N0N-CONFIDENTIAL

Borough of Tamworth

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AUDIT AND GOVERNANCE COMMITTEE

18 September 2014

Dear Councillor

A meeting of the Audit and Governance Committee will be held in **Committee Room 1 - Marmion House on Thursday, 25th September, 2014 at 6.00 pm.** Members of the Committee are requested to attend.

Yours faithfully

A G E N D A

NON CONFIDENTIAL

1 **Apologies for Absence**

2 **Minutes of the Previous Meeting** (Pages 1 - 6)

3 **Declarations of Interest**

To receive any declarations of Members' interests (pecuniary and non-pecuniary) in any matters which are to be considered at this meeting.

When Members are declaring a pecuniary or non-pecuniary 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 pecuniary or non-pecuniary interest in respect of which they do not have a dispensation.

4 **Audit Findings Report 2013/14** (Pages 7 - 36)

(Report of Grant Thornton (External Auditor))

5 **Annual Statement of Accounts & Report 2013/14** (Pages 37 - 198)

(Report of the Executive Director Corporate Services)

6 **Review of the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2014/15 and the Annual Report on the Treasury Management Service and Actual Prudential Indicators 2013/14** (Pages 199 - 264)

(Report of the Executive Director Corporate Services)

7 **Fraud & Corruption Update Report 2014/15** (Pages 265 - 332)

(Report of the Head of Internal Audit Services)

8 **Internal Audit Quarter 1 Report 2014/15** (Pages 333 - 352)

(Report of the Head of Internal Audit Services)

9 **Local Government Ombudsman - Annual Review and Report** (Pages 353 - 360)

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

10 **Regulation of Investigatory Powers Act 2000** (Pages 361 - 362)

(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: J Chesworth, M Couchman, J Faulkner, M Gant, R Kingstone, J Oates and P Seekings.

MINUTES OF A MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE
HELD ON 26th JUNE 2014

PRESENT: Councillor M Gant (Chair), Councillors J Chesworth, M Couchman, J Faulkner, R Kingstone, J Oates and P Seekings

Officers: John Wheatley (Executive Director Corporate Services), 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 (Grant Thornton)

1 APPOINTMENT OF CHAIR

RESOLVED: That Councillor M Gant be appointed as Chair.

(Moved by Councillor R Kingstone and seconded by Councillor J Chesworth)

2 APPOINTMENT OF VICE-CHAIR

RESOLVED: That Councillor J Chesworth be appointed as Vice-Chair.

(Moved by Councillor M Gant and seconded by Councillor M Oates)

3 APOLOGIES FOR ABSENCE

None

4 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 27 March 2014 were approved and signed as a correct record.

(Moved by Councillor M Couchman and seconded by Councillor M Gant)

5 DECLARATIONS OF INTEREST

There were no declarations of Interest.

6 AUDIT AND GOVERNANCE COMMITTEE UPDATE

The Report of Grant Thornton (External Auditor) was considered.

RESOLVED: That Members of the Committee endorsed the Audit and Governance Committee Update for Tamworth Borough Council to year end 31 March 2014.

7 FEE LETTER 2014/2015

The Report of Grant Thornton (External Auditor) was considered.

RESOLVED: That the content of the report be endorsed. It was noted that the fee was unchanged for 2014/15.

8 STATEMENT ON THE ROLES OF THE CHIEF FINANCE OFFICER & THE HEAD OF INTERNAL AUDIT SERVICES

The Report of the Executive Director – Corporate Services seeking to provide members with information on the application of the Statement on the Role of the Chief Finance officer and the Statements of the role of the Head of Internal Audit and the benchmarking of existing arrangements was considered.

RESOLVED: That Members of the Committee endorsed the Statement on the Roles of the Chief Finance Officer and the Head of Internal Audit Services report.

(Moved by Councillor M Couchman and seconded by Councillor J Faulkner)

9 DRAFT ANNUAL STATEMENT OF ACCOUNTS & REPORT 2013/14

The Report of the Director of Finance setting out the Draft Statement of Accounts (the Statement) for the financial year ended 31 March 2014 was considered.

RESOLVED: That Members of the Committee received for review the Draft Annual Statement of Accounts and report 2013/14.

(Moved by Councillor J Faulkner and seconded by Councillor R Kingstone)

10 ANNUAL GOVERNANCE STATEMENT AND CODE OF CORPORATE GOVERNANCE

The Report of the Head of Internal Audit services informing Members of the process followed in producing an Annual Governance Statement and revised Code of Corporate Governance in accordance with statutory requirements, and seeking approval of the proposed draft Annual Governance Statement and Code of Corporate Governance was considered.

RESOLVED: That:

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

2. The Code of Corporate Governance be endorsed.

(Moved by Councillor J Chesworth and seconded by Councillor R Kingstone)

11 PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

The Report of the Head of Internal Audit Services seeking to report on the Internal Assessment against the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme was considered.

RESOLVED: That the Committee endorsed:

1. The record of compliance against the Public Sector Internal Audit Standards and Quality Assurance and Improvement Programme, and;

2. The completion of an external assessment against the Public Sector Internal Audit Standards every five years to comply with the Standards.

(Moved by Councillor J Faulkner and seconded by Councillor M Couchman)

12 INTERNAL AUDIT ANNUAL REPORT 2013/14

The Report of the Head of Internal Audit Services seeking to report on the outcome of Internal Audit's review of the internal control, risk management and governance framework in the 4th quarter of 2013/14 – providing Members with assurance of the ongoing effective operation of an internal audit function and enabling any particular significant issues to be brought to the Committee's attention was considered.

RESOLVED: That the Committee endorsed the quarterly report that stated that 'reasonable assurance' can be given.

(Moved by Councillor J Chesworth and seconded by Councillor J Faulkner)

13 RISK MANAGEMENT UPDATE

The Report of the Head of Internal Audit Services reporting on the Risk Management performance for the 2013/14 financial year and the action plan for 2014/15 was considered.

RESOLVED: That the Committee endorsed:

1 The Risk Management Policy;

2 The Risk Management Action Plan 2014/15, and;

3 The Corporate Risk Register.

(Moved by Councillor J Faulkner and seconded by Councillor R Kingstone)

14 FINANCIAL GUIDANCE

The Report of the Head of Internal Audit services seeking Member endorsements of the recently reviews Financial Guidance which forms an important part of the Council's regulatory framework, and providing an opportunity for Members of the Committee to raise any issues they consider appropriate on the subject was considered.

RESOLVED: That Members endorsed the changes to Financial Guidance.

(Moved by Councillor M Couchman and seconded by Councillor J Chesworth)

15 REGULATION OF INVESTIGATORY POWERS ACT 2000

The Report of the Solicitor to the Council and Monitoring Officer informing Members of the surveillance carried out under the Regulation of Investigatory Powers Act 2000 was considered.

RESOLVED: That the quarterly RIPA monitoring report be endorsed.

(Moved by Councillor M Gant and seconded by Councillor P Seekings)

16 PROPOSED CHANGES TO CONSTITUTION AND SCHEME OF DELEGATION

The Report of the Solicitor to the Council and Monitoring Officer considering the proposals put forward as amendments to the Constitution and Scheme of Delegation at Council on 5 June 2014 in terms of Article 16 paragraph 2.16.2 was considered.

RESOLVED: That the Committee endorsed the proposals put forward as amendments to the Constitution.

(Moved by Councillor J Oates and seconded by Councillor M Gant)

17 AUDIT & GOVERNANCE COMMITTEE SELF ASSESSMENT 2013/14

The Audit and Governance Committee Self Assessment 2013/14 was received by the Committee.

Chair

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The Audit Findings Report for Tamworth Borough Council

Year ended 31 March 2014

September 2014

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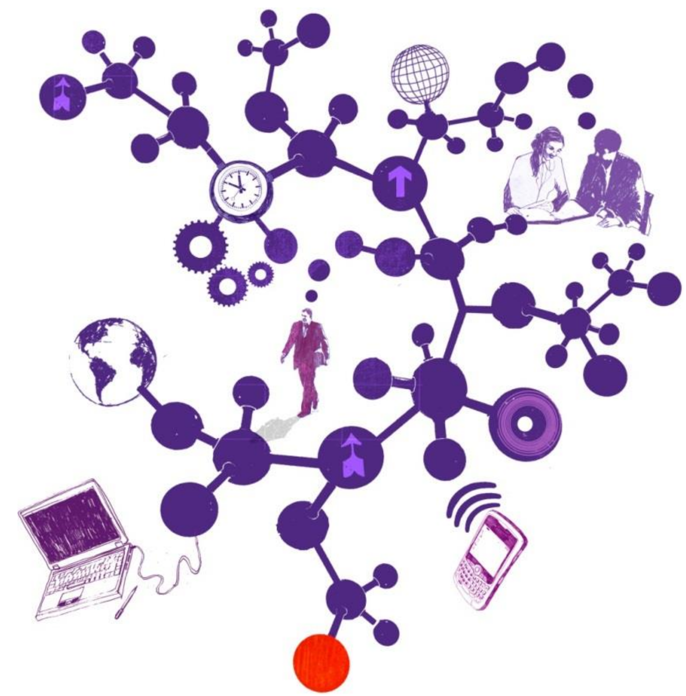

Agenda Item 4

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

The accounts presented for audit were good quality requiring only a small number of disclosure changes

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Tamworth Borough Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion as to whether or not the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan which we presented to the Audit and Governance Committee on 27 March 2014.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements and re-checking these figures to the ledger
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts (WGA) consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on the value for money conclusion.

The draft statement of accounts were presented to the Audit and Governance Committee on 25 June 2014 and we received the draft accounts on 28 June 2014; and the accompanying working papers on 7 July, in accordance with the agreed timetable. The financial statements submitted for audit were yet again of good quality, delivered by an effective closedown process and supported by good quality working papers.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified no adjustments affecting the Council's reported financial position. Both the draft and audited financial statements record Total Comprehensive Income and Expenditure as net expenditure of £1.893m.

We did identify a small number of changes requires to disclosure notes, and requested a couple of adjustments to improve the presentation of the financial statements, particularly to simplify the Explanatory Foreword.

The other key messages arising from our audit of the Council's financial statements are:

- the draft accounts and working papers were again of a good quality
- finance staff responded promptly to all audit queries

Value for money conclusion (work being completed at the time of writing this draft Audit Findings Report)

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion. Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Whilst our work has not identified any significant control weaknesses within the Council's financial systems that we wish to highlight for your attention, we did identify four improvement opportunities.

Our preliminary work assessing the Council's IT controls identified two minor housekeeping weaknesses regarding password complexity; and controls in place to review information security logs.

In addition to this we identified two opportunities to enhance payroll controls concerning regular updating of the authorisation signatory list; and completion of audit trail documenting the work done when reviewing and acting upon the 'Payroll Calculation - Errors & Warnings' report run prior to processing each months payroll.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director (Corporate Services).

We have made four recommendations, which are set out in the action plan. Recommendations have been discussed and agreed with the Executive Director (Corporate Services), the finance team and the IT team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2014

Section 2: Audit findings

Our findings were minor in nature, relating to disclosure improvement opportunities.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 27 March 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 27 March 2014.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant generic risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Revenue cycle includes fraudulent transactions** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue	• review and testing of revenue recognition policies • testing of material revenue streams	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls is present in all entities	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other generic risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • Performed a walkthrough of identified controls to confirm our understanding of the system • Carried out substantive testing on a sample of purchase ledger transactions and ensured the purchase ledger agreed to the general ledger • Performed cut off testing on pre and post year end transactions	Our audit work has not identified any significant issues in relation to the risk identified
Employee remuneration	Employee remuneration accrual understated	• Performed a walkthrough of identified controls to confirm our understanding of the system • Carried out substantive testing on a sample of employee payments; reviewed the operation of monthly reconciliations; and ensured the payroll agreed to the general ledger.	Our audit work has not identified any significant issues in relation to the risk identified
Welfare expenditure	Welfare benefit expenditure improperly computed	• Performed a walkthrough of identified controls to confirm our understanding of the system • Completed detailed testing of benefits payments and subsidy due • Ensured the HB system agrees to the general ledger	Our audit work has not identified any significant issues in relation to the risk identified.
Housing Rent Revenue Account	Revenue transactions not recorded	• Performed a walkthrough of identified controls to confirm our understanding of the system • Performed a predictive analytical review of rental income to check whether the income is in line with our expectations	Our audit work has not identified any significant issues in relation to the risk identified

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Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's policy is set out in its accounting policies (Note 1 in supporting notes to the financial statements) : • Accounting Policy 2 – Accruals of income and expenditure • Accounting Policy 12 – Government Grants and Contributions • Accounting Policy 27 – Accounting for Council Tax • Accounting Policy 28 – Accounting for National Non Domestic Rates	• The Council's policies are appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice • Minimal judgement is involved • Accounting policy is properly disclosed	Green
Judgements and estimates	Key estimates and judgements include : • pension fund valuations and settlements • useful lives of property, plant and equipment • revaluations and impairments • Provisions and contingent liabilities	The Council's policies on estimates and judgements are reasonable and appropriately disclosed and reliance on experts is taken where appropriate.	Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	The Council's other accounting policies are appropriate.	Green

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Assessment
- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Adjustments to the accounts - disclosure changes

The table below provides details of disclosure changes identified during the audit which have been made in the final set of financial statements. (This excludes arithmetical, typographical, trivial or non-sensitive changes)

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	**Explanatory Foreword**			The following changes were made: -the foreword was simplified and made less complex -the Business Rates section now describes the impact of the new accounting arrangements on the accounts
2	**Defined Benefit Pension Schemes: CIES and accounting policy 8 (c)**			Whilst note 39 was updated in the draft accounts to reflect the recommended disclosure as per the Code, the CIES has now been updated for the current terminology. 'Actuarial Gains/Losses on Pensions Assets/Liabilities' now reads as 'Remeasurement of the net defined benefit liability'. Accounting policy 8(c) Post Employment Benefits has also been reviewed and updated to ensure the most up to date terminology is used
3	**Cash Flow Statement**			The disclosure note has now been extended to include both: -Adjustments to net surplus or deficit on the provision of services for non cash movements (£15,293k) -Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (£2,568k)
4	**Note 12b - Revaluations**			The disclosure has been made clearer to identify which properties have been valued by the internal valuer; and which properties have been valued by the external valuer

