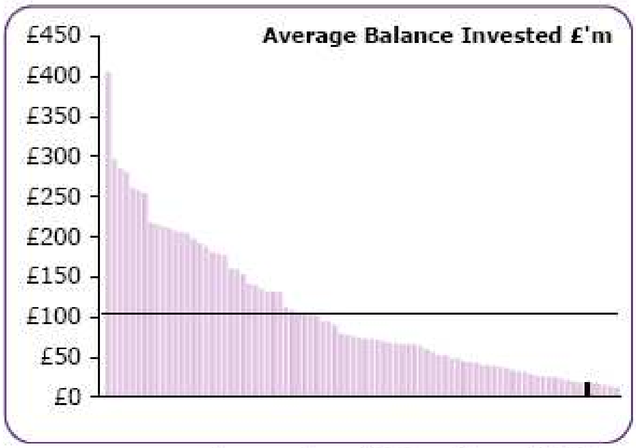
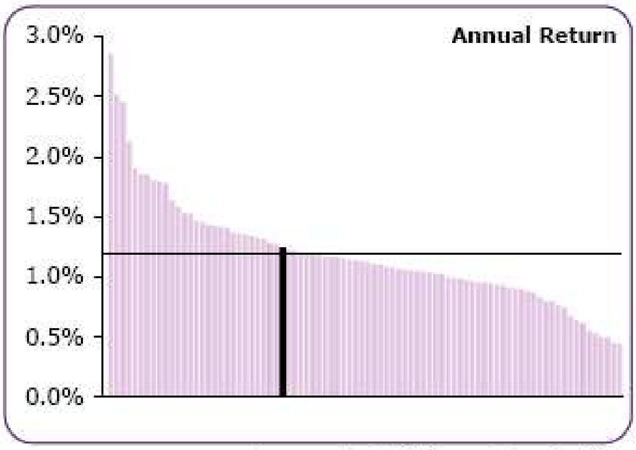
**Benchmarking Data**

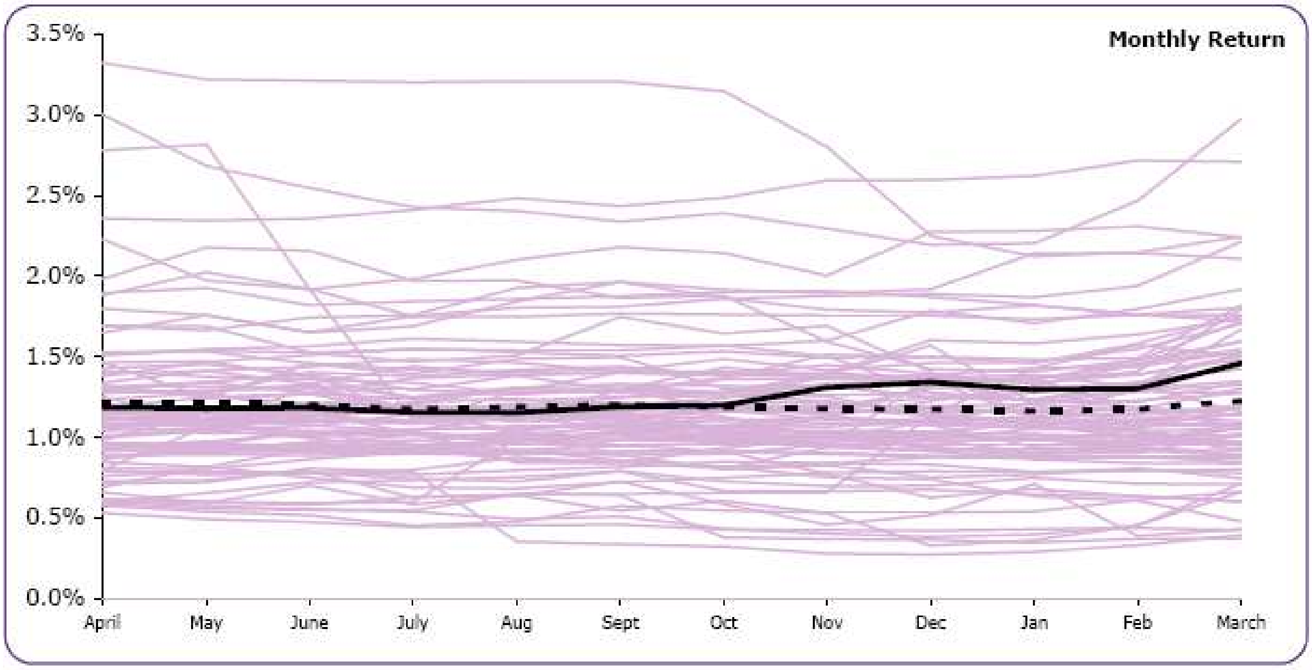
## COMBINED IN-HOUSE INVESTMENTS (excluding impaired investments)




Tamworth 17.4 *Avg 105.3*

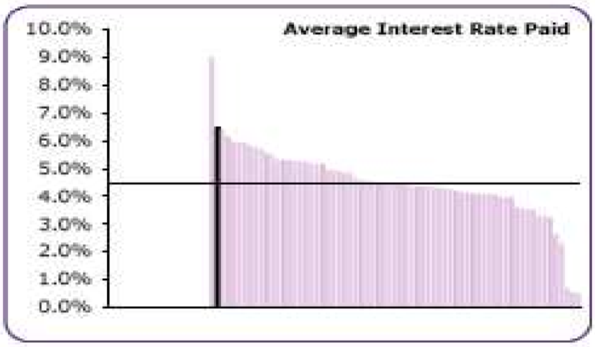


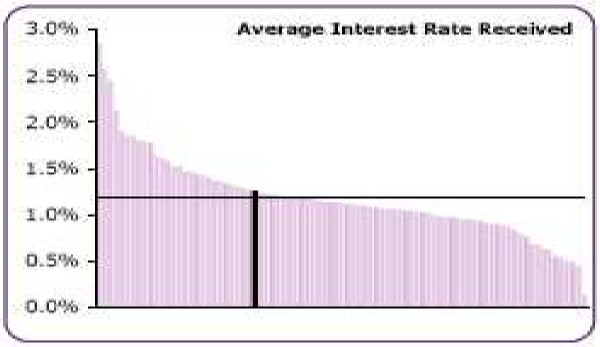

Tamworth 1.25% *Avg 1.19%*




| Monthly Return (April 11 - March 12) | April | May | June | July | Aug | Sept | Oct | Nov | Dec | Jan | Feb | March | Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Av Bal £'m | 15.72 | 16.30 | 16.65 | 17.57 | 18.03 | 17.92 | 19.00 | 18.21 | 18.23 | 19.08 | 17.12 | 15.16 | 17.42 |
| Earned £'k | 15.3 | 16.3 | 16.2 | 17.2 | 17.6 | 17.5 | 19.3 | 19.6 | 20.8 | 21.0 | 17.7 | 18.8 | 217.4 |
| % Return | 1.19% | 1.18% | 1.18% | 1.16% | 1.15% | 1.19% | 1.20% | 1.31% | 1.34% | 1.30% | 1.30% | 1.46% | 1.25% |
| *Average* | *1.21%* | *1.21%* | *1.20%* | *1.18%* | *1.19%* | *1.20%* | *1.19%* | *1.18%* | *1.17%* | *1.16%* | *1.17%* | *1.23%* | *1.19%* |
| Margin | -0.02% | -0.03% | -0.02% | -0.02% | -0.03% | -0.01% | 0.01% | 0.13% | 0.17% | 0.13% | 0.13% | 0.23% | |

## Interest Analysis 2011/12




### Annual Average Investment

| | Authority | | | Group Total | | |
|---|---|---|---|---|---|---|
| | Av. Balance £'m | Interest £'k | Rate | Balance £'m | Interest £'k | Average Rate |
| Variable rate | 7.4 | 58.6 | 0.79% | 3,567 | 33,134 | 0.85% |
| Short-term fixed | 9.5 | 149.1 | 1.57% | 4,244 | 51,295 | 1.20% |
| Long-term fixed | 0.5 | 9.7 | na | 1,136 | 27,967 | 2.50% |
| Externally Managed | 0.0 | 0.0 | na | 329 | 5,089 | 1.84% |
| **Total** | **17.4** | **217.4** | **1.25%** | **9,276** | **117,486** | **1.19%** |

### Annual Average Borrowing

| | Authority | | | Group Total | | |
|---|---|---|---|---|---|---|
| | Av. Balance £'m | Interest £'k | Rate | Balance £'m | Interest £'k | Average Rate |
| Variable rate | 0.0 | 0.0 | na | 717 | 17,946 | 1.15% |
| Short-term fixed | 0.0 | 0.0 | na | 417 | 3,208 | 1.02% |
| Long-term fixed | 20.9 | 1,347.1 | 6.45% | 13,070 | 578,184 | 4.87% |
| LOBO | 0.0 | 0.0 | na | 2,998 | 129,921 | 4.47% |
| **Total** | **20.9** | **1,347.1** | **6.45%** | **17,202** | **729,258** | **4.49%** |

**AUDIT & GOVERNANCE COMMITTEE**

**27TH SEPTEMBER 2012**

**Report of the Head of Internal Audit Services**

# INTERNAL AUDIT QUARTERLY REPORT 2012/13

**EXEMPT INFORMATION**

None

**PURPOSE**

To report on the outcome of Internal Audit's review of the internal control, risk management and governance framework in the 1st quarter of 2012/13 - to provide 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.