Disclosure changes (continued)

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
5	**Note 27 - Amounts Reported for Resource Allocation Decisions**			The Support Service Recharges line total was amended to zero (having reconciled Directorate Amounts to (Surplus) or deficit on the Provision of Services). The note was re-worked to ensure amounts are coded to the correct lines
6	**Note 31 - Officer Remuneration (Remuneration Band Note)**			An employee entry was removed from the £50,000-£54,999 banding and to the £55,000-£59,999 banding. This was for the Head of Land Lord Services. n.b. This employee also falls in £50,000-£54,999 for 2012-13 comparator.
7	**Note 32 External Audit Costs**			Narrative has been added to the note to disclose the £7.5k rebate received from the Audit Commission
8	**Note 30 Members Allowances**			The Special Allowances Figure has been amended to £83k to agree to underlying records.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	● Amber	**IT - Logical Access Control** The password parameters for the operating system (Active Directory) and the Academy Housing system do not force end users to create passwords with a combination of characters and numbers/special characters (i.e. complexity). By not implementing suitable logical access controls there is the increased risk of the operating system and Academy application being accessed by unauthorised individuals and placing the residing financial information at risk.	Over time and as a culture of greater control is introduced across the organisation, consideration should be given by the organisation to introducing a greater degree of logical access password complexity. Such a requirement should be documented in appropriate policies and distributed to all staff.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	Amber	**IT - Reviews of Information Security Logs Created by Active Directory** Logs of information security activity within Active Directory were not being formally, proactively, and routinely reviewed. This condition poses the following risk(s) to the organization: Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not identified and/or addressed in a timely manner.	Given the criticality of data accessible through Active Directory, logs of information security events (i.e., login activity, unauthorized access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.
3.	Amber	**Payroll - Limits of Authority Established** The 'Master for checking sign ons' spreadsheet which contains a listing of all those members of staff at the Council authorised to approve starters, leavers, overtime and casual timesheets has not been updated since the 12/13 period and therefore is out of date. This issue does not indicate that there is a weakness in the system that would impact on our audit work; and there is no indication that HR forms are being authorised inappropriately. The issue is that the authorised signatory is not maintained effectively.	The authorised signatory listing detailing who has the authority to authorise HR forms (starters, leavers etc.) should be updated on a regular basis.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
4.	● Amber	**Payroll - Exception Reports Identifies Possible Invalid or Duplicate Entries** Exception reports are run on a monthly basis to identify potential incorrect entries (e.g. no NI category, no pay for the month, no bank details etc.). These are followed up by payroll and resolved. Whilst our audit work confirmed that the reports are reviewed and acted upon, there was no evidence that the action had taken place.	An audit trail should be maintained, detailing what action has been taken when investigating items appearing on the report.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We discussed the risk of fraud with the Audit and Governance Committee on 27 March 2014 . We are not aware of any other incidents in the period , other than those notified to us during our audit and none of which were material. No other matters in relation to fraud have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Council.
4.	**Disclosures**	• Our work identified a small number of instances where disclosures in the financial statements could be improved. These are included in the relevant preceding section.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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The Council has good arrangements in place to secure value for money

Value for Money – note this work is still in progress therefore the findings below are draft based on findings to date. No matters of concern have been identified to date.

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council 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.

- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work concluded that the Council's arrangements for securing financial resilience have proved effective. There is robust challenge and support from members, and the Council prepares and keeps under review its medium term financial plan. There are good arrangements in place to monitor and manage revenue and capital budgets. This includes regular reports to management and members on financial and service performance during the year, including savings achieved and actions required to address any shortfall or additional spending.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have completed the following work:

- reviewed how the Council is achieving efficiency through its savings programme
- ensured that the Council is monitoring its savings to achieve its financial targets.
- reviewed how the Council works with its partners.

Value for Money

Our work on economy, efficiency and effectiveness has concluded that:

- The Council had effective arrangements in place which enabled it to deliver its challenging savings programme in 2013/14.
- The Council is exploring further collaborative opportunities such as shared services opportunities with Lichfield District Council as part of its on-going savings programme.
- The Council approved a 3 year Medium Term Financial Strategy in February 2014. The strategy estimates that general fund reserve balances shall be £0.5m the minimum approved level, and HRA reserve balances £1.5m compared to the minimum approved level of £1.5m. Work is ongoing via the Sustainability Strategy to address future financial constraints. Workstreams have been identified to identify further savings.
- The Council faces even greater challenges in the future with the need to achieve substantial savings from 2017/18 onwards to deliver a balanced budget.
- Whilst the Council has effective arrangements for prioritising its resources, looking at new service delivery arrangements and working co-operatively with partners, the continued improvement of these arrangements will be crucial to meeting the significant financial challenges in the future.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Section 4: Fees, non audit services and independence

The Audit Commission has proposed a fee increase of £900 in respect of the audit of material business rate balances (this replaces the fee previously charged for the certification of the grant claim)

Fees, non audit services and independence

We confirm below our final fees charged for the audit

Fees

	Per Audit plan £	Actual fees * £
Council audit	65,550	*66,450
Grant Certification	16,400	TBC
Total audit fees	**40,945**	**66,450**

* 'There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for district councils and is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

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

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

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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

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

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

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

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Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	**IT Access controls** Review the password settings for the network and key systems with a view to implementing best practice requirements.	M	Our plan to make passwords more complex will be discussed at the Corporate Security Management Group. Subject to endorsement at this group, we will commence consultation with the organisation to advise of the change.	January 2015 Director of Technology and Corporate Programmes
2	**Reviews of Information Security Logs Created by Active Directory** Review logs of information security events on a regular basis to enable detection of inappropriate or anomalous activity. The review should be performed by one or more individuals who are independent of the day-today use or administration of the systems.	M	We are currently investigating an existing tool to automate the detection of certain activities in these logs. Subject to business case (additional modules / licences may be required) this may offer a reasonable solution.	December 2014 Director of Technology and Corporate Programmes
3	**Payroll - Limits of Authority Established** Update the authorised signatory listing on a regular basis.	M	The list has now been updated and will be reviewed on an annual basis.	End of September 2014 Payroll Manager
4	**Payroll - Exception Reports Identifies Possible Invalid or Duplicate Entries** Maintain an audit trail detailing the action taken when investigation items appearing on the report.	M	Work flows already in the system will be amended to include sign off by payroll manager which will highlight changes.	End of March 2015 Payroll Manager / HR Advisor

Appendix B: Audit opinion

We anticipate we will provide the Council with an unqualified audit report

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

Opinion on the Authority financial statements

We have audited the financial statements of Tamworth Borough Council for the year ended 31 March 2014 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 2013/14.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Tamworth Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
in our 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;
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
we 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
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our 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 2013, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are 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 2014.

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

James Cook
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

xx September 2014

grant-thornton.co.uk

AUDIT & GOVERNANCE COMMITTEE

25th September 2014

REPORT OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

ANNUAL STATEMENT OF ACCOUNTS & REPORT 2013/14

EXEMPT INFORMATION

None

PURPOSE

To approve the Statement of Accounts (the Statement) for the financial year ended 31st March 2014 following completion of the external audit.

RECOMMENDATION

That Members approve the Annual Statement of Accounts 2013/14

EXECUTIVE SUMMARY

As part of the annual audit process for 2013/14, the Council's external auditors, Grant Thornton, have prepared their Audit Findings Report (to be considered separately on this agenda) for consideration prior to issue of their opinion, conclusion & certificate.

Following identification as part of the audit, a small number of amendments have been discussed & agreed with the Audit Commission. These have been actioned within the Final Statement of Accounts for 2013/14 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 reported outturn position and net balances of the General Fund, Housing Revenue Account or Collection Fund.

Regulations require that, following presentation of the External Auditor's Audit Findings Report & Annual Statement of Accounts 2013/14, the Chair of the Audit & Governance Committee sign and dates 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 2013/14, a revenue budget underspend for the General Fund of £0.706m is reported with a reduction in General Fund closing balances of £0.049m. The Housing Revenue Account reports an underspend of £0.812m with an increase in Housing Revenue Account closing balances of £0.214m.

It should be noted that the Medium Term Financial Strategy identified required balances of £4.427m (at 1st April 2014) compared to the draft actual closing balances of £4.57m - additional balances of £0.143m. For the HRA balances of

£5.3m were forecast at 1st April 2014 compared to the actual balances of £5.481m - additional balances of £0.181m.

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

The outturn for the 2013/14 Capital Programme identifies an underspend of £3.827m against the approved budget of £12.757m (actual spend £8.941m - £11k change since Provisional Outturn). However, it has been requested that £2.848m of scheme spend be re-profiled into 2014/15. This will result in an overall underspend of £0.979m for the 2013/14 Capital Programme.

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 and for the Council to publish the Statement together with the Auditors opinion by 30th September 2014.

SUSTAINABILITY IMPLICATIONS

None

CONCLUSIONS

Following consideration of the External Auditor's Audit Findings 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 2013/14.

REPORT AUTHOR

Stefan Garner, Director of Finance

LIST OF BACKGROUND PAPERS

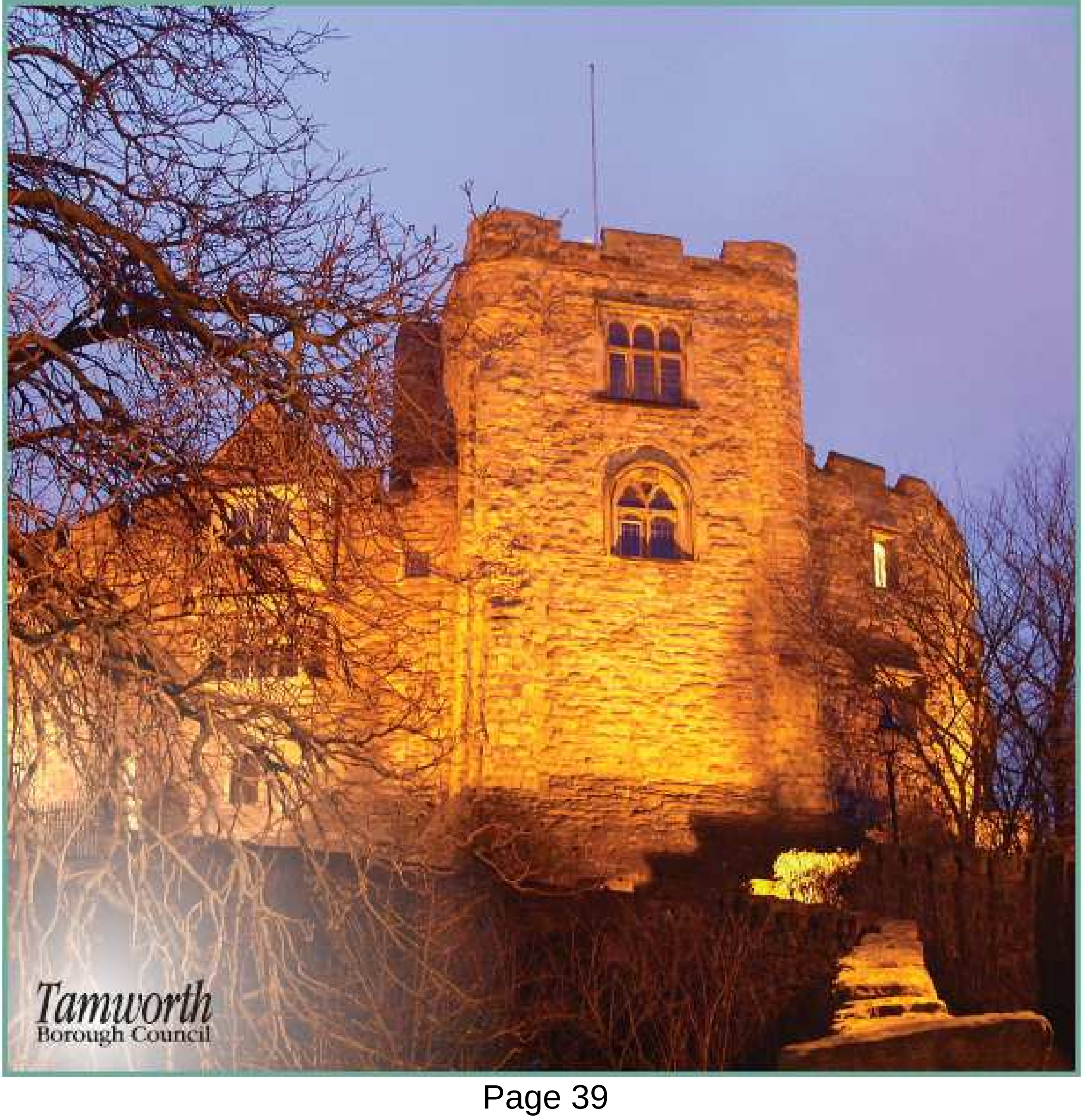
Capital Outturn Report 2013/14 - Cabinet, 19h June 2014
Performance Healthcheck (including Provisional Outturn Report 2013/14) - Cabinet, 19th June 2014
Draft Annual Statement of Accounts & Report 2013/14 - Audit & Governance Committee, 26th June 2014

Appendix 1

Tamworth Borough Council

Statement of Accounts 2013/14

One Tamworth, Perfectly Placed



STATEMENT OF ACCOUNTS

2013/14

Contents

THE EXPLANATORY FOREWORD

The statement of accounts presents the financial position and performance of the Authority for the year ended 31^{st} March 2014. This foreword describes the nature and purpose of each of the statements which follow and highlights the most significant matters which are contained within the accounts and the major influences affecting the Authority's income, expenditure and cash flows.

THE FINANCIAL STATEMENTS

The Annual Statement of Accounts for the year ended 31^{st} March 2014 has been prepared in accordance with the guidelines contained within the latest Code of Practice on Local Authority Accounting in the United Kingdom for 2013/14.

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.

The Authority's accounts for 2013/14 are set out on pages 15 to 131 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.

      The Movement in Reserves Statement on page 15 shows a net General Fund deficit of £0.049m for the year. This was £0.706m lower than planned in the original budget at the start of the year and has reduced General Fund Balances of £4.619m (with the minimum approved level being £0.5m) brought forward from 2012/13, to produce a cumulative surplus of £4.57m carried forward to 2014/15 – and reflect the risks and uncertainties facing the Authority over the medium term.

    - **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.