**RECOMMENDATIONS**

That the Committee considers the attached quarterly report and raises any issues it deems appropriate.

**EXECUTIVE SUMMARY**

The Accounts and Audit Regulations 2011 (as amended) require each local authority to publish an Annual Governance Statement (AGS) with its Annual Statement of Accounts. The AGS is required to reflect the various arrangements within the Authority for providing assurance on the internal control, risk management and governance framework within the organisation, and their outcomes.

One of the sources of assurance featured in the AGS is the professional opinion of the Head of Internal Audit on the outcome of service reviews. Professional good practice recommends that this opinion be given periodically throughout the year to inform the "annual opinion statement". This opinion is given on a quarterly basis to the Audit & Governance Committee.

The Head of Internal Audit Services quarterly opinion statement for April – June 2012 (Qtr 1) is set out in the attached document, and the opinion is summarised below.

Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, my overall opinion of the control environment at this time is that "reasonable assurance" can be given. Where significant deficiencies in internal control have been formally identified by management, Internal Audit or by external audit or other agencies, management have given assurances that these have been or will be resolved in an appropriate manner. Such cases will continue to be monitored. Internal Audit's opinion is one of the sources of assurance for the Annual Governance Statement which is statutorily required to be presented with the annual Statement of Accounts.

Specific issues:

No specific issues have been highlighted through the work undertaken by Internal Audit during 2012/13.

For easy reference, performance against 2 key performance indicators for the service is set out in graphical form in **Appendix 1** (% of draft reports issued within timeliness target) and **Appendix 2** (% of audit recommendations agreed by management). Details of the 2012/13 audit plan completion status as at 30th June 2012 are included at **Appendix 3.**

**RESOURCE IMPLICATIONS**

None

**LEGAL/RISK IMPLICATIONS BACKGROUND**

None

**SUSTAINABILITY IMPLICATIONS**

None

**BACKGROUND INFORMATION**

None

**REPORT AUTHOR**

Angela Struthers, Head of Internal Audit Services

**LIST OF BACKGROUND PAPERS**

None

**APPENDICES**

Appendix 1 Percentage of draft reports issued within 15 days
Appendix 2 Percentage of management actions agreed
Appendix 2a Management actions agreed by number
Appendix 3 Internal Audit Plan 2012/13 status as at 30th June 2012

## INTERNAL AUDIT ANNUAL REPORT/QUARTERLY REPORT – Q1 - 2012/13

### 1. INTRODUCTION

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Every local authority is statutorily required to provide for an adequate and effective internal audit function. The Internal Audit service provides this function at this Authority.

This brief report aims to ensure that Committee members are kept aware of the arrangements operated by the Internal Audit service to monitor the control environment within the services and functions of the Authority, and the outcome of that monitoring. This is to contribute to corporate governance and assurance arrangements and ensure compliance with statutory and professional duties, as Internal Audit is required to provide periodic reports to "those charged with governance".

### 2. PERFORMANCE AND PROGRESSION AGAINST AUDIT PLAN

The Internal Audit service aims as one of its main Performance Indicators (PI's) to complete work on at least 90% of applicable planned audits by the end of the financial year, producing draft reports on these where possible/necessary. As in previous years it is expected that not all 80 planned areas of audit work will remain to be delivered for various reasons, e.g. due to changes within services, delays to projects, or reasonable requests to delay from managers due to unexpected demands or resource problems e.g. sickness. The service thus plans to complete 90% of those audits that are deliverable in the year.

The Internal Audit service has completed or has underway 14 audit areas of work. Of the 22 audits planned to be completed by the end of this quarter, 11 of these have been postponed/cancelled for various reasons e.g. due to changes within services, delays to projects, or reasonable requests to delay from managers due to unexpected demands or resource problems. The Internal Audit Service has completed works in additional areas as requested by management. As previously described, the plan has been actively managed to seek to ensure delivery of good practice levels over the year. Areas of audit work include the planned audits of systems plus activities that contribute to the overall governance of the Authority. Appendix 4 details the Internal Audit plan status as at 30th June 2012.

The service also reports quarterly on the percentage of draft reports issued within 15 working days of the completion of fieldwork. All (100%) of the 8 draft reports issued in this quarter of the year were issued within this deadline (see graph at **Appendix 1**).

The Head of Internal Audit Services is responsible for ensuring that the work of the service is of appropriate quality to meet professional standards, and has in place, on an ongoing basis, a number of processes to meet this aim. For instance, there is an Audit Manual in place to guide auditors in their work, the Head of Internal Audit Services carries out independent review of auditors' work to ensure professional standards are met, the service benchmarks its performance against other such services in the region, quality control questionnaires are issued to managers for their view on the work of the service, and so on. The service is also subject to review by the external auditor, who places reliance on the work of the service. It is considered that the service continues to ensure professional standards are in place, and indeed in its move to risk based auditing is ahead of most other similar audit services in the region in adopting emerging good practice.

## 3. AUDIT REVIEWS COMPLETED QUARTER 1 2012/13

Internal Audit carries out reviews in compliance with its approved annual Audit Plan and additional areas where necessary, and reports on these to management in accordance with its approved Reporting Protocol. The audits finalised since the previous quarterly report were as shown below and detail the number of recommendations made and their priority.

| | H | M | L | Agreed |
|---|---|---|---|---|
| • Capital Strategy | 2 | 1 | - | 3 |
| • Housing Responsive Repairs | - | 6 | - | 6 |
| • Bank Reconciliation | - | 5 | - | 5 |
| • Sundry Debtors | 1 | 25 | - | 26 |
| • Main Accounting | - | - | - | - |
| • Street Scene | - | 1 | - | 1 |
| • Assets & Environment Financial Controls | 6 | 2 | - | 8 |
| • Pension Contributions | - | - | - | - |
| • Treasury Management | - | - | - | - |

As part of each audit review, recommendations are made where necessary to address areas where the Internal Audit service considers controls, or compliance with controls, could be improved to help to manage risks to service objectives and ensure service objectives are met.

Accordingly a total of 49 new audit recommendations were made in this quarter of which 49 (100%) were agreed by management (this is the third main service PI – see **Appendix 2**. **Appendix 2.1** shows the number of recommendations made and agreed). Internal Audit is satisfied with the management responses received to the recommendations made in this period. Each audit will be reviewed within the specified time scale and the implementation status of the audit recommendations reported.

The service revisits areas it has audited around 6 months after agreeing a final report on the audit, to test and report to management on the extent to which agreed actions have been taken. No implementation reviews were finalised during the 1st quarter of 2012/13.

## 4. OVERALL CURRENT INTERNAL AUDIT OPINION

Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, my overall opinion of the control environment at this time is that “reasonable assurance” can be given. Where significant deficiencies in internal control have been formally identified by management, Internal Audit or by external audit or other agencies, management have given assurances that these have been or will be resolved in an appropriate manner. Such cases will continue to be monitored. Internal Audit's opinion is one of the sources of assurance for the Annual Governance Statement which is statutorily required to be presented with the annual Statement of Accounts.

Specific issues:

There were no specific issues highlighted through the work of Internal Audit in the first quarter of the 2012/13 financial year