A deficit of £1.893m is reported for 2013/14 (£552k surplus 2012/13). This is mostly explained by the increase in charge for depreciation and impairment relating to Council Dwellings.

- **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 £98.8m (£100.7m 2012/13) which are matched by the reserves held by the Authority. Key items are:

Long Term Assets

The Council holds property, plant and equipment assets of £148.7m (£148.2m 2012/13) – mainly due to Council dwellings of £128.6m (£125.7m 2012/13).

Working Capital

Net working capital has increased to £20m (£17.7m 2012/13).

Provisions, Reserves and Balances

The working balances as at 31st March 2014 are £24.803m (£22.991m 2012/13) and comprise provisions, earmarked reserves, revenue balances and the unused element of capital receipts.

Working balances of £8.584m (£7.238m 2012/13) relate to capital (including the Capital Reserve of £5.594m). The £2.848m capital commitments from 2013/14 and previous years carried forward to 2014/15 will be required to be financed from these balances (£4.778m 2012/13).

Borrowing Facilities

The Authority 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 - PWLB) and from the commercial money market (banks, building societies and other lenders). The Authority's debt at 31st March 2014 was £65.06m (£65.06m 2012/13) and was all borrowed from the PWLB.

Pensions

The pension fund deficit has increased in the year to £39.769m (2012/13 £34.415m) 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 31st March 2014 than at 31st March 2013. Falling bond yields have adversely affected value of the schemes liabilities and though asset returns have been stronger than expected, the deficit has grown by some 15.6%.

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 19.6% to 22.42% - including 16.5% p.a. plus an increasing lump sum element) arising from the formal valuation on 31st March 2013.

- **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 overall revenue financial position relating to Council Housing as given on page 120 shows an increase in HRA balances for the year of £0.214m. This equates to an under-spend of £0.812m when compared to the approved budget for the year. This has resulted in an increase in balances from £5.267m to £5.481m to be carried forward to 2014/15.

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

    The local government finance system has been revised from 2013/14 with the introduction of the business rates retention scheme. The main aim of the scheme is to give Authorities a greater incentive to grow businesses in the Borough. It does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base. The scheme allows the Authority to retain a proportion of the total NNDR received. The local share retained by the Authority is 40% (less a tariff payment) with the remainder paid to precepting bodies - Central Government (50% share), Staffordshire County Council (9%) and the Fire & Rescue Authority (1% share).

    The Collection Fund achieved the following surpluses:

    - Council Tax £1m (the Authority’s share is 11%), of which £0.5m will be distributed to preceptors during 2014/15;
    - NNDR £1.2m (the Authority’s share is 40% less Levy of 50%);

    subject to collection of outstanding arrears.

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

CHANGES TO THE ACCOUNTS FOR 2013/14

An updated Code of Practice applicable for 2013/14 was issued by CIPFA in April 2013 and the changes reflected in this review must now be incorporated into the Authority's 2013/14 accounts, together with relevant changes to accounting policies.

The 2013/14 Code has introduced some changes in accounting practice for defined benefit pensions, the introduction of the Business Rates Retention Scheme from 1st April 2013 and to the valuation of Property, Plant and Equipment (PPE).

IAS19 Employee Benefits

There have been several significant changes in relation to the international accounting standard IAS19 Employee Benefits which will require a change of accounting policy and a restatement of the 2012/13 accounts. However, these changes will not alter the usable reserves. This has resulted in changes to accounting treatment for financial years starting on or after 1st January 2013.

These include:

Expected Return on Assets

Asset Disclosures

Disclosure Presentation

Business Rates

Following the introduction of the Business Rates Retention Scheme, billing authorities need to operate a Collection Fund to account for business rates in a similar way that council tax is accounted for, subject to ongoing government guidance and legislation. The Accounting Policies have been amended to reflect this.

During the year, the Authority collected £33m from business ratepayers,, distributed as follows (after collection costs (£0.1m), provisions for bad debts (£0.1m) and appeals (£1m):

Central Government	£15.25m
Fire & Rescue Authority	£0.3m
County Council	£2.75m
Tamworth Borough Council	£12.2m

resulting in a surplus of £1.2m carried forward to 2014/15.

From it's retained business rates, the Authority had to make a tariff payment of £10.2m to Central Government leaving a residual amount of business rates retained locally of c. £2m.

IAS 16: Property, Plant & Equipment (PPE)

IAS 16: Property, Plant & Equipment (PPE) – IFRS post-implementation review. The Code now explicitly requires all of a class of assets to be revalued within a short period. The Authority uses a five year rolling programme of valuation within the asset class of other land and buildings; this does not strictly meet the Code requirements. The rolling valuation programme is supplemented with reviews of, for example, impairment, enhancement and material change in market conditions by the Authority's professional valuers. Although not strictly adhering to the specific provisions of the Code, this will satisfy the general provision of the Code in providing adequate assurance that the balance sheet is fairly stated. This is a national issue with many Authorities being in the same position. Discussions have already been held with the Authority's external auditors regarding the approach for future years.

Local Council Tax Reduction Scheme

Since April 2013, Local Authorities have administered a Local Council Tax Reduction scheme for those of Working Age (replacing the national Council Tax Benefit Scheme) on behalf of the Government. A scheme with national rules continues for pensioners, which is also delivered by Local Authorities.

The Government still provides funding for localised schemes, but since April 2013 it has been reduced. In 2012 there was a public consultation to gauge views about the locally proposed scheme from April 2013.

The scheme reduces the amount that a qualifying Council Tax payer will have to pay, based on their personal and financial circumstances.

This means that the council tax income accounted for through the Collection Fund has been reduced (due to the reduction scheme) by c.£5m as council tax benefit subsidy is no longer received.

As part of the scheme introduction, to compensate for the reduced income, the Government paid additional Revenue Support Grant (RSG) to the Authority and the major preceptors – however, this was reduced by a 10% savings target (met from the revised scheme provisions approved locally).

The Benefits subsidy income and associated costs of c.£5m are no longer shown within Central Services to the Public within the Comprehensive Income and Expenditure income – with the Authority's share of c.11% included within RSG shown within Taxation and Specific Grant income.

CHANGES IN ACCOUNTING POLICY FOR 2013/14

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.

There is only one change to the accounting policies for 2013/14 compared to 2012/13, this is described below.

The 2013/14 Code follows amendments to International Accounting Standard 19 – Employee Benefits (IAS19) and changes the accounting requirements for defined benefit pension liabilities. In June 2011 the International Accounting Standards Board (IASB) issued a new version of IAS19. This applies to financial years starting on or after 1st January 2013. The main changes are

- a reallocation of amounts charged in the Comprehensive Income and Expenditure Statement (CIES); and
- additional disclosure requirements.

although these changes have no overall impact on the Authority's General Fund and the amount payable by local tax payers. This change in policy will be applied retrospectively and will therefore amend 2012/13 comparatives to the financial statements (as well as the supporting notes) as detailed below:

Comprehensive Income & Expenditure Statement	**2012/13 £000s**	**Change £000s**	**2012/13 Restated £000s**
Cost of Services	**5,124**	-	**5,124**
Other Operating Expenditure	310	-	**310**
Financing & Investment Income & Expenditure (FIIE)	234	467	**701**
Taxation & Non Specific Grant Income	(9,774)	-	(9,774)
(Surplus) or Deficit on Provision of Services	**(4,106)**	**467**	**(3,639)**
Surplus or Deficit on Revaluation of Property, Plant & Equipment Assets	(1,960)	-	**(1,960)**
Actuarial Gains / Losses on Pension Assets / Liabilities	5,514	(467)	**5,047**
Other Comprehensive Income & Expenditure	**3,554**	**(467)**	**3,087**
Total Comprehensive Income & Expenditure	**(552)**	**-**	**(552)**

Movement in Reserves Statement 2012/13	General Fund Balance £000s	Change £000s	General Fund Balance £000s Restated	Housing Revenue Account £000s	Change £000s	Housing Revenue Account £000s Restated
Balance as at 1st April 2012	**4,721**	**-**	**4,721**	**4,487**	**-**	**4,487**
Movement in reserves during 2012/13						
(Surplus) or deficit on the provision of services	(2,097)	(370)	(2,467)	6,203	(97)	6,106
Total Comprehensive Income & Expenditure	**(2,097)**	**(370)**	**(2,467)**	**6,203**	**(97)**	**6,106**
Adjustments between accounting basis & funding basis under regulations (Note 7)	1,695	370	2,065	(2,329)	97	(2,232)
Net (Increase) / Decrease before transfers to Earmarked Reserves	**(402)**	**-**	**(402)**	**3,874**	**-**	**3,874**
Transfers to/(from) Earmarked Reserves (Note 8)	300	-	300	(3,094)	-	(3,094)
Increase / (Decrease) in 2012/13	**(102)**	**-**	**(102)**	**780**	**-**	**780**
Balance as at 31st March 2013	**4,619**	**-**	**4,619**	**5,267**	**-**	**5,267**

FINANCIAL OUTLOOK

Long before the current austerity measures and on-going public sector spending cuts, the Authority has been proactive in the design and implementation of innovative and effective measures for driving efficiency.

The Authority's Executive Management Team recognises that Members will need to focus on strategic decisions relating to high level financial issues as flexibility within future budgets will be extremely limited given the need to identify substantial savings following significant constraints in public spending (post grant reductions of 34% since 2010 and announcements from CSR 2013 of further grant reductions for District Councils of over 15% from 2015/16 – over 40% in real terms since 2010/11).

There also remains a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation with effect from 1st April 2013, arising from Business Rates Retention, changes in Support for Council Tax and technical reforms to Council Tax - as well as other changes arising the Government's Welfare Reform Agenda.

The Authority holds sufficient funds in reserves and balances to allow it to plan its approach to budget setting, and Cabinet, on 22nd August 2013, endorsed the document 'Planning for a Sustainable Future' as the overarching strategy for meeting the challenges forecast for the Authority's Medium Term Financial Strategy (MTFS) and a series of workstreams designed to deliver savings and efficiencies designed to tackle the forecast deficit long before it becomes a reality. This includes exploring new and innovative ideas and to be more commercial in our approach to business, including making better use of our assets.

Council, on 25th February 2014, approved a 3 year Medium Term Financial Strategy (MTFS) for the General Fund with Council Tax increases lower than the Government referendum limits – in order to continue to deliver those services essential to the Local Community. However, in the longer term, the Authority faces on-going grant reductions and income uncertainties which mean that substantial savings will need to be made from 2017/18 onwards to deliver a balanced budget.

With regard to the Housing Revenue Account (HRA), a 5 year MTFS was approved by Council, including significant investment in Regeneration projects to meet future housing needs and sustain the HRA in the longer term. Following HRA self financing, the majority of the capital funding is made through revenue contributions. A recent update to the 30 year HRA Business Plan has recently been finalised and shows that the HRA is financially sound for the future.

FINANCIAL PERFORMANCE

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 Authority was £8.255m, representing an under-spend of £0.706m. Major differences between the budget and the outturn are as follows:-

Variance between Budget & Actual Outturn	£000s	£000s
Increased / Non-Budgeted Income*		
Corporate Finance – S31 Government Grants	(217)	
Corporate Finance - Unspent Reserves	(56)	
Development Control - Planning Applications Fee Income	(89)	
Council Tax - Court Costs /Fees Income	(84)	
Car Parks - Additional Revenue	(24)	
Civil Parking Enforcement- Scheme Income	(24)	
Joint Waste Arrangements - Bulky Waste	(29)	
Conveyancing & Right to Buy - Legal Fees	(40)	
Marmion House - Recharge to HRA	(102)	
Commercial Property Management - Rents	(43)	(708)
Shortfalls in Income		
ICT - Shared Service Provision	50	
Assembly Rooms - Bar/Ticket Sales	67	
Corporate Finance - Council Tax Freeze Grant	87	204
Non-Budgeted Expenditure / Overspends		
Corporate Finance - NNDR Levy Payments	355	
Treasury Management - Interest Payable to HRA	65	
Benefits - Net Scheme Overspend	46	466
Savings / Underspends*		
Corporate Finance - Efficiency Savings	(173)	
Corporate Finance - Contingency Savings	(150)	
Corporate Finance - Localised Council Tax Benefit Grant	(50)	
Joint Waste Arrangements - Contingency Savings	(73)	
Joint Waste Arrangements - Contract Savings	(51)	(497)
Other Variances - Net (Underspends) / Overspends		(171)
Total (Favourable) / Unfavourable Variance		**(706)**

It should be noted that the significant underspends were outside of the Authority's control and could not have been projected when the 2013/14 budgets were set in February 2013. The outturn figures include significant windfall items highlighted in the table above (*).

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 Executive			
Chief Executive	169,542	159,610	9,932
Director of Transformation and Corporate Performance	104,134	101,700	2,434
Head of Customer Services	427,793	393,400	34,393
Head of Organisational Development	200,186	215,520	(15,334)
Corporate Communications and PR Manager	205,238	213,060	(7,822)
Payroll Manager	50,234	48,900	1,334
Sub Total	**1,157,127**	**1,132,190**	**24,937**
Executive Director Corporate Services			
Executive Director Corporate Services	100,688	92,300	8,388
Head of Benefits	156,266	103,380	52,886
Director of Finance	81,849	38,530	43,319
Head of Revenues	57,006	147,950	(90,944)
Director of Technology & Corporate Programmes	701,706	653,660	48,046
Solicitor & Monitoring Officer	428,255	575,860	(147,605)
Head of Internal Audit Services	105,557	111,550	(5,993)
Sub Total	**1,631,327**	**1,723,230**	**(91,903)**
Community Services			
Director of Assets & Environment	2,113,488	2,545,450	(431,962)
Director of Housing & Health	970,482	1,022,960	(52,478)
Director of Communities, Planning & Partnerships	2,382,903	2,536,950	(154,047)
Sub Total	**5,466,873**	**6,105,360**	**(638,487)**
Total Cost of Services	**8,255,327**	**8,960,780**	**(705,453)**
Transfer to/ (from) Balances	(50,241)	(756,300)	706,059
Total to be met by Government Grants & Taxpayers	**8,205,086**	**8,204,480**	**606**

The Government Grants and Taxpayers variance is due to the difference between the Government set baseline and the approved Non Domestic Rates (NNDR1) return.

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] – (underspend) / overspend) for directly controllable costs.

Council Housing

A summary of the Housing Revenue Account for 2013/14, 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	**(214)**	**598**	**(812)**

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

Variance between Budget & Actual Outturn	£000s	£000s
Increased / Non-Budgeted Income		
Interest on Internal Balances	(45)	
Council House & Garage Rent Income	(35)	(80)
Non-Budgeted Expenditure / Overspends		
Marmion House - Recharge to HRA	102	102
Savings / (Underspends)		
Contribution to Housing Repairs Account	(494)	
Specific Contingency	(100)	
Allocations - Welfare Reform	(50)	(644)
Other Variances - Net (Underspends) / Overspends		(190)
Total (Favourable) / Unfavourable Variance		**(812)**

Capital Expenditure

During 2013/14 the Authority spent £8.967m on capital expenditure. A breakdown by category and sources of finance is shown as Note 35 to the Core Financial Statements on page 96.

The majority of expenditure related to improvement, enhancement or ongoing construction works. Fixed asset acquisitions in the year include 4 dwellings as part of the Housing Regeneration Project, the purchase of IT Equipment (software & hardware) and enhancements to the CCTV System.

A total of £2.848m spending originally planned for 2013/14, or earlier, has been deferred to 2014/15. Included within this deferred expenditure, £704k enhancement works on HRA dwellings; £99k HRA Environmental Works; £605k Regeneration of Housing Estates; £162k Coalfields Funding, £125k Broadmeadow enhancements, £350k is earmarked for the Mercian Trail; £160k for Return on Investments; £130k for Private Sector Improvement Grants and £103k for the Corporate Change Programme.

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 Authority's policy of providing full information about the Authority'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 Authority'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 2014.

J Wheatley FCCA
Executive Director Corporate Services Dated: 25th September 2014

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 Authority.

The reserve movements for 2012/13 and 2013/14 are shown on pages 16 to 17.

Movement in Reserves Statement 2012/13

	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
	£000s Restated	£000s	£000s Restated	£000s	£000s	£000s	£000s	£000s Restated	£000s Restated	£000s Restated
Balance as at 1st April 2012	**4,721**	**6,653**	**4,487**	**655**	**1,776**	**-**	**44**	**18,336**	**81,833**	**100,169**
Movement in reserves during 2012/13										
(Surplus) or deficit on the provision of services	(2,467)	-	6,106	-	-	-	-	**3,639**	-	**3,639**
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	**-**	(3,087)	**(3,087)**
Total Comprehensive Income & Expenditure	**(2,467)**	**-**	**6,106**	**-**	**-**	**-**	**-**	**3,639**	**(3,087)**	**552**
Adjustments between accounting basis & funding basis under regulations (Note 7)	2,065	-	(2,232)	-	(81)	1,112	4	**868**	(868)	**-**
Net (Increase) / Decrease before transfers to Earmarked Reserves	**(402)**	**-**	**3,874**	**-**	**(81)**	**1,112**	**4**	**4,507**	**(3,955)**	**552**
Transfers to/(from) Earmarked Reserves (Note 8)	300	(300)	(3,094)	3,094	-	-	-	**-**	-	**-**
Increase / (Decrease) in 2012/13	**(102)**	**(300)**	**780**	**3,094**	**(81)**	**1,112**	**4**	**4,507**	**(3,955)**	**552**
Balance as at 31st March 2013	**4,619**	**6,353**	**5,267**	**3,749**	**1,695**	**1,112**	**48**	**22,843**	**77,878**	**100,721**

Movement in Reserves Statement 2013/14

	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
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 1st April 2013	**4,619**	**6,353**	**5,267**	**3,749**	**1,695**	**1,112**	**48**	**22,843**	**77,878**	**100,721**
(Surplus) or deficit on the provision of services	(3,051)	-	1,094	-	-	-	-	**(1,957)**	-	**(1,957)**
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	**-**	64	**64**
Total Comprehensive Income & Expenditure	**(3,051)**	**-**	**1,094**	**-**	**-**	**-**	**-**	**(1,957)**	**64**	**(1,893)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	2,636	-	599	-	1,247	(1,112)	-	**3,370**	(3,370)	**-**
Net (Increase) / Decrease before transfers to Earmarked Reserves	**(415)**	**-**	**1,693**	**-**	**1,247**	**(1,112)**	**-**	**1,413**	**(3,306)**	**(1,893)**
Transfers to/(from) Earmarked Reserves (Note 8)	366	(366)	(1,479)	1,479	-	-	-	**-**	-	**-**
Increase / (Decrease) in 2013/14	**(49)**	**(366)**	**214**	**1,479**	**1,247**	**(1,112)**	**-**	**1,413**	**(3,306)**	**(1,893)**
Balance as at 31st March 2014	**4,570**	**5,987**	**5,481**	**5,228**	**2,942**	**-**	**48**	**24,256**	**74,572**	**98,828**

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 154.

2012/13 Restated					2013/14		
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	Comprehensive Income & Expenditure Statement	Notes	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
6,859	(6,012)	847	Central Services to the Public		1,381	(711)	670
5,633	(1,024)	4,609	Cultural & Related Services		4,597	(1,288)	3,309
4,679	(720)	3,959	Environmental & Regulatory Services		4,827	(861)	3,966
2,075	(246)	1,829	Planning & Development Services		2,261	(361)	1,900
825	(1,365)	(540)	Highways & Transport Services		1,493	(1,379)	114
10,433	(19,500)	(9,067)	Local Authority Housing (HRA)		16,626	(20,569)	(3,943)
24,355	(22,498)	1,857	Other Housing Services		24,188	(22,472)	1,716
1,663	(47)	1,616	Corporate & Democratic Core		1,953	(94)	1,859
14	-	14	Non Distributed Costs		4	-	4
56,536	**(51,412)**	**5,124**	**Cost of Services**	27	**57,330**	**(47,735)**	**9,595**
		310	Other Operating Expenditure	9			(79)
		701	Financing & Investment Income & Expenditure (FIIE)	10			1,997
		(9,774)	Taxation & Non Specific Grant Income	11			(9,556)
		(3,639)	**(Surplus) or Deficit on Provision of Services**	27			**1,957**
		(1,960)	(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets	23a			(3,536)
		5,047	Remeasurement of the Net Defined Benefit Liability / (Asset)	23e			3,472
		3,087	**Other Comprehensive Income & Expenditure**				**(64)**
		(552)	**Total Comprehensive Income & Expenditure**				**1,893**

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'.

31st March 2013 £000s	Balance Sheet	Notes	31st March 2014 £000s
148,157	Property, Plant & Equipment	12	148,673
2,582	Heritage Assets	13	2,754
18,435	Investment Property	14	18,964
124	Intangible Assets	15	220
236	Long Term Investments	16	114
12,961	Long Term Debtors	16	12,938
182,495	**Long Term Assets**		**183,663**
6,940	Short Term Investments	16	8,726
31	Inventories	17	26
2,935	Short Term Debtors	18	2,325
14,701	Cash & Cash Equivalents	19	20,084
24,607	**Current Assets**		**31,161**
(415)	Cash & Cash Equivalents	19	-
(366)	Short Term Borrowing	16	(366)
(5,932)	Short Term Creditors	21	(10,233)
(148)	Provisions	22	(547)
(6,861)	**Current Liabilities**		**(11,146)**
(65,060)	Long Term Borrowing	16	(65,060)
(34,415)	Other Long Term Liabilities	23e	(39,769)
(45)	Capital Grants Receipts in Advance	33	(4)
-	Revenue Grants Receipts in Advance		(17)
(99,520)	**Long Term Liabilities**		**(104,850)**
100,721	**Net Assets**		**98,828**
22,843	Usable Reserves		24,256
77,878	Unusable Reserves	23	74,572
100,721	**Total Reserves**		**98,828**

The audited accounts were approved on 25th September 2014 by Audit & Governance Committee.

J Wheatley FCCA
Executive Director Corporate Services Dated: 25th September 2014

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.

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.

2012/13 Restated £000s	**Cashflow Statement**	**Notes**	**2013/14 £000s**
(3,639)	Net (surplus) or deficit on the provision of services		1,957
(6,547)	Adjustments to net surplus or deficit on the provision of services for non cash movements		(15,293)
1,473	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		2,568
(8,713)	Net cash flows from Operating Activities	24	(10,768)
1,877	Investing Activities	25	7,670
1,913	Financing Activities	26	(2,700)
(4,923)	Net (increase) or decrease in cash & cash equivalents		(5,798)
9,363	Cash & cash equivalents at the beginning of the reporting period		14,286
14,286	**Cash & Cash Equivalents at 31st March 2014**	19	**20,084**

Notes to the Accounts - Summary **Page**

NOTES TO THE ACCOUNTS

1. Accounting Policies

1. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31st March 2014. 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 2013/14 and the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP), 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, other than prepayments which are accounted for on a cash basis. 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 Authority'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 2013/14.

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. The Authority did not discontinue any operations during 2013/14.

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 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 39 to the Core Financial Statements on page 100 refers.

The employees of the Authority 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 credit 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 4.5% (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;

- **Remeasurement of the Net Defined Benefit Liability / (Asset):** 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 LLP, an independent firm of actuaries, to undertake pension expense calculations on behalf of Tamworth Borough Council for the purpose of complying with International Accounting Standard 19 ‘Employee Benefits’ (IAS19) for the period ending 31st March 2014.

The calculations have been carried out in accordance with the Pensions Technical Actuarial Standards (TAS) adopted by the Financial Reporting Council, which came into effect on 1st January 2013 and TAS D – Data, TAS M – Modelling and TAS R – Reporting.

In order to assess the value of the Fund’s liabilities as at 31st March 2014, 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 either contribution or payroll information provided. In calculating the asset share, the share of 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 Authority and its employees have been rolled forward. Note 39 to the Core Financial Statements on page 100 has been prepared on the basis of these disclosures.

It is not possible to assess the accuracy of the estimated rolled-forward liability as at 31st March 2014 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 credit method of valuation has been used to calculate the service cost.

A set of demographic assumptions (including life expectancy and commutation) have been adopted. The mortality assumptions adopted are consistent with those used for the formal funding valuation as at 31st March 2013.

The post-retirement mortality assumptions used are in line with the Actuary’s Club Vita analysis which was carried out for the formal funding valuation as at 31st March 2013. 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 last formal valuation. Improvements have been applied that are in line with the CMI 2010 model assuming the rate of longevity improvements has reached a peak and will converge to a long term rate of 1.25% p.a.

The other demographic assumptions adopted (e.g. commutation, pre-retirement mortality) are the same as those used for the formal funding valuation as at 31st March 2013.

The financial assumptions used to calculate the components of the pension expense for the year ended 31st March 2014 were those from the beginning of the year (i.e. 31st March 2013) and have not been changed during the year. The financial assumptions used for the purposes of the IAS 19 calculations are detailed in Note 39 to the Core Financial Statements on page 100.

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, the approach to setting the discount rate was to identify the yield available on UK Government bonds (of appropriate duration) and add to this the mean credit spread. This spread was determined by comparing yields available on the constituents of the iBoxx AA over 15 year index with the Government bond yields at equivalent duration.

The approach to setting the recommended discount rate as at 31st March 2014 has changed in two key ways:

1) Rather than construct the discount rate as the yield on Government bonds plus a measure of the credit spread, it will be derived from a Corporate bond yield curve constructed from yields on high quality bonds.
2) The recommended discount rate recognises the weighted average duration (or term) of the benefit obligation for each separate employer in the scheme.

An approach has been adopted whereby a Corporate Bond yield curve is constructed based on the constituents of the iBoxx £ Corporates AA index and using the UBS delta curve fitting methodology.
Separate discount rates are then set (and corresponding RPI/CPI inflation assumptions – see below) for individual employers, dependent on their own weighted average duration. Each employer is allocated to a duration category, as defined below:

Weighted Average Duration	Discount Rate Category
Less than 17 years	Short
Between 17 and 23 years	Medium
More than 23 years	Long

The weighted average duration used to identify the appropriate category for each employer is that determined at the most recent actuarial valuation

For the 2013/14 financial year the discount rate derived from corporate bond yields as at 31st March 2014 was 4.1% for short weighted average duration and 4.3% p.a. for medium and long.

The inflation assumption (which the assumptions for salary growth and pension increases rely on) is typically derived by considering the difference in yields available on traditional fixed interest and index-linked Government Bonds. For consistency with the above discount rate assumption, the inflation assumption is derived from the Bank of England implied inflation curve at 31st March 2014.

The pension increase assumption for 2013/14, 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 been set to be consistent with the most recent formal valuation. As at 31st March 2014, the long term pay growth assumption is RPI plus 1.0% p.a. An additional allowance has also been made for promotional salary increases

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. Financial liabilities within the accounts consist of long term debt (PWLB) and bank overdraft carried at amortised cost. Other financial liabilities quoted are contractual creditors (less than 1 year) carried at contract amount. 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, these are included within the accounts at contractual amounts;

- 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;

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 1st 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 31st March 2014. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Within the accounts, this relates only to deposits from Glitnir Bank held in escrow in Iceland on our behalf.

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 Authority 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 Authority 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. 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 2013/14 financial statements (including the 2012/13 comparative information). The Authority 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 £10k 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 £10k) the Capital Receipts Reserve.

15. INTERESTS IN COMPANIES AND OTHER ENTITIES

The Authority 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 £10k) the Capital Receipts Reserve.

18. JOINTLY CONTROLLED OPERATIONS AND 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.

Jointly controlled operations relate to the Joint Waste Management arrangement with Lichfield District Council – detailed at Note 34 f) on page 95.

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.

The Authority did not have any finance leases where it is the lessee during 2013/14.

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 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* (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 £10k, 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. There were no assets under construction during 2013/14.

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 – 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 specialised 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. In the case of the Assembly Rooms and Cemeteries valuations, there is no active market and so DRC is used.

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 1st 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 Authority 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:** 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:** 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 70 years.
Historical properties: on a straight line basis to a nil residual value over the expected useful life of the asset being over 100 years

iii. **Vehicles, Plant and Equipment:** 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:** on a straight line basis to a nil residual value over the expected useful life of the asset of 30 years.

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

vii. **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:** computer software licences are amortised to revenue over a period of 3 years.

x. Furniture and equipment owned by the Authority 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 £10k 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 2013/14 £339k (£305k 2012/13) was paid over in respect to Government pooling (see the Comprehensive Income & Expenditure Statement on page 18).