Angela Struthers,
Head of Internal Audit Services

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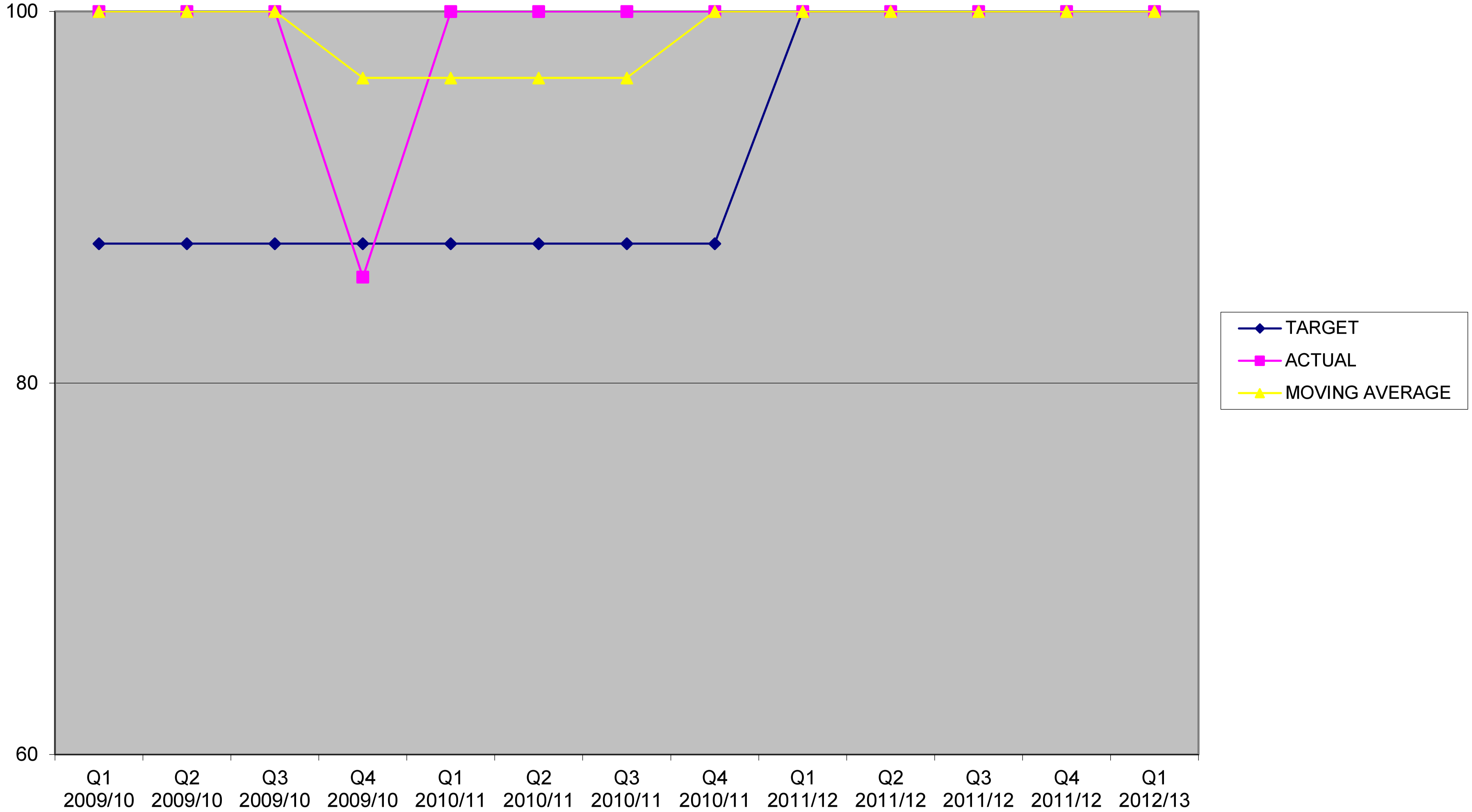
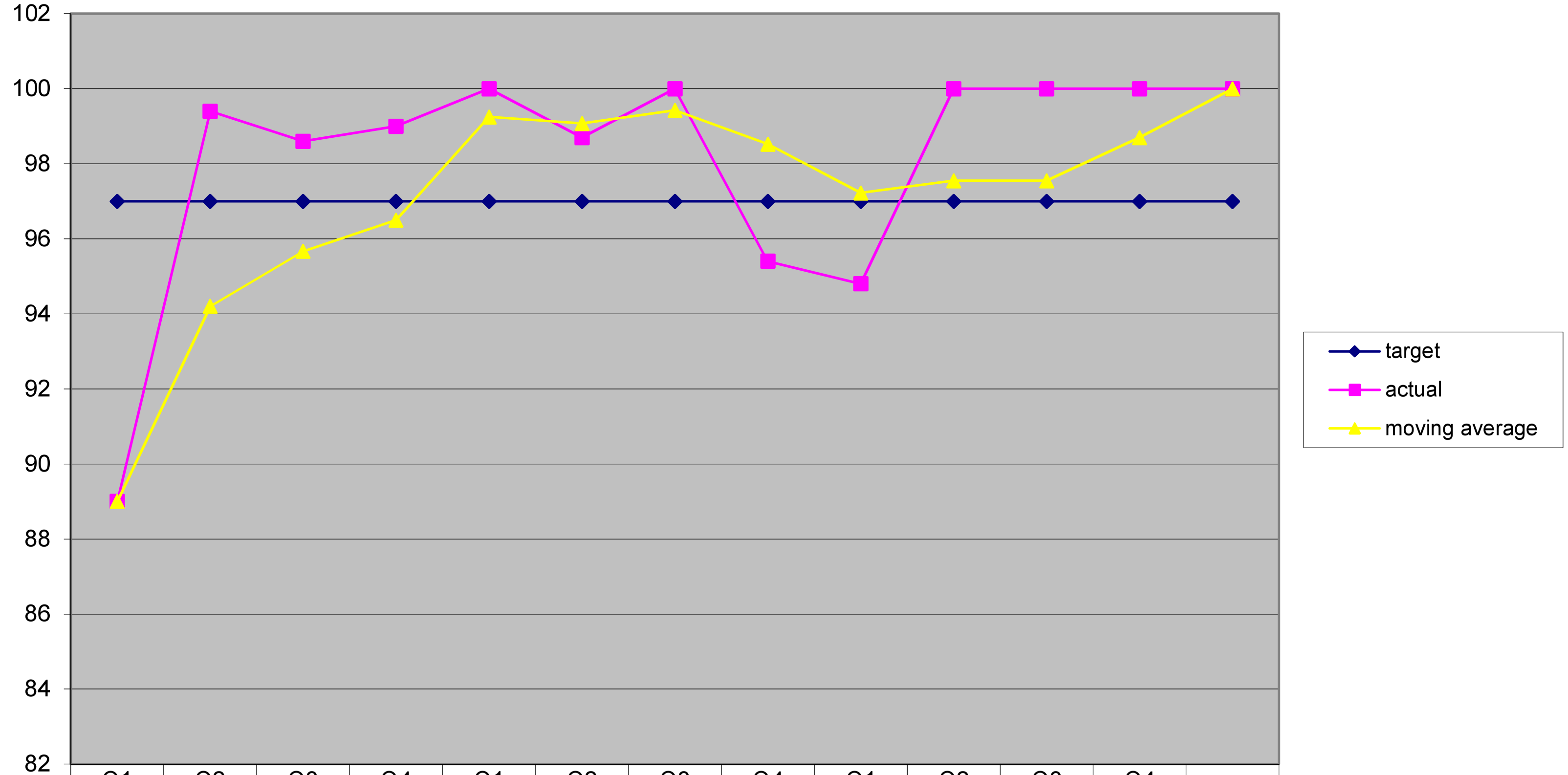
**Appendix 1**

**Percentage of draft reports issued within 15 days**



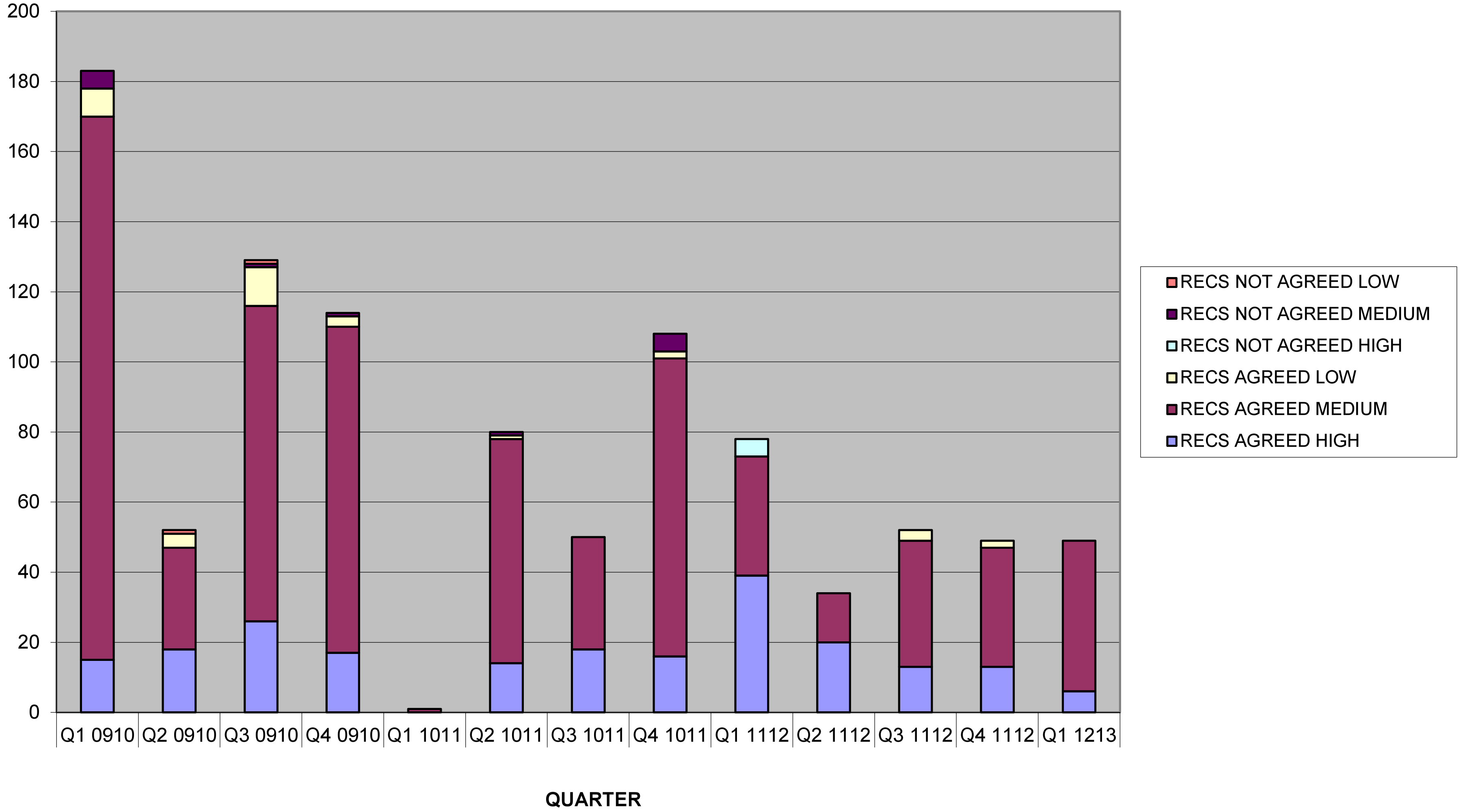
## Percentage of management actions agreed

**Appendix 2**




| | Q1 2009/10 | Q2 2009/10 | Q3 2009/10 | Q4 2009/10 | Q1 2010/11 | Q2 2010/11 | Q3 2010/11 | Q4 2010/11 | Q1 2011/12 | Q2 2011/12 | Q3 2011/12 | Q4 2011/12 | Q1201 2/13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| target | 97 | 97 | 97 | 97 | 97 | 97 | 97 | 97 | 97 | 97 | 97 | 97 | 97 |
| actual | 89 | 99.4 | 98.6 | 99 | 100 | 98.7 | 100 | 95.4 | 94.8 | 100 | 100 | 100 | 100 |
| moving average | 89 | 94.2 | 95.6667 | 96.5 | 99.25 | 99.075 | 99.425 | 98.525 | 97.225 | 97.55 | 97.55 | 98.7 | 100 |

**MANAGEMENT ACTIONS AGREED BY NUMBER** **Appendix 2.1**



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Appendix 3

## Internal Audit Plan 2012/13 Status as at 30th June 2012

| B/F FROM 11/12 | TYPE | STATUS AS AT 30/6/12 | ASSURANCE LEVEL | NUMBER OF MANAGEMENT ACTIONS AGREED | IMPLEMENTATION REVIEW | REVISED ASSURANCE LEVEL | COMMENTS |
|---|---|---|---|---|---|---|---|
| Capital Strategy | KFS | ✔ | ✔ | 3 | n/a | | |
| Housing Responsive Repairs | KFS | ✔ | ✔ | 6 | n/a | | |
| Bank Reconciliation | KFS | ✔ | ✔ | 5 | n/a | | |
| Debtors | KFS | ✔ | △ | 26 | n/a | | |
| Main Accounting | KFS | ✔ | ✔✔ | n/a | n/a | | |
| Voluntary Redundancy | SBR | △ | | | | | Awaiting management response |
| Property Services Contracts | KFS | △ | | | | | Awaiting management response |
| Street Scene | RBR | ✔ | ✔ | 1 | | | |
| Assets & Environment Financial Controls | SBR | ✔ | ✔ | 8 | n/a | | |
| Data Quality & Records Management | SBR | △ | | | | | Awaiting management response |
| Time Recording (Sports Development) | IR | △ | | | | | Awaiting management response |

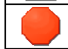
| QUARTER 1 PLANNED WORK | TYPE | STATUS AS AT 30/6/12 | ASSURANCE LEVEL | NUMBER OF MANAGEMENT ACTIONS AGREED | IMPLEMENTATION REVIEW | REVISED ASSURANCE LEVEL | COMMENTS |
|---|---|---|---|---|---|---|---|
| Street Scene | IR | | | | | | Moved to Qtr 2 |
| Post Project Process | IR | | | | | | Moved to Qtr 4 |
| Freedom of Information | IR | | | | | | |
| Strategic Planning | IR | | | | | | |
| Time Recording | IR | | | | | | |
| Review of Internal Audit Effectiveness | COR | | | | | | |
| Area Based Grants | ST | | | | | | No longer requirement from County Council |
| Pension Contributions | ST | | | 0 | | | |
| Annual Audit Opinion | COR | | | | | | |
| Data Protection | P | | | | | | Moved to Qtr 2 |
| Corporate Policy Management | IR | | | | | | Moved to Qtr 2 |
| Review of Financial Guidance | COR | | | | | | |
| Land Charges | SBR | | | | | | Moved to Qtr 3 – new system |
| Safeguarding Children & Vulnerable Adults | RBR | | | | | | |

| QUARTER 1 PLANNED WORK | TYPE | STATUS AS AT 30/6/12 | ASSURANCE LEVEL | NUMBER OF MANAGEMENT ACTIONS AGREED | IMPLEMENTATION REVIEW | REVISED ASSURANCE LEVEL | COMMENTS |
|---|---|---|---|---|---|---|---|
| CCTV | RBR | | | | | | |
| Treasury Management | KFS | | | 0 | | | |
| Community Safety Hub | SBR | | | | | | Moved to Qtr 2 |
| Localism Act | RBR | | | | | | Moved to Qtr 3 |
| Academy Application Review | SBR | | | | | | Moved to Qtr 4 |
| IT Physical & Environmental Controls | SBR | | | | | | Moved to Qtr 2 |
| Annual Governance Statement | COR | | | | | | |
| Housing Responsive Repairs and Property Contracts | KFS | | | | | | Work completed on KPIs |

| WORK MOVED TO QUARTER 1 | TYPE | STATUS AS AT 30/6/12 | ASSURANCE LEVEL | NUMBER OF MANAGEMENT ACTIONS AGREED | IMPLEMENTATION REVIEW | REVISED ASSURANCE LEVEL | COMMENTS |
|---|---|---|---|---|---|---|---|
| Community Development | IR | | | | | | |
| Travel & Subsistence | SBR | | | | | | |
| Private Sector Empty Homes | SBR | | | | | | |

KEY TO SYMBOLS

| STATUS AS AT 30/6/12 / IMPLEMENTATION REVIEW | |
|---|---|
|  | COMPLETED |
|  | UNDERWAY |
|  | CANCELLED/NOT COMPLETED |

| ASSURANCE LEVELS | |
|---|---|
|  | SUBSTANTIAL ASSURANCE |
|  | REASONABLE ASSURANCE |
|  | LIMITED ASSURANCE |
|  | NO ASSURANCE |

| TYPES | |
|---|---|
| IR | IMPLEMENTATION REVIEW |
| SBR | SYSTEMS BASED REVIEW |
| RBR | RISK BASED REVIEW |
| COR | CORPORATE/MANAGEMENT WORK |
| ST | SUBSTANTIVE TESTING |
| P | PROBITY |
| KFS | KEY FINANCIAL SYSTEM |

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27TH SEPTEMBER 2012

REPORT OF THE HEAD OF INTERNAL AUDIT SERVICES

# FRAUD AND CORRUPTION UPDATE REPORT

## EXEMPT INFORMATION

None

## PURPOSE

To provide Members with an update of Counter Fraud work completed to date during the financial year 2012/13.

## RECOMMENDATIONS

**That the Committee endorses:**

1. **The attached updated Counter Fraud Work Plan**
2. **The Fraud Risk Register**

## EXECUTIVE SUMMARY

At its meeting of the 31st May 2012, this Committee endorsed the Counter Fraud and Corruption Policy Statement, Strategy and Guidance Notes which included a specific Internal Audit Counter Fraud Work Plan. As part of the strategy, progress against the plan is to be reported to this committee on a regular basis. The updated work plan showing progress to date is shown in **Appendix 1**.

The Fraud Risk register is reviewed quarterly and the latest version is attached as **Appendix 2**. There are no significant fraud risks to the Authority.

Work is still progressing with data matches identified through the National Fraud Initiative (NFI) in the data matching exercise completed in 2010. A data download is due to be completed for 2012 with results being available for investigation in early 2013.

## RESOURCE IMPLICATIONS

None

## LEGAL/RISK IMPLICATIONS BACKGROUND

None

## SUSTAINABILITY IMPLICATIONS

None

**BACKGROUND INFORMATION**

None

**REPORT AUTHOR**

Angela Struthers, Head of Internal Audit Services

**LIST OF BACKGROUND PAPERS**

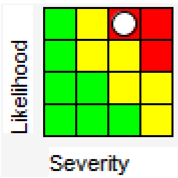
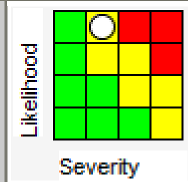
None

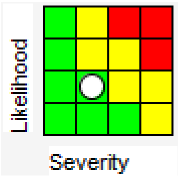
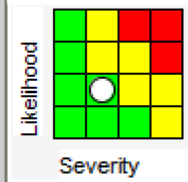
**APPENDICES**

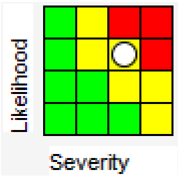
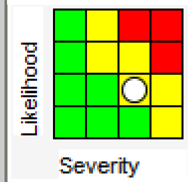
Appendix 1 Internal Audit Counter Fraud Work Plan 2012/13
Appendix 2 Fraud Risk Register

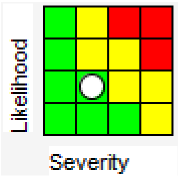
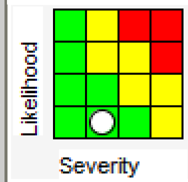
# fraud risk register

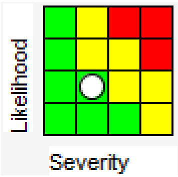
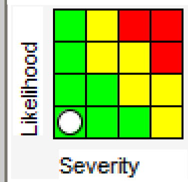
**Generated on:** 14 September 2012

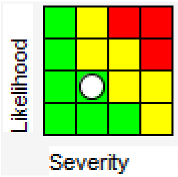
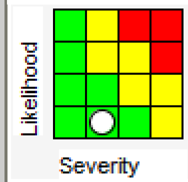
| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC001 | **Risk Title** | Benefits fraud - claimant | **Current Risk Status** | |
| **Description of Risk** | Claimant fraudulently claims benefits | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 12 | trained staff<br>media coverage - forms, TV radio<br>data matching<br>internal audit<br>documentary evidence | | **Current Risk Score** | 8 |
| **Gross Severity** | 3 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 4 | | | **Current Likelihood** | 4 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