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.

There were no assets held for sale during 2013/14.

f) Component Accounting Policy for Property, Plant and Equipment

i. De Minimus Level

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

ii. Policy for Componentisation

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

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

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

- have a cost of at least 20% of the cost of the overall asset <u>and</u>

- have a materially different useful life (at least 20% different) <u>and/or</u>

- have a different depreciation method that materially affects the amount charged

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

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. The contingent liabilities for 2013/14 are outlined at Note 40 on page 108.

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. The Authority did not have any contingent assets during 2013/14.

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 75.

24. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

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 Authority 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 Authority has complied by charging £23k within the General Fund plus £191k relating to the repayment of Icelandic Capitalisation debt (including an additional £135k voluntary repayment of principal relating to the capitalisation of Icelandic Banking losses, due to better than anticipated returns from Heritable Bank). Under the Act no MRP is chargeable to the Housing Revenue Account.

27. ACCOUNTING FOR COUNCIL TAX

The Authority, as a billing authority, acts as the agent of its major preceptors (Staffordshire County Council, Office of the Police and Crime Commissioner (OPCC) Staffordshire 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 its major preceptors (the Department for Communities and Local Government (DCLG), Staffordshire County Council and Stoke on Trent and Staffordshire Fire & Rescue Authority) and should be accounted for accordingly. It means that the Authority 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 preceptors.

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.

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 Authority has reviewed its relationship with organisations in which it may have an interest. The review has highlighted that the Authority has no material interest in subsidiaries, associates or joint ventures which would require the preparation of Group Accounts for 2013/14.

32. PRINCIPAL AND AGENT

The majority of transactions the Authority undertakes it is acting entirely on its own behalf and completely owns any risks and rewards of the transaction. This is known as the Authority acting as a Principal.

However there are some situations whereby the Authority is acting as an Agent, where the Authority is acting as an intermediary for all or part of a transaction or service. The two main instances where this occurs are in relation to Council Tax and Business Rates whereby the Authority is collecting Council tax and Business Rates income on behalf of itself and preceptors (Staffordshire County Council, Office of the Police and Crime Commissioner Staffordshire and the Stoke on Trent and Staffordshire Fire & Rescue Authority in relation to Council Tax and the Department for Communities and Local Government (DCLG), Staffordshire County Council and Stoke on Trent and Staffordshire Fire & Rescue Authority in relation to Business Rates).

The implications for this is that any balance sheet transactions at the year end, in relation to these Agent relationships, are split between the principal parties and, therefore, the balances contained on the Balance Sheet for a particular debt are the Authority's own proportion of the debt and associated balances. The proportions of transactions that relate to the other parties to the relationship are shown as debtors or creditors due from/to these parties.

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 has introduced several changes in accounting policies which will be required from 1st April 2014. If these had been adopted for the financial year they would not have a significant impact on the Statement of Accounts as detailed below.

A number of new and revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities. These include:

- **IFRS 10 Consolidated Financial Statements –** This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. The Authority does not have any subsidiaries and there is therefore no impact as a result of these changes.

- **IFRS 11 Joint Arrangements –** This standard addresses the account for a 'joint arrangement', which is defined as an arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operations. In addition proportionate consolidation can no longer be used for jointly controlled entities. This change will have no effect as the Authority already account for it's share of the assets, liabilities, revenue and expenses of the Joint Waste Management arrangement within these accounts – which is prescribed under the joint operations approach.

- **IFRS 12 Disclosures of Involvement with Other Entities –** This is a consolidation disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The adoption of this IFRS does not materially affect the Authority as the nature of the Joint Waste Management arrangement is already disclosed within the Authority's accounting policies and in Note 1 on page 24.

- **IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures –** These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12. Given that there would be no changes in the financial statements, there is therefore no impact as a result of these changes.

IAS 32 Financial Instruments Presentation – The Code references to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and no further disclosure is required.

IAS 1 Presentation of the Financial Statements – The changes clarify the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have a material impact on the Statement of Accounts.

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 42 on page 109.

- Under the new Business Rates Retention arrangements Billing Authorities acting as agents on behalf of the major preceptors (10%), central government (50%) and themselves (40%) are required to make provisions for refunding ratepayers who have successfully appeals against the rateable value of their properties on the rating list. The Authority has included a provision of **£0.4m** (the overall provision in the Business Rates Collection Fund is **£1.0m** and this Authority's share of the Local Business Rates Retention scheme is **40%**) for appeals outstanding on the 31st March 2014 of **£21.7m**. However, local businesses can still appeal against the Rateable Value on the 2010 Rating list until 31st March 2017. Therefore there are a number of future financial years where the cost of successful appeals could impact on the Authority's Financial Statements. It is difficult to estimate the likelihood of businesses both submitting and being successful with an appeal and the Authority has therefore made no provision in the accounts.

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 31st March 2014 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 £34.415m to £39.769m (following an increase from £28.118m to £34.415m in 2012/13) – see Note 39 on page 100.
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.
Business Rates Retention	The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the business rates came into effect on 1st April 2013. Billing authorities acting as agents on behalf of the major preceptors (10%), central government (50%) and themselves (40%) are required to make provisions for refunding ratepayers who have successfully appeals against the rateable value of their properties on the rating list.	The Authority has included a provision of **£0.4m** (the overall provision in the Business Rates Collection Fund is **£1.0m** and this Authority's share of the Local Business Rates Retention scheme is **40%**) for appeals outstanding on the 31st March 2014 of **£21.7m**. However, local businesses can still appeal against the Rateable Value on the 2010 Rating list until 31st March 2017. Therefore there are a number of future financial years where the cost of successful appeals could impact on the Authority's Financial Statements. It is difficult to estimate the likelihood of businesses both submitting and being successful with an appeal and the Authority has therefore made no provision in the accounts.

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:

Pension Fund

The pension fund deficit has increased in the year to £39.769m (2012/13 £34.415m) as financial assumptions are less favourable at 31st March 2014 than the previous year - this is required to be shown on the balance sheet of the Authority. The increased liability is as a result of a fall in the real bond yields which was partially offset by strong asset returns – as reflected in the Actuarial Gains / Losses on Pension Assets / Liabilities line of the Comprehensive Income & Expenditure Account.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director Corporate Services on 30th June 2014. 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 31st March 2014, 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 31st March 2014 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.

a) Land Charges

As a result of ongoing legal action by a group of Property Search Companies seeking to claim refunds of fees paid to the Authority to access land charges data, a provision of £121k has been established in the Authority's accounts. This was set on the basis of the current value of those claims being £95k, plus interest and costs.

Correspondence has since been received from Bevan Brittain LLP, who are acting for the local authorities involved, advising of a proposed framework for settlement, and notifying of a settlement figure of £55.5k (excluding interest and costs) for this Authority. A decision is due to be made on this proposed settlement by 1st July 2014.

b) Deposits with Icelandic Banks

The Authority has been advised that it is due to receive the following additional repayment by 30th June 2014:

Expected Date	KSF £
June 2014	71,443

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
	£000s	£000s	£000s	£000s	£000s	£000s
2013/14						
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;	(1,161)	(9,749)	-	-	-	10,910
Revaluation losses on Property Plant & Equipment;	(1,223)	2,778	-	-	-	(1,555)
Movements in the market value of Investment Properties;	322	-	-	-	-	(322)
Amortisation of Intangible Assets;	(63)	-	-	-	-	63
Capital Grants and Contributions Applied;	392	-	-	-	-	(392)
Revenue Expenditure Funded from Capital Under Statute (REFCUS);	(374)	-	-	-	-	374
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.	(175)	(1,536)	-	-	-	1,711
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:						
Statutory provision for the financing of capital investment - Minimum Revenue Provision;	79	-	-	-	-	(79)
Statutory provision for the financing of capital investment - Voluntary Revenue Provision;	135	-	-	-	-	(135)
Capital expenditure charged against the General Fund & HRA balances.	493	1,959	-	-	-	(2,452)
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;	239	1,944	(2,183)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure;	-	-	543	-	-	(543)
Contribution from the Capital Receipts Reserve towards administrative costs of Non-Current Asset disposals;	-	(55)	55	-	-	-

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
	£000s	£000s	£000s	£000s	£000s	£000s
Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool;	(339)	-	339	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash.	(6)	-	(1)	-	-	7
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA;	-	4,471	-	(4,471)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure.	-	-	-	5,583	-	(5,583)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement (see Note 39);	(2,679)	(717)	-	-	-	3,396
Employer's pensions contribution and direct payments to pensioners payable in the year.	1,201	313	-	-	-	(1,514)
Adjustment primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income & Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements.	555	-	-	-	-	(555)
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.	(32)	(7)	-	-	-	39
Total Adjustments 2013/14	**(2,636)**	**(599)**	**(1,247)**	**1,112**	**-**	**3,370**

Adjustments between Accounting Basis and Funding Basis under Regulations

Restated	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
2012/13						
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;	(489)	(5,268)	-	-	-	5,757
Revaluation losses on Property Plant & Equipment;	(1,876)	3,110	-	-	-	(1,234)
Movements in the market value of Investment Properties;	1,298	-	-	-	-	(1,298)
Amortisation of Intangible Assets;	(63)	-	-	-	-	63
Capital Grants and Contributions Applied;	929	-	-	-	-	(929)
Revenue Expenditure Funded from Capital Under Statute;	(554)	-	-	-	-	554
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.	-	(526)	-	-	-	526
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:						
Statutory provision for the financing of capital investment - Minimum Revenue Provision;	80	-	-	-	-	(80)
Capital expenditure charged against the General Fund & HRA balances.	90	-	-	-	-	(90)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement;	6	-	-	-	(6)	-
Application of grants to capital financing transferred to the Capital Adjustment Account.	-	-	-	-	2	(2)
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;	108	733	(841)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure;	-	-	602	-	-	(602)
Contribution from the Capital Receipts Reserve towards administrative costs of Non-Current Asset disposals;	-	(23)	23	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool.	(305)	-	305	-	-	-

Adjustments between Accounting Basis and Funding Basis under Regulations

Restated	Usable Reserves: General Fund Balance £000s	Usable Reserves: Housing Revenue Account £000s	Usable Reserves: Capital Receipts Reserve £000s	Usable Reserves: Major Repairs Reserve £000s	Usable Reserves: Capital Grants Unapplied £000s	Unusable Reserves £000s
Transfer from Deferred Capital Receipts Reserve upon receipt of cash.		-	(8)	-	-	8
Adjustment primarily involving the Deferred Capital Receipts Reserve:						
Finance Leases.	(303)	-	-	-	-	303
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA;	-	4,477	-	(4,477)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure.	-	-	-	3,365	-	(3,365)
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.	-	2	-	-	-	(2)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement (see Note 39);	(2,142)	(581)	-	-	-	2,723
Employer's pensions contribution and direct payments to pensioners payable in the year.	1,167	306	-	-	-	(1,473)
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.	3	-	-	-	-	(3)
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.	(14)	2	-	-	-	12
Total Adjustments 2012/13	**(2,065)**	**2,232**	**81**	**(1,112)**	**(4)**	**868**

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 2013/14.

Transfers to / (from) Earmarked Reserves	Balance at 1st April 2012 £000s	Transfers out 2012/13 £000s	Transfers in 2012/13 £000s	Balance at 31st March 2013 £000s	Transfers out 2013/14 £000s	Transfers in 2013/14 £000s	Balance at 31st March 2014 £000s
General Fund:							
Future Capital Expenditure	**1,241**	(89)	-	**1,152**	(692)	401	**861**
Temporary Reserves	**1,432**	(760)	259	**931**	(265)	249	**915**
Retained Funds	**1,903**	(664)	868	**2,107**	(555)	617	**2,169**
Repairs & Renewals	**259**	-	-	**259**	(259)	-	**-**
Commuted Sums	**1,468**	(31)	77	**1,514**	(32)	118	**1,600**
Other Reserves	**350**	-	40	**390**	(546)	598	**442**
Total	**6,653**	**(1,544)**	**1,244**	**6,353**	**(2,349)**	**1,983**	**5,987**
HRA:							
Future Capital Expenditure	**274**	-	2,957	**3,231**	(1,959)	3,461	**4,733**
Temporary Reserves	**230**	(171)	108	**167**	(70)	72	**169**
Retained Funds	**151**	(4)	204	**351**	(78)	53	**326**
Total	**655**	**(175)**	**3,269**	**3,749**	**(2,107)**	**3,586**	**5,228**

Future Capital Expenditure: The Authority maintains a Capital Reserve under the provisions of the Local Government (Miscellaneous Provisions) Act 1976. It is Authority 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 was used to support the revenue budget in 2013/14.

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

2012/13 £000s	Other Operating Expenditure	2013/14 £000s
305	Payments to the Government Housing Capital Receipts Pool	339
5	(Gains) / losses on the disposal of Non Current Assets	(418)
310	**Total**	**(79)**

10. Financing and Investment Income and Expenditure

2012/13 Restated £000s	Financing & Investment Income & Expenditure	2013/14 £000s
2,976	Interest payable and similar charges	3,004
1,348	Pensions interest cost and expected return on pensions assets	1,555
(451)	Interest receivable and similar income	(326)
(844)	Finance Lease Income	(844)
(2,292)	(Income) and expenditure in relation to investment properties and changes in their fair value	(1,359)
(36)	Investment impairment	(33)
701	**Total**	**1,997**

11. Taxation and Non Specific Grant Income

2012/13 £000s	Taxation & Non-specific Grant Incomes	2013/14 £000s
(3,526)	Council tax income	(3,153)
(4,603)	Non domestic rates	(12,693)
-	Non domestic rates - Tariff	10,156
-	Non domestic rates - Levy to GBSLEP	356
(710)	Non-ringfenced government grants	(3,830)
(935)	Capital grants and contributions	(392)
(9,774)	**Total**	**(9,556)**

A detailed breakdown of the grants, contributions and donations credited to the Comprehensive Income and Expenditure Statement in 2013/14 is shown in Note 33.

In 2013/14 there was a change to the method for distributing and accounting for business rates income. Prior to 1st April 2013 Non-Domestic Rates were collected by the Authority and then completed paid over to the Government, who then redistributed these sums across the country in the form of the Non-Domestic rates grant.