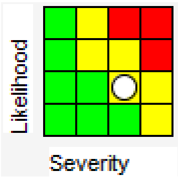
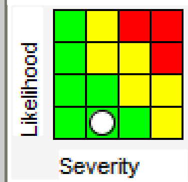
| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC002 | **Risk Title** | Benefits fraud - third party eg landlord | **Current Risk Status** | |
| **Description of Risk** | fraudulent claim by third party | | | **Assigned To** | |
| **Gross Risk Matrix** |   | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |   |
| **Gross Risk Score** | 4 | trained staff<br>media coverage - forms, TV radio<br>Data matching<br>Internal Audit<br>Supervisory checks<br>Documentary evidence | | **Current Risk Score** | 4 |
| **Gross Severity** | 2 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 2 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

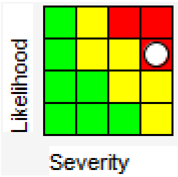
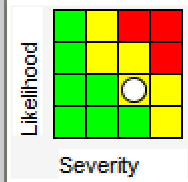
| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC003 | **Risk Title** | Benefits fraud - internal | **Current Risk Status** | |
| **Description of Risk** | Fraudulent claim by member of staff | | | **Assigned To** | |
| **Gross Risk Matrix** |   | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |   |
| **Gross Risk Score** | 9 | recruitment checks<br>data matching<br>supervisory checks<br>system controls<br>audit trails<br>internal audit | | **Current Risk Score** | 6 |
| **Gross Severity** | 3 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

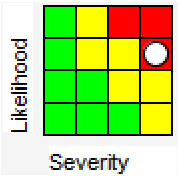
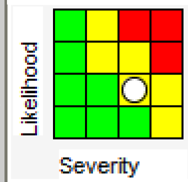
| Risk Code | RR RDIAFC004 | Risk Title | Cash theft | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | theft of takings disguised by manipulation of accounts | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 4 | reconcilations<br>supervisory checks<br>policies and procedures<br>financial regulations and guidance<br>segregation of duties<br>budgetary controls<br>internal audit<br>confidential reporting policy<br>fraud & corruption stragey | | Current Risk Score | 2 |
| Gross Severity | 2 | | | Current Severity | 2 |
| Gross Likelihood | 2 | | | Current Likelihood | 1 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

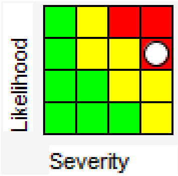
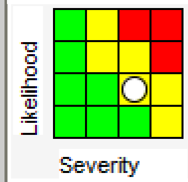
| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC005 | **Risk Title** | Cash theft | **Current Risk Status** | |
| **Description of Risk** | theft of cash without disguise | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 4 | reconciliations<br>supervisory checks<br>policies and procedures<br>financial regulations<br>segregation of duties<br>budgetary controls<br>internal audit<br>confidential reporty policy<br>fraud & corruption strategy<br>physical controls | | **Current Risk Score** | 1 |
| **Gross Severity** | 2 | | | **Current Severity** | 1 |
| **Gross Likelihood** | 2 | | | **Current Likelihood** | 1 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

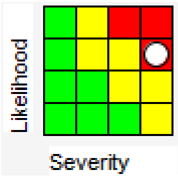
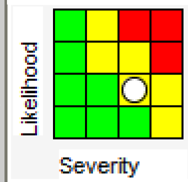
| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC006 | **Risk Title** | Credit Income | **Current Risk Status** | |
| **Description of Risk** | suppresion of any notifcation of debt to be raised<br>improper write-off<br>failing to institute recovery proceedings<br>switching/transferring arrears or manipulation of credit balances | | | **Assigned To** | |
| **Gross Risk Matrix** |   | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |   |
| **Gross Risk Score** | 4 | reconcilations<br>bugetary controls<br>internal audit<br>wrtie off policy<br>authorisation levels<br>audit trail<br>debt recovery procedures<br>supervisory controls<br>review of credit balances and suspense items | | **Current Risk Score** | 2 |
| **Gross Severity** | 2 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 2 | | | **Current Likelihood** | 1 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

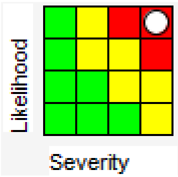
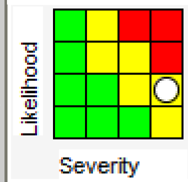
| Risk Code | RR RDIAFC007 | Risk Title | Creditor payments | Current Risk Status | |
|---|---|---|---|---|---|
| **Description of Risk** | invoicing for goods/services not supplied/false invoices<br>supplying inferior goods/services to those invoiced | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 6 | authorisation procedures<br>reconciliations<br>audit trail<br>segregation of duties<br>financial guidance<br>inventories | | **Current Risk Score** | 2 |
| **Gross Severity** | 3 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 2 | | | **Current Likelihood** | 1 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC008 | **Risk Title** | Treasury management | **Current Risk Status** | |
| **Description of Risk** | falsifying records to gain access to loan or investment monies | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 12 | management controls<br>segregation of duties<br>internal audit<br>authorised signatories<br>budgetary controls<br>preffered/approved borrowers<br>audit trail<br>documented procedures | | **Current Risk Score** | 6 |
| **Gross Severity** | 4 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC009 | **Risk Title** | Contracts/procurement | **Current Risk Status** |  |
| **Description of Risk** | improper award of contracts | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 12 | financial regulations<br>standing orders<br>procurement specialist<br>OJEU regulations<br>authorised signatories<br>management controls<br>segregation of duties<br>tendering system | | **Current Risk Score** | 6 |
| **Gross Severity** | 4 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC010 | **Risk Title** | Contracts/procurement | **Current Risk Status** |  |
| **Description of Risk** | contract not delivered properly<br>contractor overpaid | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 12 | contract conditions<br>contract monitoring<br>legal advice<br>internal audit | | **Current Risk Score** | 6 |
| **Gross Severity** | 4 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| Risk Code | RR RDIAFC011 | Risk Title | Contracts/procurement | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | collusion with contractors and/or acceptance of bribes | | | Assigned To | |
| Gross Risk Matrix |   | Risk Treatment Measures Implemented | | Current Risk Matrix |   |
| Gross Risk Score | 12 | authorised signatories<br>management controls<br>segregation of duties<br>register of interests<br>confidential reporting policy<br>gifts and hospitality policy | | Current Risk Score | 6 |
| Gross Severity | 4 | | | Current Severity | 3 |
| Gross Likelihood | 3 | | | Current Likelihood | 2 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

| Risk Code | RR RDIAFC012 | Risk Title | Contracts/procurements | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | collusion by tenderers | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 16 | benchmarking<br>tendering procedures | | Current Risk Score | 8 |
| Gross Severity | 4 | | | Current Severity | 4 |
| Gross Likelihood | 4 | | | Current Likelihood | 2 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

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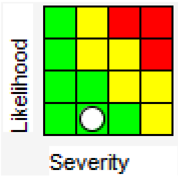
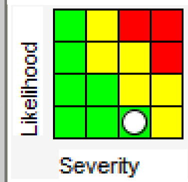
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC013 | **Risk Title** | Payroll | **Current Risk Status** | |
| **Description of Risk** | payment to non existent employees | | | **Assigned To** | |
| **Gross Risk Matrix** |   | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |   |
| **Gross Risk Score** | 2 | management checks<br>establishment list<br>budget monitoring<br>segregation f duties<br>data matching<br>authorisation process | | **Current Risk Score** | 3 |
| **Gross Severity** | 2 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 1 | | | **Current Likelihood** | 1 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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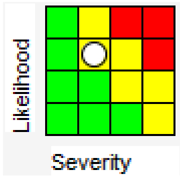
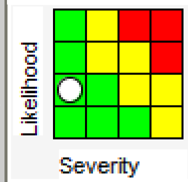
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC014 | **Risk Title** | Payroll | **Current Risk Status** | |
| **Description of Risk** | over claiming hours worked | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 6 | management checks<br>budget monitoring<br>authorisation process<br>time records | | **Current Risk Score** | 2 |
| **Gross Severity** | 2 | | | **Current Severity** | 1 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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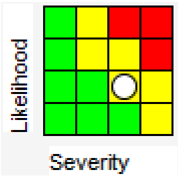
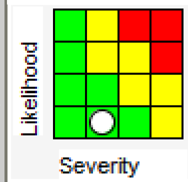
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC015 | **Risk Title** | Payroll | **Current Risk Status** | |
| **Description of Risk** | manipulation of standing data | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 6 | system access controls<br>system administrator<br>segregation of duties<br>management controls<br>internal audit | | **Current Risk Score** | 2 |
| **Gross Severity** | 3 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 2 | | | **Current Likelihood** | 1 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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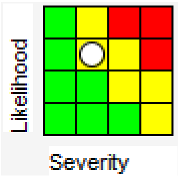
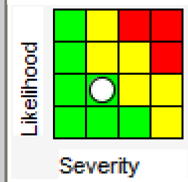
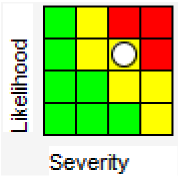
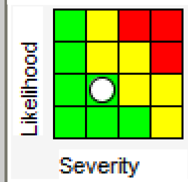
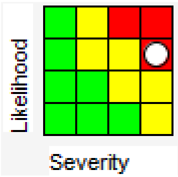
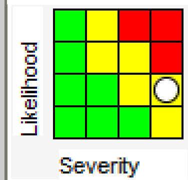
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC016 | **Risk Title** | Assets | **Current Risk Status** |  |
| **Description of Risk** | Theft of current assets | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 6 | stock checks<br>restricted access<br>segregation of duties<br>inventories | | **Current Risk Score** | 4 |
| **Gross Severity** | 2 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| Risk Code | RR RDIAFC017 | Risk Title | Assets | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | Theft of fixed assets | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 9 | restricted access<br>asset tagging<br>inventories<br>staff awareness | | Current Risk Score | 4 |
| Gross Severity | 3 | | | Current Severity | 2 |
| Gross Likelihood | 3 | | | Current Likelihood | 2 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

| Risk Code | RR RDIAFC018 | Risk Title | Assets | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | Theft of Council information/intellectual property | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 12 | encryption<br>staff awareness<br>passwords<br>access controls<br>restricted access to building<br>security policy<br>ISO27001 | | Current Risk Score | 8 |
| Gross Severity | 4 | | | Current Severity | 4 |
| Gross Likelihood | 3 | | | Current Likelihood | 2 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

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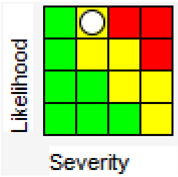
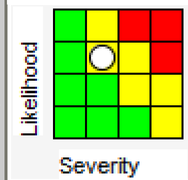
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC019 | **Risk Title** | Assets | **Current Risk Status** | |
| **Description of Risk** | Inappropriate use fo Council assets for private use | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 8 | register of interests<br>financial guidance<br>management controls<br>induction process<br>security policy<br>user reports eg internet, telephone | | **Current Risk Score** | 6 |
| **Gross Severity** | 2 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 4 | | | **Current Likelihood** | 3 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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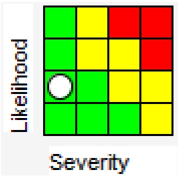
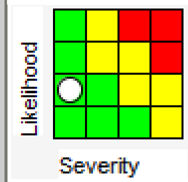
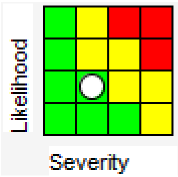
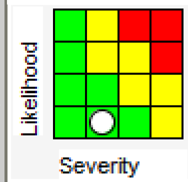
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC020 | **Risk Title** | Petty cash/imprest accounts | **Current Risk Status** | |
| **Description of Risk** | Theft of takings disguised by manipulation of accounts | | | **Assigned To** | |
| **Gross Risk Matrix** |   | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |   |
| **Gross Risk Score** | 2 | segregation of duties<br>management checks<br>reconciliations<br>authorised signatories<br>imprest values kept to a minimum<br>annual certificate | | **Current Risk Score** | 2 |
| **Gross Severity** | 1 | | | **Current Severity** | 1 |
| **Gross Likelihood** | 2 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| Risk Code | RR RDIAFC021 | Risk Title | Sheltered schemes | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | Theft of customer monies | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 4 | segregation of duties<br>reconciliations<br>restircted access<br>CRB checks | | Current Risk Score | 2 |
| Gross Severity | 2 | | | Current Severity | 2 |
| Gross Likelihood | 2 | | | Current Likelihood | 1 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

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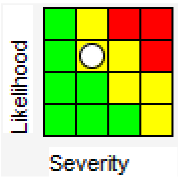
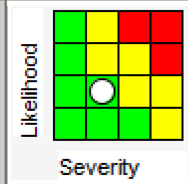
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC022 | **Risk Title** | Expenses claims | **Current Risk Status** | |
| **Description of Risk** | claiming expenses for journeys not undertaken<br>claiming for more miles than actually travelled | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 6 | managment checks<br>authorisation procedures<br>internal audit | | **Current Risk Score** | 4 |
| **Gross Severity** | 2 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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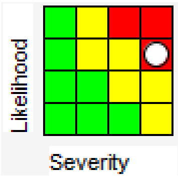
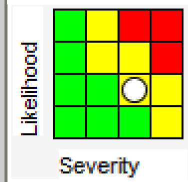
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC023 | **Risk Title** | Corruption | **Current Risk Status** | |
| **Description of Risk** | Contracts - tendering, awarding and payment | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 12 | management checks<br>register of interests<br>constitution<br>procurement unit<br>legislation<br>tendering system<br>standing orders/financial regulations | | **Current Risk Score** | 6 |
| **Gross Severity** | 4 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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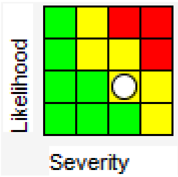
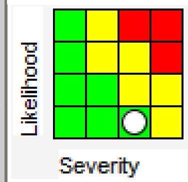
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC024 | **Risk Title** | Corruption | **Current Risk Status** | |
| **Description of Risk** | disposal of assets - land and property | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 6 | constitution<br>asset management plan<br>asset disposal policy<br>asset register<br>segregation of duties | | **Current Risk Score** | 3 |
| **Gross Severity** | 3 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 2 | | | **Current Likelihood** | 1 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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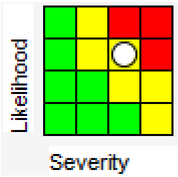
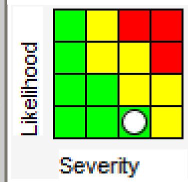
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC025 | **Risk Title** | Corruption | **Current Risk Status** | |
| **Description of Risk** | Award of planning consents and licences | | | **Assigned To** | |
| **Gross Risk Matrix** |   | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |   |
| **Gross Risk Score** | 9 | planning approval process<br>segregation of duties<br>delegated powers<br>constitution<br>legislation | | **Current Risk Score** | 3 |
| **Gross Severity** | 3 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 1 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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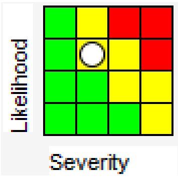
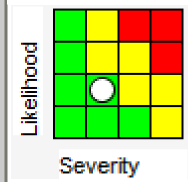
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC026 | **Risk Title** | Corruption | **Current Risk Status** | |
| **Description of Risk** | Acceptance of gifts, hospitality, secondary employment | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 6 | gifts and hospitlaity policy<br>gifts and hospitality register<br>NFI<br>constitution<br>contract of employment | | **Current Risk Score** | 4 |
| **Gross Severity** | 2 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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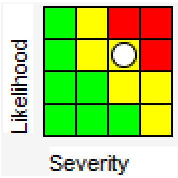
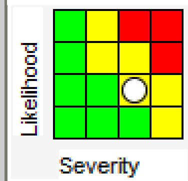
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC027 | **Risk Title** | Car parking | **Current Risk Status** | |
| **Description of Risk** | theft of takings disguised by manipulation of accounts<br>theft of taking without disguise<br>recycling of tickets | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 9 | budget monitoring<br>audit trail<br>reconcilaitions | | **Current Risk Score** | 6 |
| **Gross Severity** | 3 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

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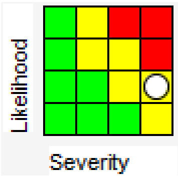
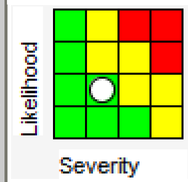
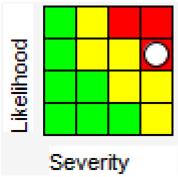
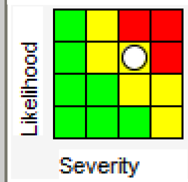
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC028 | **Risk Title** | Money laundering | **Current Risk Status** | |
| **Description of Risk** | Using the council to hide improper transactions | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 8 | rasied awareness<br>money laundering policy<br>training of officers<br>upper limit for cash transactions | | **Current Risk Score** | 4 |
| **Gross Severity** | 4 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 2 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| Risk Code | RR RDIAFC029 | Risk Title | ICT fraud & abuse | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | Improper use of council ICT equipment | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 12 | internet use policy<br>surf control<br>access controls<br>management reports on internet usage<br>software audit facility | | Current Risk Score | 9 |
| Gross Severity | 4 | | | Current Severity | 3 |
| Gross Likelihood | 3 | | | Current Likelihood | 3 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

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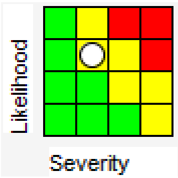
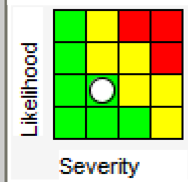
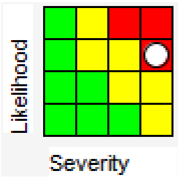
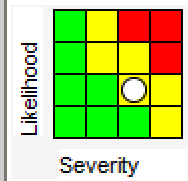
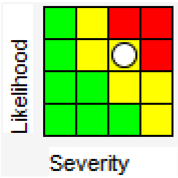
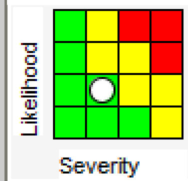
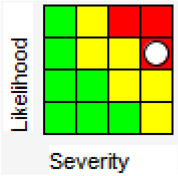
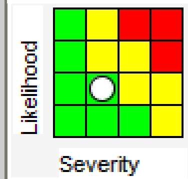
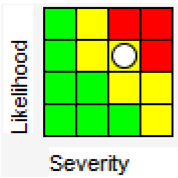
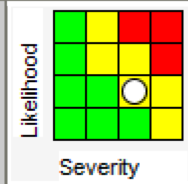
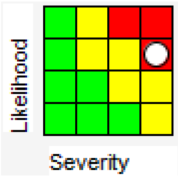
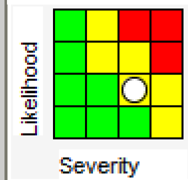
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC030 | **Risk Title** | Employee - general | **Current Risk Status** | |
| **Description of Risk** | Abuse of flexi system<br>falsification of car loans | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 6 | flexible working policy<br>management checks<br>time recording systems<br>flexi records<br>car inspection reports<br>independent valuations | | **Current Risk Score** | 4 |
| **Gross Severity** | 2 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