From 1st April 2013 Business Rates Retention has come in whereby local authorities (Tamworth Borough Council (40%), Staffordshire County Council (9%) and the Stoke on Trent and Staffordshire Fire & Rescue Authority (1%)) retain 50% of the business rates collected for the area and pay the remaining 50% to central government. In addition the government has set a level of business rates funding deemed to be applicable to each area and every Authority receives a top-up (if business rates collected are below this deemed level of funding) or pays a tariff (if business rates collected are above this deemed level of funding).

With the introduction of business rates retention if a local authority increases its business rates base and thereby increases its business rate income it is allowed to retain a proportion of this increased income, whilst paying up to a maximum of 50% across to central government or in the case of the Authority, to the Greater Birmingham & Solihull Local Enterprise Partnership (GBSLEP) as the Authority is a member of the GBSLEP Business Rates Pool. This payment where it occurs is known as a levy payment.

The Government has also stated that no local authority will suffer a reduction in business rate income or more than 7.5% of its Business Rates funding baseline. If business rates income falls below this 7.5% level (£153k for the Authority) then the Government or pool, if part of a pooling arrangement, will make a safety net payment.

12. Property, Plant and Equipment

Movement in 2013/14	Council Dwellings £000s	Other Land & Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Total Property, Plant & Equipment £000s
Cost or Valuation						
At 1st April 2013	**125,747**	**21,166**	**3,273**	**378**	**803**	**151,367**
Additions;	7,602	482	170	-	8	**8,262**
Accumulated Depreciation and Impairment written off to Gross Carrying Amount;	(9,385)	(1,116)	-	-	-	**(10,501)**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve;	3,460	119	-	-	-	**3,579**
Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on the Provision of Services;	2,778	(1,908)	-	-	-	**870**
Derecognition – Disposals;	(1,367)	(389)	-	-	-	**(1,756)**
Assets reclassified (to)/ from Investment Property.	52	(271)	-	-	-	**(219)**
At 31st March 2014	**128,887**	**18,083**	**3,443**	**378**	**811**	**151,602**
Accumulated Depreciation & Impairment						
At 1st April 2013	**-**	**(851)**	**(2,193)**	**(164)**	**(2)**	**(3,210)**
Depreciation Charge;	(2,103)	(393)	(133)	(12)	-	**(2,641)**
Accumulated Depreciation and Impairment written off to Gross Carrying Amount;	9,385	1,116	-	-	-	**10,501**
Impairment losses/ (reversals) recognised in the Revaluation Reserve;	(1)	(41)	-	-	-	**(42)**
Impairment losses/ (reversals) recognised in the Surplus/ Deficit on the Provision of Services;	(7,583)	(12)	-	-	-	**(7,595)**
Derecognition – disposals;	9	37	-	-	-	**46**
Assets reclassified (to)/ from Investment Property.	-	12	-	-	-	**12**
At 31st March 2014	**(293)**	**(132)**	**(2,326)**	**(176)**	**(2)**	**(2,929)**
Net Book Value						
at 31st March 2013	125,747	20,315	1,080	214	801	148,157
at 31st March 2014	**128,594**	**17,951**	**1,117**	**202**	**809**	**148,673**
Nature of Holdings at year end						
Owned	128,594	17,951	1,117	202	809	**148,673**

Comparative Movement in 2012/13	Council Dwellings £000s	Other Land & Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Total Property, Plant & Equipment £000s
Cost or Valuation						
At 1st April 2012	**133,672**	**20,751**	**3,809**	**378**	**803**	**159,413**
Additions;	3,365	22	126	-	-	**3,513**
Accumulated Depreciation and Impairment written off to Gross Carrying Amount;	(15,610)	(113)	-	-	-	**(15,723)**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve;	1,747	246	-	-	-	**1,993**
Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on the Provision of Services;	3,109	(1,875)	-	-	-	**1,234**
Derecognition – Disposals;	(536)	-	(662)	-	-	**(1,198)**
Assets reclassified (to)/ from Investment Property.	-	2,135	-	-	-	**2,135**
At 31st March 2013	**125,747**	**21,166**	**3,273**	**378**	**803**	**151,367**
Accumulated Depreciation & Impairment						
At 1st April 2012	**(10,422)**	**(519)**	**(2,711)**	**(151)**	**(1)**	**(13,804)**
Depreciation and Impairment Charge;	(1,833)	(402)	(144)	(13)	-	**(2,392)**
Accumulated Depreciation and Impairment written off to Gross Carrying Amount;	15,610	113	-	-	-	**15,723**
Impairment losses/ (reversals) recognised in the Revaluation Reserve;	-	(33)	-	-	-	**(33)**
Impairment losses/ (reversals) recognised in the Surplus/ Deficit on the Provision of Services;	(3,365)	(10)	-	-	(1)	**(3,376)**
Derecognition – disposals.	10	-	662	-	-	**672**
At 31st March 2013	**-**	**(851)**	**(2,193)**	**(164)**	**(2)**	**(3,210)**
Net Book Value						
at 31st March 2012	123,250	20,232	1,098	227	802	145,609
at 31st March 2013	**125,747**	**20,315**	**1,080**	**214**	**801**	**148,157**
Nature of Holdings at year end						
Owned	125,747	20,315	1,080	214	801	**148,157**

a) Capital Commitments

At 31st March 2014, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years budgeted to cost £5.542m. Similar commitments at 31st March 2013 were £9.06m. The major commitments are:

2012/13 £000s	Capital Contract	2013/14 £000s
167.0	Private Sector Housing – Disabled Facilities Grants	55.3
115.9	IT Projects	48.7
6,869.5	Housing Repairs & Investment	3,846.5
1,593.5	Gas Installations	1,249.0
262.5	Tamworth Castle Heritage Lottery Fund	89.9
9.4	Repair to River Bank Castle	-
6.6	BMX Track	-
8.0	Assembly Rooms Development	32.5
27.4	HR/Payroll System	7.4
-	Regeneration Projects	191.3
-	New Cemetery Land	21.2
9,059.8	**Total**	**5,541.8**

b) 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 Authority's Property Surveyor, Mr P Evans MRICS, IRRV with the valuation of Council Dwellings being undertaken by Specialist Valuation Services an external valuer. 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 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 shows the progress of the Authority's rolling programme for revaluation of Non Current Assets:

Valuations (Cost or Valuation)	**Council Dwellings** £000s	**Other Land and Buildings** £000s	**Vehicles, Plant, Furniture and Equipment** £000s	**Infrastructure Assets** £000s	**Community Assets** £000s	**Total Property, Plant & Equipment** £000s
Valued at historical cost	-	-	1,117	202	809	2,128
Valued at current cost in:						
2013/14	128,594	17,951	-	-	-	146,545
Total	**128,594**	**17,951**	**1,117**	**202**	**809**	**148,673**

13. Heritage Assets

Movement in 2013/14	**Art Collection** £000s	**Civic Regalia** £000s	**Museum Exhibits** £000s	**Statues** £000s	**Castle** £000s	**Total Heritage Assets** £000s
Cost or Valuation						
At 1st April 2013	**97**	**174**	**622**	**233**	**1,456**	**2,582**
Additions	-	-	-	-	172	**172**
Other movements in cost or valuation	-	-	2	-	(2)	**-**
At 31st March 2014	**97**	**174**	**624**	**233**	**1,626**	**2,754**

Movement in 2012/13	Art Collection £000s	Civic Regalia £000s	Museum Exhibits £000s	Statues £000s	Castle £000s	Total Heritage Assets £000s
Cost or Valuation						
At 1st April 2012	**97**	**174**	**622**	**233**	**620**	**1,746**
Additions	-	-	-	-	836	**836**
At 31st March 2013	**97**	**174**	**622**	**233**	**1,456**	**2,582**

Heritage Assets Five Year Summary of Transactions	2009/10 £000s	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s
Cost of Acquisitions of Heritage Assets					
Castle Museum	10	4	64	836	172
Total Cost of Purchases	10	4	64	836	172

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:

2012/13 £000s	Investment Properties	2013/14 £000s
(1,344)	Rental income from investment property	(1,434)
350	Direct operating expenses arising from investment property	397
(994)	**Net (Gain) / Loss**	**(1,037)**

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:

2012/13 £000s	Fair Value of Investment Properties	2013/14 £000s
19,272	**Balance at 1st April 2013**	**18,435**
	Transfers:	
(2,135)	to/ from Property, Plant & Equipment	207
	Valuations:	
1,298	Changes in market valuation	322
18,435	**Balance at 31st March 2014**	**18,964**

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 £63k charged to revenue in 2013/14 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.

2012/13 £000s	Intangible Assets	2013/14 £000s
	Balance at 1st April 2013	
740	Gross carrying amounts	826
(639)	Accumulated amortisation	(702)
101	**Net Carrying Amount at 1st April 2013**	**124**
86	Additions through purchases	159
(63)	Amortisation for the period	(63)
124	**Net Carrying Amount at 31st March 2014**	**220**
	Comprising:	
826	Gross carrying amounts	985
(702)	Accumulated amortisation	(765)
124	**Net Book Value at 31st March 2014**	**220**

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	
	31st March 2013 £000s	31st March 2014 £000s	31st March 2013 £000s	31st March 2014 £000s
Investments				
Loans and receivables (Principal amount)	178	59	6,873	8,674
Plus Accounting adjustments	-	-	67	52
Available for sale financial assets	58	55	-	-
Total Investments	**236**	**114**	**6,940**	**8,726**
Debtors				
Loans and receivables	-	-	14,662	20,055
Plus Accounting adjustments	-	-	35	25
Financial assets carried at contract amounts	12,961	12,938	1,207	1,274
Total Debtors	**12,961**	**12,938**	**15,904**	**21,354**
Borrowings				
Financial liabilities at amortised cost	65,060	65,060	-	-
Plus Accounting adjustments	-	-	366	366
Total Borrowings	**65,060**	**65,060**	**366**	**366**
Creditors				
Financial liabilities at amortised cost	-	-	415	-
Financial liabilities carried at contract amount	-	-	4,493	5,718
Total Creditors	**-**	**-**	**4,908**	**5,718**

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	2012/13					2013/14				
	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
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Interest expense	(2,976)	-	-	-	**(2,976)**	(3,004)	-	-	-	**(3,004)**
Impairment losses	-	36	-	-	**36**	-	33	-	-	**33**
Total expense in (Surplus) or Deficit on the Provision of Services	**(2,976)**	**36**	**-**	**-**	**(2,940)**	**(3,004)**	**33**	**-**	**-**	**(2,971)**
Interest income	-	416	2	844	**1,262**	-	306	1	844	**1,151**
Interest income accrued on impaired financial assets	-	33	-	-	**33**	-	19	-	-	**19**
Total income in (Surplus) or Deficit on the Provision of Services	**-**	**449**	**2**	**844**	**1,295**	**-**	**325**	**1**	**844**	**1,170**
Gains on revaluation	-	-	2	-	**2**	-	-	2	-	**2**
Surplus / (deficit) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**-**	**-**	**2**	**-**	**2**	**-**	**-**	**2**	**-**	**2**
Net Gain / (Loss) for the Year	**(2,976)**	**485**	**4**	**844**	**(1,643)**	**(3,004)**	**358**	**3**	**844**	**(1,799)**

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:

Financial Liabilities	31st March 2013		31st March 2014	
	Carrying Amount £000s	**Fair Value £000s**	**Carrying Amount £000s**	**Fair Value £000s**
PWLB Debt	65,426	80,354	65,426	75,567
Creditors	4,493	4,493	5,718	5,718
Total Financial Liabilities	**69,919**	**84,847**	**71,144**	**81,285**

The fair value is greater than the carrying amount because the Authority'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 31st March 2014) 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.

Loans and Receivables	31st March 2013		31st March 2014	
	Carrying Amount £000s	**Fair Value £000s**	**Carrying Amount £000s**	**Fair Value £000s**
Money Market Loans <1 year	6,940	6,962	8,726	8,737
Money Market Loans >1 year	178	178	59	59
Debtors	1,207	1,207	1,274	1,274
Long-term debtors	12,961	12,961	12,938	12,938
Total Financial Liabilities	**21,286**	**21,308**	**22,997**	**23,008**

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 2013/14, a notional future gain (based on economic conditions at 31st March 2014) attributable to the commitment to receive interest above 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 higher than the prevailing rate estimated to be available at 31st March 2014. This increases the fair value of financial liabilities and 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

Inventories	**Castle Stock**		**Assembly Rooms**		**Tourist Information Centre**		**Golf Course**		**Total**	
	2012/13 £000s	**2013/14 £000s**	**2012/13 £000s**	**2013/14 £000s**	**2012/13 £000s**	**2013/14 £000s**	**2012/13 £000s**	**2013/14 £000s**	**2012/13 £000s**	**2013/14 £000s**
Balance at 1st April 2013	**13**	**13**	**5**	**5**	**13**	**13**	**-**	**-**	**31**	**31**
Movement		(3)		(1)		(2)		1		(5)
Balance at 31st March 2014	**13**	**10**	**5**	**4**	**13**	**11**	**-**	**1**	**31**	**26**

18. Debtors

2012/13 Restated £000s	Debtors	2013/14 £000s
1,654	Central Government bodies	933
268	Other Local Authorities	303
74	Council Taxpayers	86
1,506	Housing Rents	1,655
1,921	Other entities and individuals	2,027
-	Business Rates	32
(219)	Payment in advance	(229)
(2,269)	Provision for bad debts	(2,482)
2,935	**Total**	**2,325**

19. Cash and Cash Equivalents

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

2012/13 £000s	Cash & Cash Equivalents	2013/14 £000s
4	Cash held by the Authority	4
(415)	Bank current accounts	172
14,697	Short-term deposits with Banks and Building Societies	19,908
14,286	**Total Cash and Cash Equivalents**	**20,084**

20. Assets Held for Sale

The Authority held no assets for sale during 2013/14.