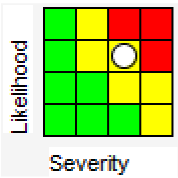
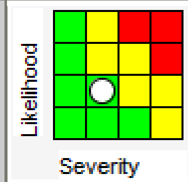
| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC031 | **Risk Title** | Payment of grants to the public | **Current Risk Status** | |
| **Description of Risk** | claiming for properties which are not owned<br>claimants understating income<br>over claiming the value of the work done | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 12 | grant criteria<br>grant assessments<br>land registry checks<br>quotes for work<br>segregation of duties<br>inspections<br>management checks | | **Current Risk Score** | 6 |
| **Gross Severity** | 4 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

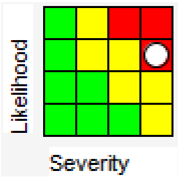
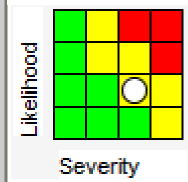
| Risk Code | RR RDIAFC032 | Risk Title | Insurance claims | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | Claiming for non existent injuries<br>Claiming at another establishment for the same injury<br>overclaiming | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 9 | Insurance brokers<br>claim forms<br>NFI | | Current Risk Score | 4 |
| Gross Severity | 3 | | | Current Severity | 2 |
| Gross Likelihood | 3 | | | Current Likelihood | 2 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

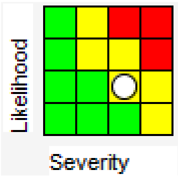
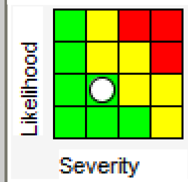
| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC033 | **Risk Title** | Loans & Investments | **Current Risk Status** | |
| **Description of Risk** | Misappropriation of funds<br>Fraudulent payment or investment of funds | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 12 | Written procedures<br>segregation of duties<br>authorisation process<br>counterparty listing<br>reconciliations<br>treasury management policy<br>treasury management strategy<br>access controls<br>internal audit | | **Current Risk Score** | 4 |
| **Gross Severity** | 4 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| Risk Code | RR RDIAFC034 | Risk Title | Council Tax & NNDR | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | Fictitious refunds<br>duplicate bank accounts<br>intercepting income<br>suppressing arrears<br>exemptions/discounts awarded incorrectly<br>exemptions/discounts claimed fraudulently<br>3rd party collections stolen/misappropriated | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 9 | separation of duties<br>management/supervisory checks<br>access controls<br>authorisation processes<br>reconcilations<br>review of suppressed recovery action<br>interrogation reports<br>void inspections<br>discount/exemption reviews<br>NFI | | Current Risk Score | 6 |
| Gross Severity | 3 | | | Current Severity | 3 |
| Gross Likelihood | 3 | | | Current Likelihood | 2 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC035 | **Risk Title** | Regeneration development corruption | **Current Risk Status** | |
| **Description of Risk** | Developer awarded contracts for financial incentive<br>Inducements for the granting of planning consents<br>Contract granted to developer at a reduced price in exchange for cash payments to officers and members<br>Backhanders to reduce restraints on developer | | | **Assigned To** | |
| **Gross Risk Matrix** |  | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |  |
| **Gross Risk Score** | 12 | Business cases<br>project teams<br>declaration interests<br>Officers present<br>minutes of meetings | | **Current Risk Score** | 6 |
| **Gross Severity** | 4 | | | **Current Severity** | 3 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Risk Code** | RR RDIAFC036 | **Risk Title** | Housing allocations | **Current Risk Status** | |
| **Description of Risk** | Housing allocated for financial reward<br>fraudulent allocation of property | | | **Assigned To** | |
| **Gross Risk Matrix** |   | **Risk Treatment Measures Implemented** | | **Current Risk Matrix** |   |
| **Gross Risk Score** | 9 | separation of duties<br>housing register<br>management checks<br>declaration of interests | | **Current Risk Score** | 4 |
| **Gross Severity** | 3 | | | **Current Severity** | 2 |
| **Gross Likelihood** | 3 | | | **Current Likelihood** | 2 |
| **Gross Risk Review Date** | | | | **Last Risk Review Date** | 14-Sep-2012 |
| **Risk Notes** | | | | | |

| Risk Code | RR RDIAFC037 | Risk Title | Elections | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | Fraudulent voting<br>Fraudulent acts by canvassers | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 12 | supervisory roles at counts<br>postal votes counts supervised<br>access controls<br>ballot box controls<br>ballot paper account<br>insurance<br>pre employment checks<br>supervisory checks | | Current Risk Score | 6 |
| Gross Severity | 4 | | | Current Severity | 3 |
| Gross Likelihood | 3 | | | Current Likelihood | 2 |
| Gross Risk Review Date | | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

| Risk Code | RR RDIAFC038 | Risk Title | financial statements | Current Risk Status | |
|---|---|---|---|---|---|
| Description of Risk | the financial statements may be materially mis-stated due to fraud | | | Assigned To | |
| Gross Risk Matrix |  | Risk Treatment Measures Implemented | | Current Risk Matrix |  |
| Gross Risk Score | 6 | Internal Audit<br>financial guidance<br>segregation of duties | | Current Risk Score | 4 |
| Gross Severity | 3 | | | Current Severity | 2 |
| Gross Likelihood | 2 | | | Current Likelihood | 2 |
| Gross Risk Review Date | 18-Jun-2010 | | | Last Risk Review Date | 14-Sep-2012 |
| Risk Notes | | | | | |

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TAMWORTH BOROUGH COUNCIL INTERNAL AUDIT COUNTER FRAUD WORK PLAN 2012/13

| CREATING AN ANTI-FRAUD CULTURE | | |
|---|---|---|
| **OBJECTIVE** | **RISK** | **PROGRESS** |
| To build an anti-fraud culture through the adoption of various measures to promote counter fraud awareness by:<br>a) Roll out of the e learning package on governance (includes counter fraud & whistleblowing)<br>b) Provide drop in sessions (if required) to staff and members<br>c) Continue to make available counter fraud strategies/policies on the intranet/website | 1. Failure to make staff, members and the public aware that their suspicions will be treated confidentially, objectively and professionally. | Minor adjustments required prior to roll out – Nov 2012<br>As required<br>Completed – new versions on website and intranet |
| | **RESOURCE (DAYS)** | **5** |

| DETERRING FRAUD | | |
|---|---|---|
| **OBJECTIVE** | **RISK** | **PROGRESS** |
| Review communications so that the most effective ways of communicating with staff are utilised. | A lack of robust strategic approach to deterring fraud can undermine actions to build an anti-fraud culture | On-going |
| | **Resources (Days)** | |

| PREVENTING FRAUD | | |
|---|---|---|
| **OBJECTIVE** | **RISK** | **PROGRESS** |
| Review the existing counter fraud policy statement, strategy and guidance notes and update and amend as appropriate. | Out of date policies and procedures which do not cover relevant legislation | Completed |
| Review financial guidance and update and amend as appropriate. | Out of date policies and procedures which do not cover relevant legislation | At draft stage |
| Review and update the fraud risk register in line with potential system weaknesses identified during audits or investigations. | Potential risks not identified | Completed |
| | **Resources (Days)** | **12** |

## DETECTING FRAUD

| OBJECTIVE | RISK | PROGRESS |
|---|---|---|
| Undertake enquiries as a result of the outcome of the Audit Commission's National Fraud Initiative | If not undertaken, there is a risk that the opportunity to abuse a system weakness may be heightened as the risk of being caught may be deemed negligible by the perpetrator. | Data matches due February 2013 |
| Undertake local proactive exercises at the Authority as agreed with the Executive Director - Corporate Resources | If not undertaken, there is a risk that the opportunity to abuse a system weakness may be heightened as the risk of being caught maybe deemed negligible by the perpetrator. | Not yet identified |
| | **Resources (Days)** | **12** |

| INVESTIGATIONS | | |
|---|---|---|
| **OBJECTIVE** | **RISK** | **PROGRESS** |
| All referrals will be investigated in accordance with the Counter Fraud and Corruption Policy Statement and Strategy. | The risk of not investigating is that fraud goes unpunished and there is no resulting deterrent effect thus increasing the prevalence of fraud further.<br><br>The staff (or others) making the allegation feel they are not taken seriously and referrals cease to be made. | On-going |
| | **Resources (Days)** | **20** |

| SANCTIONS | | |
|---|---|---|
| **OBJECTIVE** | **RISK** | **PROGRESS** |
| Ensure that the sanctions are applied correctly and consistently. | If sanctions are not imposed there is no deterrence of fraud. | As required |
| | **Resources (Days)** | |

| REDRESS | | |
|---|---|---|
| **OBJECTIVE** | **RISK** | **PROGRESS** |
| Maintain comprehensive records of time spent on each investigation so that this can be included in any compensation claim.<br><br>Identify and maintain a record of the actual proven amount of loss so that appropriate recovery procedures can be actioned. | Fraudsters may not realise that any and all measures will be taken to recover any money lost to fraud. | As required |
| | **Resources (Days)** | |

| MANDATORY COUNTER FRAUD ARRANGEMENTS (STRATEGIC WORK) | | |
|---|---|---|
| **OBJECTIVE** | **RISK** | **PROGRESS** |
| Attendance at relevant fraud forums/meetings to ensure that professional knowledge and skills are maintained. | Failure to ensure the completion of mandatory strategic work may mean that the professional knowledge and skills are not maintained to a high standard. | Completed |
| Completion and agreement of work plan. | | On-going |
| Regular meetings with the Executive Director - Corporate Resources. | | Completed |
| Quarterly report of counter fraud work. | | Completed |
| Attendance at relevant training as required. | | On-going |
| | **Resources (Days)** | **5** |
| | **TOTAL RESOURCES (Days)** | **54** |

**AUDIT & GOVERNANCE COMMITTEE**

**27 September 2012**

**Regulation of Investigatory Powers Act 2000**

Report of the Solicitor to the Council and Monitoring Officer

## 1. Purpose

1.1. 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.