21. Creditors

2012/13 £000s	Creditors	2013/14 £000s
1,005	Central Government bodies	1,761
740	Other Local Authorities	1,741
68	Council Taxpayers	71
436	Housing Rents	394
-	Precepting Authorities – Business Rates	1,642
366	Precepting Authorities – Council Tax	800
3,317	Other entities and individuals	3,583
-	Business Rates	241
5,932	**Total**	**10,233**

22. Provisions

Provisions	Costs Associated with VR £000s	Housing Repairs Contract Pensions £000s	Municipal Mutual Insurance £000s	Land Charges Legal Liability £000s	Non-Domestic Rates Appeals £000s	Total £000s
2012/13						
Balance at 1st April 2012	**59**	**518**	**-**	**-**	**-**	**577**
Additional provisions made in year	-	-	33	110	-	143
Amount used in year	(54)	(463)	-	-	-	(517)
Unused amounts reversed in year	-	(55)	-	-	-	(55)
2013/14						
Balance at 31st March 2013	**5**	**-**	**33**	**110**	**-**	**148**
Additional provisions made in year	-	-	-	11	393	404
Amount used in year	(5)	-	-	-	-	(5)
Unused amounts reversed in year	-	-	-	-	-	-
Balance at 31st March 2014	**-**	**-**	**33**	**121**	**393**	**547**

a) Costs Associated with VR

The provision for the costs associated with VR has reduced to nil (£5k in 202/13). It was established to cover redundancy payments and associated costs arising from a cost reduction scheme introduced during 2010/11.

b) Municipal Mutual Insurance (MMI)

This provision has been established as a result of the decision to trigger the 'Scheme of Arrangement' (SOA) with regard to Municipal Mutual Insurance (MMI), at a meeting of the Board of Directors on 13th November 2012. Under this SOA, the Authority is liable to pay a levy up to the value of claims paid since 1993 (£252k – excluding the first £50k of claims paid). The provision of £33k is to cover the potential additional levy of up to 28%.

c) Land Charges Ongoing Legal Action

A group of Property Search Companies are seeking to claim refunds of fees paid to the Authority to access land charges data. The Authority has been informed that the value of those claims at present is £95k plus interest and costs. A provision of £121k has been established at this stage.

d) Business Rates Appeals

Under the new Business Rates Retention arrangements Billing authorities acting as agents on behalf of the major preceptors (10%), central government (50%) and themselves (40%) are required to make provisions for refunding ratepayers who have successfully appeals against the rateable value of their properties on the rating list. The Authority has included a provision of **£0.4m** (the overall provision in the Business Rates Collection Fund is **£1.0m** and this Authority's share of the Local Business Rates Retention scheme is **40%**) for appeals outstanding on the 31st March 2014 of **£21.7m**.

A Contingent Liability has also been included at Note 40 as local businesses can still appeal against the Rateable Value on the 2010 Rating list until 31st March 2017. Therefore there are a number of future financial years where the cost of successful appeals could impact on the Authority's Financial Statements.

23. Unusable Reserves

31st March 2013 £000s	Unusable Reserves	31st March 2014 £000s
9,017	Revaluation Reserve	12,791
90,702	Capital Adjustment Account	88,467
-	Financial Instruments Adjustment Account	-
(34,415)	Pensions Reserve	(39,769)
12,772	Deferred Capital Receipts Reserve	12,765
50	Collection Fund Adjustment Account	605
(248)	Accumulated Absences Account	(287)
77,878	**Total Unusable Reserves**	**74,572**

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 1st 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.

2012/13 £000s	Revaluation Reserve	2013/14 £000s	
7,254	**Balance at 1st April 2013**		**9,017**
2,109	Upward revaluation of assets	4,393	
(149)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(857)	
1,960	Surplus or deficit on the revaluation of Non Current Assets not posted to the Surplus/Deficit on the Provision of Services		3,536
(197)	Difference between fair value depreciation and historical cost depreciation	238	
(197)	Amount written off to the Capital Adjustment Account		238
9,017	**Balance at 31st March 2014**		**12,791**

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 2013/14.

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 1st 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.

2012/13 £000s	**Capital Adjustment Account**	**2013/14 £000s**	
89,805	**Balance at 1st April 2013**		**90,702**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(5,757)	Charges for depreciation and impairment of Non Current Assets;	(10,910)	
1,234	Revaluation losses on Property, Plant and Equipment;	1,555	
(63)	Amortisation of Intangible Assets;	(63)	
(554)	Revenue Expenditure Funded from Capital Under Statute;	(374)	
(526)	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.	(1,711)	
			(11,503)
197	Adjusting amounts written out of the Revaluation Reserve.		(238)
	Net written out amount of the cost of Non Current Assets consumed in the year.		(11,741)
	Capital financing applied in the year:		
602	Use of Capital Receipts Reserve to finance new capital expenditure;	543	
3,365	Use of Major Repairs Reserve to finance new capital expenditure;	5,583	
929	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing;	392	
2	Application of grants to capital financing from the Capital Grants Unapplied Account;	-	
80	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances - Minimum Revenue Provision;	79	
-	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances - Voluntary Revenue Provision;	135	
90	Capital expenditure charged against the General Fund and HRA Balances;	2,452	
			9,184
1,298	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement.		322
90,702	**Balance at 31st March 2014**		**88,467**

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.

2012/13 £000s	Financial Instruments Adjustment Account	2013/14 £000s
(2)	**Balance at 1st April 2013**	**-**
2	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-
2	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	**-**
-	**Balance at 31st March 2014**	**-**

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.

2012/13 Restated £000s	Pensions Reserve	2013/14 £000s
(28,118)	**Balance at 1st April 2013**	**(34,415)**
(5,047)	Remeasurement of the Net Defined Benefit Liability / (Asset)	(3,472)
(2,723)	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	(3,396)
1,473	Employer's contributions and direct payments to pensioners payable in the year	1,514
(34,415)	**Balance at 31st March 2014**	**(39,769)**

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.

2012/13 £000s	Deferred Capital Receipts Reserve	2013/14 £000s
13,083	**Balance at 1st April 2013**	**12,772**
(8)	Transfer to Capital Receipts Reserve upon receipt of cash	(7)
(303)	Finance Leases	-
12,772	**Balance at 31st March 2014**	**12,765**

g) Collection Fund Adjustment Account

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

2012/13 £000s	Collection Fund Adjustment Account	2013/14 £000s
47	**Balance at 1st April 2013**	**50**
3	Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rate income calculated for the year in accordance with statutory requirements	555
50	**Balance at 31st March 2014**	**605**

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 31st March 2014. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2012/13 £000s	Accumulated Absences Account	2013/14 £000s	
(236)	**Balance at 1st April 2013**		**(248)**
236	Settlement or cancellation of accrual made at the end of the preceding year	248	
(248)	Amounts accrued at the end of the current year	(287)	
(12)	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		(39)
(248)	**Balance at 31st March 2014**		**(287)**

24. Cash Flow Statement – Operating Activities

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

2012/13 £000	Cash Flow Statement - Operating Activities	2013/14 £000
	The cash flows for operating activities include the followng items	
(1,269)	Interest received	(1,185)
2,980	Interest paid	2,991
1,711		**1,806**
4,106	Net Surplus or (Deficit) on the Provision of Services	**(1,957)**
	Adjusted for non-cash movements	
5,757	Depreciation	10,910
(1,235)	Impairment and Downward Valuations	(1,555)
63	Amortisation	63
1,379	Increase/Decrease in Creditors	2,029
541	Increase/Decrease in Debtors	171
(7)	Increase/Decrease in Inventories	5
783	Movement in Pension Liability	1,882
526	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	1,711
(1,727)	Other non-cash items charged to the net surplus of deficit on the provision of services	77
6,080		**15,293**
	Adjusted for items that are investing or financing activities	
(538)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(2,176)
(935)	Any other items for which the cash effects are investing or financing cash flows	(392)
(1,473)		**(2,568)**
8,713	**Net Cash Flows from Operating Activities**	**10,768**

25. Cash Flow Statement – Investing Activities

2012/13 £000s	Cash Flow Statement - Investing Activities	2013/14 £000s
3,654	Purchase of Property, Plant and Equipment; Investment Property and Intangible Assets	8,370
178	Purchase of Short Term and Long Term Investments	55
(849)	Proceeds from the sale of Property, Plant and Equipment; Investment Property and Intangible Assets	(2,184)
(621)	Proceeds from Short Term and Long Term Investments	1,623
(485)	Other Receipts from Investing Activities	(194)
1,877	**Net Cash Flows from Investing Activities**	**7,670**

26. Cash Flow Statement – Financing Activities

2012/13 £000s	Cash Flow Statement - Financing Activities	2013/14 £000s
1,916	Billing Authorities - Council Tax and NNDR adjustments	(2,700)
(3)	Appropriation to/from Collection Fund Adjustment Account	-
1,913	**Net Cash Flows from Financing Activities**	**(2,700)**

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:

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year under IAS19.

- the finance lease repayment charges are charged in full to the portfolio as opposed to being split between interest cost and repayment of the outstanding liability.

- the costs and income relating to investment properties are shown within the portfolio whereas they are charges/ credited to financing and investment income on the face of the Comprehensive Income and Expenditure Statement.

- 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 Directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure	**Chief Executive**	**Executive Director Corporate Resources**	**Director of Finance**	**Director Technology and Corporate Programmes**	**Solicitor to the Council**	**Director Assets and Environmental Services**	**Director Housing and Health**	**Director Communities, Planning and Partnerships**	**Director Transformation and Corporate Performance**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
2013/14										
Fees, charges & other service income	-	(548)	(4,142)	(49)	(149)	(5,102)	(21,731)	(1,500)	(89)	**(33,310)**
Interest and investment income	-	-	(1,061)	-	-	-	(97)	(15)	-	**(1,173)**
Government grants	-	(22,020)	(448)	(7)	(9)	(2)	(45)	(37)	-	**(22,568)**
Total Income	**-**	**(22,568)**	**(5,651)**	**(56)**	**(158)**	**(5,104)**	**(21,873)**	**(1,552)**	**(89)**	**(57,051)**
Employee expenses	182	906	982	530	230	3,060	2,712	1,999	980	**11,581**
Other service expenses	11	22,048	3,484	608	453	5,108	12,334	1,963	432	**46,441**
Support service recharges	(193)	272	543	(1,167)	196	(553)	1,244	742	(1,084)	**-**
Depreciation, amortisation & impairment	-	-	-	109	-	392	2,166	37	1	**2,705**
Total Operating Expenses	**-**	**23,226**	**5,009**	**80**	**879**	**8,007**	**18,456**	**4,741**	**329**	**60,727**
Net Expenditure	**-**	**658**	**(642)**	**24**	**721**	**2,903**	**(3,417)**	**3,189**	**240**	**3,676**

Income and Expenditure	Chief Executive	Executive Director Corporate Resources	Director of Finance	Director Technology and Corporate Programmes	Solicitor to the Council	Director Assets and Environmental Services	Director Housing and Health	Director Communities, Planning and Partnerships	Director Transformation and Corporate Performance	Total
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
2012/13 Comparative Figures										
Fees, charges & other service Income;	-	(641)	(282)	(35)	(94)	(4,155)	(19,894)	(739)	(74)	**(25,914)**
Interest and investment income;	-	-	(1,167)	-	-	-	(113)	(15)	-	**(1,295)**
Government Grants.	-	(27,335)	(624)	-	-	(2)	(62)	(210)	-	**(28,233)**
Total Income	**-**	**(27,976)**	**(2,073)**	**(35)**	**(94)**	**(4,157)**	**(20,069)**	**(964)**	**(74)**	**(55,442)**
Employee expenses;	173	867	945	510	285	3,071	2,387	1,868	989	**11,095**
Other service expenses;	13	27,536	3,340	565	613	4,179	8,241	1,604	428	**46,519**
Support service recharges;	(186)	191	(2,683)	(1,119)	187	(35)	1,854	691	(1,034)	**(2,134)**
Depreciation, amortisation & impairment.	-	-	-	120	-	408	1,903	24	-	**2,455**
Total Operating Expenses	**-**	**28,594**	**1,602**	**76**	**1,085**	**7,623**	**14,385**	**4,187**	**383**	**57,935**
Net Expenditure	**-**	**618**	**(471)**	**41**	**991**	**3,466**	**(5,684)**	**3,223**	**309**	**2,493**

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.

2012/13 Restated £000s	Reconciliation to Cost of Services in Comprehensive Income and Expenditure Statement	2013/14 £000s
2,493	Net expenditure in the Directorate Analysis	3,676
2,610	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	7,419
21	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	(1,500)
5,124	**Cost of Services in Comprehensive Income and Expenditure Statement**	**9,595**

Reconciliation to the (Surplus) or deficit on the provision of services	Directorate Analysis	Amounts not Reported to Management for Decision Making	Amounts not included in the Comprehensive Income and Expenditure Statement	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
2013/14						
Fees, charges and other service income	(33,310)	-	8,561	**(24,749)**	(4,406)	**(29,155)**
Interest and investment income	(1,173)	-	1,169	**(4)**	(1,169)	**(1,173)**
Income from council tax	-	-	-	**-**	(3,153)	**(3,153)**
Government grants and contributions	(22,568)	-	404	**(22,164)**	(6,403)	**(28,567)**
Total Income	**(57,051)**	**-**	**10,134**	**(46,917)**	**(15,131)**	**(62,048)**
Employee expenses	11,581	-	(40)	**11,541**	40	**11,581**
Other service expenses	46,441	-	(11,465)	**34,976**	6,198	**41,174**
Support service recharges	-		(129)	**(129)**	129	**-**
Depreciation, amortisation and impairment	2,705	6,724	-	**9,429**	(356)	**9,073**
REFCUS	-	374	-	**374**		**374**
Retirement Benefits	-	321	-	**321**	1,561	**1,882**
Payments to Housing Capital Receipts Pool	-		-	**-**	339	**339**
Gain or Loss on Disposal of Fixed Assets	-	-	-	**-**	(418)	**(418)**
Total Expenditure	**60,727**	**7,419**	**(11,634)**	**56,512**	**7,493**	**64,005**
(Surplus) or Deficit on the Provision of Services	**3,676**	**7,419**	**(1,500)**	**9,595**	**(7,638)**	**1,957**

Reconciliation to the (Surplus) or deficit on the provision of services	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in the Comprehensive Income and Expenditure Statement	Cost of Services	Corporate Amounts	Total
2012/13 Comparative Figures	**£000s**	**£000s**	**£000s**	**£000s**	**Restated £000s**	**Restated £000s**
Fees, charges and other service income;	(25,914)	-	2,674	**(23,240)**	(1,378)	**(24,618)**
Interest and investment income;	(1,295)	-	-	**(1,295)**	(1,296)	**(2,591)**
Income from council tax;	-	-	-	**-**	(3,525)	**(3,525)**
Government grants and contributions.	(28,233)	-	708	**(27,525)**	(6,248)	**(33,773)**
Total Income	**(55,442)**	**-**	**3,382**	**(52,060)**	**(12,447)**	**(64,507)**
Employee expenses;	11,095	-	(43)	**11,052**	43	**11,095**
Other service expenses;	46,519	-	(6,179)	**40,340**	6,179	**46,519**
Support service recharges;	(2,134)	-	2,861	**727**	(2,861)	**(2,134)**
Depreciation, amortisation and impairment;	2,455	2,141	-	**4,596**	(1,334)	**3,262**
REFCUS;	-	554	-	**554**	-	**554**
Retirement Benefits;	-	(85)	-	**(85)**	1,347	**1,262**
Payments to Housing Capital Receipts Pool;	-	-	-	**-**	305	**305**
Gain or Loss on Disposal of Fixed Assets.	-	-	-	**-**	5	**5**
Total Expenditure	**57,935**	**2,610**	**(3,361)**	**57,184**	**3,684**	**60,868**
Surplus or Deficit on the Provision of Services	**2,493**	**2,610**	**21**	**5,124**	**(8,763)**	**(3,639)**

28. Trading Operations

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

2012/13 Expenditure £000s	2012/13 Income £000s	2012/13 (Surplus)/ Deficit £000s	Trading Operations	2013/14 Expenditure £000s	2013/14 Income £000s	2013/14 (Surplus)/ Deficit £000s
7	(10)	**(3)**	Markets	4	(10)	**(6)**
(1,153)	(621)	**(1,774)**	Industrial Estates	32	(670)	**(638)**
206	(723)	**(517)**	Other Land & Property	31	(751)	**(720)**
(940)	**(1,354)**	**(2,294)**	**Total**	**67**	**(1,431)**	**(1,364)**

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

29. Agency Services

Staffordshire County Council is currently carrying out Highways Maintenance works on behalf of the Authority under a management agreement. This amounted to £167k for 2013/14.