1.2. 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.

## 2. Recommendation

**2.1. That Audit and Governance Committee endorse the quarterly RIPA monitoring report.**

## 3. Background Information

3.1. The RIPA Code 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. There have been no applications under RIPA in the period from 1 April 2012 to 30 June 2012 and to the date of this report.

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 2012/13**

| 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"*

**AUDIT & GOVERNANCE COMMITTEE**

**27 September 2012**

**Report of the Solicitor to the Council and Monitoring Officer**

## LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW and REPORT 2011/12

### Purpose

To advise the Committee of the views of the Local Government Ombudsman in relation to complaints against the Borough Council and provide an opportunity for members of the Committee to raise any issues they consider appropriate and consider the effectiveness of investigations relating to Tamworth Borough Council.

### Recommendation

**That the Committee endorse**

1. **the Annual Review Letter as attached at Appendix 1 and**

2. **the Annual Report as attached at Appendix 2.**

### Executive Summary

The Committee's Terms of Reference include an overview of the regulatory framework within which the authority works and includes a role of monitoring the effectiveness of Local Government Ombudsmen (LGO) investigations. As the operation of the LGO forms part of this regulatory framework the Committee is provided with the LGO annual review for consideration.

The LGO distribute annual review letters to all councils regarding their performance in dealing with complaints made about them to the Ombudsman. The aim is to provide councils with information to help them improve complaint handling, and improve services more generally, for the benefit of the public. The letters also include a summary of statistics relating to the complaints received by the LGO and dealt with against each council.

The LGO has the power to investigate:
complaints by members of the public who consider that they have been caused injustice by maladministration or service failure in connection with action taken by the Council and certain other bodies in the exercise of its administrative functions,
complaints by members of the public who consider they have sustained injustice during the course of privately arranged or funded adult social care, and

complaints from pupils (or their parents) of injustice in consequence of an act/omission of a head teacher or governing body of a maintained school.

On the whole most complaints about the Borough Council matters relate to housing and planning issues.

Whilst the Ombudsman can investigate complaints about how the Council has done something, it cannot question what a Council has done simply because someone does not agree with it.

A complainant must give the Council an opportunity to deal with a Complaint against it first. It is best to use the Council's own complaints procedure, in the first instance. Although in practice that is not always the route taken by a complainant. If a complainant is not satisfied with the action the Council takes he or she can send a written complaint to the Local Government Ombudsman, or ask a Councillor to do so on their behalf.

The objective of the Ombudsmen is to secure, where appropriate, satisfactory redress for complainants and better administration for the authorities. Since 1989, the Ombudsmen have had power to issue advice on good administrative practice in local government based on experience derived from their investigations.

The LGO provide each local authority with an annual review of the authority's performance in dealing with complaints against it which were referred to the relevant Ombudsman, so that the authority can learn from its own performance compared to other authorities.

This report advises the Committee of the Ombudsman's Annual Review and seeks the views of the Committee on any issues this may raise for further consideration.

**Implications of this report**

There are no direct financial/staffing implications or direct implications in relation to community/performance planning, sustainable development, community safety, equal opportunities or human rights arising from this report.

**Report Author**
Jane M Hackett - Solicitor to the Council and Monitoring Officer
jane-hackett@tamworth.gov.uk Tel; 01827 709258

**List of Background papers**
Local Government Act 1974 as amended

**Appendices**
Appendix I - Local Government Ombudsman Annual Review Letter 2012
Appendix 2 - Local Government Ombudsman Annual Report 2012

**APPENDIX 1**

**Local Government Ombudsman Annual Review Letter 2012**

22 June 2012

*By email*

Mr A Godwin
Chief Executive
Tamworth Borough Council

Dear Mr Godwin

**Annual Review Letter**

I am writing with our annual summary of statistics on the complaints made to me about your authority for the year ended 31 March 2012. I hope the information set out in the enclosed tables will be useful to you.

The statistics include the number of enquiries and complaints received by our Advice Team, the number forwarded by the Advice Team to my office, and decisions made on complaints about your authority. The decision descriptions have been changed to more closely follow the wording in our legislation and to give greater precision. Our guidance on statistics provides further explanation (see our website).

The statistics also show the time taken by your authority to respond to written enquiries.

I am pleased to say that I have no concerns about your authority's response times and there are no issues arising from the complaints that I want to bring to your attention.

***Changes to our role***

I am also pleased to have this opportunity to update you on changes to our role. Since April 2010 we have been exercising jurisdiction over the internal management of schools on a pilot basis in 14 local authority areas. This was repealed in the Education Act 2011 and the power restored to the Secretary of State for Education. During the short period of the pilot we believe we have had a positive impact on the way in which schools handle complaints. This was endorsed by independent research commissioned by the Department for Education which is available on their website.

Our jurisdiction will end in July 2012 and all complaints about internal school matters will be completed by 31 January 2013.

From April 2013, as a result of the Localism Act 2011, local authority tenants will take complaints about their landlord to the Independent Housing Ombudsman (IHO). We are working with the IHO to ensure a smooth transition that will include information for local authority officers and members.

***Supporting good local public administration***

We launched a new series of Focus reports during 2011/12 to develop our role in supporting good local public administration and service improvement. They draw on the learning arising from our casework in specific service areas. Subjects have included school admissions, children out of school, homelessness and use of bankruptcy powers. The reports describe good practice and highlight what can go wrong and the injustice caused. They also make recommendations on priority areas for improvement.

We were pleased that a survey of local government revenue officers provided positive feedback on the bankruptcy focus report. Some 85% said they found it useful.

In July 2011, we also published a report with the Centre for Public Scrutiny about how complaints can feed into local authority scrutiny and business planning arrangements.

We support local complaint resolution as the most speedy route to remedy. Our training programme on effective complaint handling is an important part of our work in this area. In 2011/12 we delivered 76 courses to councils, reaching 1,230 individual learners.

We have developed our course evaluation to measure the impact of our training more effectively. It has shown that 87% of learners gained new skills and knowledge to help them improve complaint-handling practice, 83% made changes to complaint-handling practice after training, and 73% said the improvements they made resulted in greater efficiency.

Further details of publications and training opportunities are on our website.

***Publishing decisions***

Following consultation with councils, we are planning to launch an open publication scheme during the next year where we will be publishing on our website the final decision statements on all complaints. Making more information publicly available will increase our openness and transparency, and enhance our accountability.

Our aim is to provide a comprehensive picture of complaint decisions and reasons for councils and the public. This will help inform citizens about local services and create a new source of information on maladministration, service failure and injustice.

We will publish a copy of this annual review with those of all other English local authorities on our website on 12 July 2012. This will be the same day as publication of our Annual Report 2011/12 where you will find further information about our work.

We always welcome feedback from councils and would be pleased to receive your views. If it would be helpful, I should be pleased to arrange a meeting for myself or a senior manager to discuss our work in more detail.

Yours sincerely

Dr Jane Martin
Local Government Ombudsman

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# Local authority report - Tamworth BC

for the period - 01/04/2011 to 31/03/2012

## LGO advice team

| Enquiries and complaints received | Benefits & Tax | Environmental Services & Public Protection & Regulation | Housing | Planning & Development | Total |
|---|---|---|---|---|---|
| Advice given | 0 | 0 | 2 | 1 | 3 |
| Premature complaints | 1 | 3 | 8 | 1 | 13 |
| Forwarded to Investigative team (resubmitted) | 0 | 1 | 0 | 0 | 1 |
| Forwarded to Investigative team (new) | 0 | 0 | 1 | 1 | 2 |
| Total | 1 | 4 | 11 | 3 | 19 |



## Investigative team - Decisions

| Not investigated | | | Investigated | | | Report | Total |
|---|---|---|---|---|---|---|---|
| No power to investigate | No reason to use exceptional power to investigate | Investigation not justified & Other | Not enough evidence of fault | No or minor injustice & Other | Injustice remedied during enquiries | | |
| 0 | 0 | 0 | 5 | 0 | 0 | 0 | 5 |

| Response times to first enquiries | No of first enquiries | Avg no of days to respond |
|---|---|---|
| | 3 | 18.7 |

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