2012/13 £000s	Agency Services	2013/14 £000s
139	Highways services	115
51	Management fee	52
190	**Total**	**167**

30. Members' Allowances

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

2012/13 £000s	Members Allowances	2013/14 £000s
151	Basic Allowance	140
96	Special Responsibility	83
3	Other Allowances/Expenses	3
4	Travel/Mileage	3
254	**Total**	**229**

Under the revised Members' Allowance Scheme approved by Council 19th March 2013, 10% of the basic and special responsibility allowances are withheld, and are then paid to each member at the end of the municipal year, provided at least 75% meetings required have been attended.

31. Officers' Remuneration

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

Officers Remuneration		Salary, Fees and Allowances	Expenses Allowances	Pension Contribution	Total
		£	£	£	£
Chief Executive *	**2013/14**	**106,615**	**1,455**	**20,597**	**128,667**
	2012/13	*105,545*	*1,439*	*19,873*	*126,857*
Executive Director Corporate Services *	**2013/14**	**85,762**	**1,338**	**16,793**	**103,893**
	2012/13	*84,586*	*1,322*	*16,137*	*102,045*
Director Transformation and Corporate Performance	**2013/14**	**72,138**	**1,338**	**14,139**	**87,615**
	2012/13	*71,426*	*1,322*	*13,636*	*86,384*
Director Assets and Environment	**2013/14**	**75,762**	**1,338**	**14,845**	**91,945**
	2012/13	*75,005*	*1,322*	*14,317*	*90,644*
Director Housing and Health	**2013/14**	**72,135**	**1,338**	**14,139**	**87,612**
	2012/13	*71,426*	*1,322*	*13,636*	*86,384*
Director Finance	**2013/14**	**72,166**	**1,338**	**14,139**	**87,643**
	2012/13	*69,378*	*1,322*	*13,239*	*83,939*
Director Communities, Planning and Partnerships	**2013/14**	**72,171**	**1,338**	**14,139**	**87,648**
	2012/13	*69,384*	*1,322*	*13,239*	*83,945*
Solicitor to the Council	**2013/14**	**62,284**	**1,338**	**12,196**	**75,818**
	2012/13	*61,652*	*1,322*	*11,767*	*74,741*
Director Technology and Corporate Programmes	**2013/14**	**64,045**	**1,062**	**12,562**	**77,669**
	2012/13	*61,608*	*1,045*	*11,753*	*74,406*
Head of Landlord Services	**2013/14**	**56,766**	**1,338**	**11,126**	**69,230**
	2012/13	*54,043*	*1,045*	*12,588*	*67,676*

* Includes Local Returning Officer and Deputy Returning Officer Fees under Legislation.

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

2012/13 Number of Employees	Remuneration Band	2013/14 Number of Employees Left During Year	2013/14 Number Employed at 31st March 2014	2013/14 Total Number of Employees
1	£50,000 - £54,999	-	-	-
-	£55,000 - £59,999	-	1	1
2	£60,000 - £64,999	-	2	2
2	£65,000 - £69,999	-	-	-
3	£70,000 - £74,999	-	4	4
-	£75,000 - £79,999	-	1	1
1	£80,000 - £84,999	-	-	-
-	£85,000 - £89,999	-	1	1
1	£100,000 - £104,999	-	-	-
-	£105,000 - £109,999	-	1	1

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	
	2012/13	2013/14	2012/13	2013/14
£0 - £20,000	2	2	20,000	10,288
£40,001 - £60,000	1	-	60,000	-
Total	**3**	**2**	**80,000**	**10,288**

There were no compulsory redundancies during 2013/14.

32. External Audit Costs

The agreed audit fee for 2013/14 was £65.55k less a rebate of £7.5k from the Audit Commission, but in the year it was accounted for on an accruals basis which means the following has been charged in the accounts:

2012/13 £000s	External Audit Costs	2013/14 £000s
61	Fees payable to Audit Commission with regard to the external audit services carried out by the appointed auditor for the year	-
29	Fees payable to Grant Thornton with regard to the external audit services carried out by the appointed auditor for the year	58
-	Fees payable to Grant Thornton with regard to the external audit services carried out by the appointed auditor for the previous year	16
-	Accounting adjustment: reversal of prepayment	20
27	Fees payable to Audit Commission for the certification of grants and returns for the year	-
8	Fees payable to Grant Thornton for the certification of grants and returns for the year	20
-	Fees payable in respect of other services provided by Audit Commission during the year - National Fraud Initiative	2
125	**Total**	**116**

33. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

2012/13 £000s	Grant Income	2013/14 £000s
	Credited to Taxation and Non Specific Grant Income	
89	Revenue Support Grant	3,070
4,603	NNDR	12,693
-	Non domestic rates - Tariff	(10,156)
-	Non domestic rates - Levy to GBSLEP	(356)
257	New Homes Bonus	406
87	Council Tax Freeze Grant	-
163	Preventing Homelessness Grant	-
84	Local Council Tax Support Scheme	54
9	Community Right to Challenge	9
5	Community Right to Bid	8
3	Deferment Business Rates 2012/13	-
-	Capitalisation Provision redistribution	16
-	S31 Grant - Small Business Rate Relief	217
-	Local Authority Data Sharing Programme	17
	Transparency Code set up	3
13	Welfare Benefit Changes	30
935	Capital Grants and Contributions	392
6,248	**Total**	**6,403**

The Authority credited the following grants, contributions and donations to Cost of Services within the Comprehensive Income and Expenditure Statement in 2013/14:

2012/13 £000s	Credited to Services Government Grant	2013/14 £000s
512	DWP Admin Grant	474
93	NNDR Cost of Collection	92
26,793	Benefits	21,392
16	Discretionary Housing Payment	106
-	Nature Reserve	2
37	Safer Stronger Communities/Domestic Abuse	27
-	Tamworth Inspire	7
-	Electoral Process	9
62	Supporting People	45
-	IEWM Developing Multi-Agency Locality Commissioning	10
10	Town Centre Regenerations	-
2	Miscellaneous	-
27,525	**Total**	**22,164**

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:

31st March 13 £000s	Capital Grants Receipts in Advance	31st March 14 £000s
44	HLF Assembly Rooms	-
1	DCMS Free Swimming Grant	1
-	Lottery BMX Track	3
45	**Total**	**4**

34. 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 Authority 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 31st March 2014 are shown in Note 33.

b) Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of Members' Allowances paid in 2013/14 is shown in Note 30. During the financial year ended 31st March 2014, there were no material transactions between the Authority 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 2014, there were no material transactions between the Authority and its Chief Officers, other than the payment of officer salaries. The total of senior officers' remuneration is shown in Note 31.

d) Staffordshire County Council, OPCC and Fire Authority Precepts.

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

31st March 2013 £000s	Precepts	31st March 2014 £000s
24,052	Staffordshire County Council	20,749
4,152	OPCC Staffordshire	3,588
1,581	Stoke on Trent & Staffordshire Fire & Rescue Authority	1,366
29,785	**Total**	**25,703**

e) Staffordshire County Council and OPCC

The County Council is the Administering Authority for the Pension Fund and details of the employer's contributions paid by this Authority are detailed in Note 39.

The Authority receives Supporting People Grant from Staffs CC and Safer Stronger Communities grant, now administered by the OPCC, as follows:-

31st March 2013 £000s	Staffordshire County Council/OPCC	31st March 2014 £000s
62	Supporting People Grant	45
37	Safer Stronger Communities Fund	27
99	**Total**	**72**

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

31st March 2013 £000s	Recycling Credit Scheme	31st March 2014 £000s
(508)	Recycling Credits	(761)
(508)	**Total**	**(761)**

f) Jointly Controlled Operation – Joint Waste Management Services

The Authority's Joint Waste Service with 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 Authorities. Lichfield District Council is responsible for hosting the employment of staff.

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

The parties have an agreement in place for funding this operation with contributions to the agreed budget of **57.5%** from the Lichfield District Council and **42.5%** from Tamworth Borough Council. The same proportions are used to meet any deficit or share any surplus arising on the operation's budget at the end of each financial year.

The revenue outturn of the Joint Waste Service for the year ended 31st March 2014 is as follows:-

2012/13 £000s	**Joint Waste Arrangement Income / Expenditure**	**2013/14 £000s**
	Funding Provided to the Operation	
(1,426)	Contribution from Tamworth Borough Council (42.5%)	(1,400)
(1,929)	Contribution from Lichfield District Council (57.5%)	(1,892)
(3,355)	**Total Funding Provided to the Operation**	**(3,292)**
	Expenditure	
2,276	Employee Costs	2,318
19	Premises Related Expenses	22
1,494	Transport Costs	1,296
559	Supplies and Services	573
253	Central Support Costs	253
4,601	**Total Expenditure**	**4,462**
	Income	
(1,281)	Recycling Credits	(1,217)
(76)	Other Income	(87)
(1,357)	**Total Income Received**	**(1,304)**
3,244	**Total Net Expenditure**	**3,158**
(111)	**Net (Surplus)/Deficit arising on the pooled budget during the year**	**(134)**
(47)	**Tamworth Borough Council's share of 42.5% net (surplus)/deficit**	**(57)**

Lichfield DC are the lead Authority for this arrangement, with the Authority reimbursing Lichfield for services on the basis of a proportion of actual spend. For 2013/14, the cost of the joint arrangement to the Authority was £1.4m.

35. 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.

2012/13 £000s	Capital Expenditure & Financing	2013/14 £000s
69,668	**Opening Capital Financing Requirement**	**69,579**
	Capital Investment	
3,513	Property, Plant and Equipment	8,262
836	Heritage Assets	172
86	Intangible Assets	159
554	Revenue Expenditure Funded from Capital under Statute	374
	Sources of Finance	
(602)	Capital Receipts	(543)
(673)	Government Grants and Other Contributions	(200)
(3,455)	Sums set aside from revenue - Direct Revenue Contributions	(8,032)
(80)	Sums set aside from revenue - Minimum Revenue Provision	(79)
-	Sums set aside from revenue - Voluntary Revenue Provision	(135)
(9)	Impairment of HRA Non Dwellings	(12)
(259)	Grants - Revenue Expenditure Funded from Capital Under Statute	(192)
69,579	**Closing Capital Financing Requirement**	**69,353**
	Explanation of movements in year:	
	Increase in underlying need to borrow:	
(80)	Sums set aside from revenue - Minimum Revenue Provision	(79)
-	Sums set aside from revenue - Voluntary Revenue Provision	(135)
(9)	Impairment of HRA Non Dwellings	(12)
(89)	**Increase/(decrease) in Capital Financing Requirement**	**(226)**

36. Leases

a) Authority as Lessee

i) Finance Leases

In the year 2013/14 rentals payable under finance leases in respect of Vehicles and Plant was £nil (2012/13 £nil).

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

ii) Operating Leases

The Authority currently uses vehicles, plant and equipment financed under terms of an operating lease. The amount paid under these arrangements in 2013/14 was £318k (£328k in 2012/13). These leases have options for annual extensions beyond the original lease term, a number of these options are currently being taken up.

The Authority was committed at 31st March 2014 to making payments of £288k under operating leases, comprising the following elements:

31st March 2013 £000s	Operating Leases	31st March 2014 £000s
328	Not later than one year	288
328	**Total Operating Leases**	**288**

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:

2012/13 £000s	Minimum Lease Payments	2013/14 £000s
328	Minimum lease payments	288
328	**Total Minimum Lease Payments**	**288**

b) Authority as Lessor

i) Finance Leases

The Authority has leased out property at the Ankerside Shopping Centre inc. Car Park, on a finance lease with a remaining term of 75 years.

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:

31st March 2013 £000s	Assets held for leases (Lessor)	31st March 2014 £000s
	Finance lease debtor (NPV of minimum lease payments)	
12,644	Non current	12,636
51,172	Unearned finance income	50,329
12	Unguaranteed residual value of property	12
63,828	**Gross Investment in the Lease**	**62,977**

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

Minimum Lease Payments 31st March 2013 £000s	Gross Investment in the Lease 31st March 2013 £000s	Minimum Lease Payments	Minimum Lease Payments 31st March 2014 £000s	Gross Investment in the Lease 31st March 2014 £000s
851	851	Not later than one year	851	851
3,404	3,404	Later than one year not later than five years	3,404	3,404
59,561	59,573	Later than five years	58,711	58,723
63,816	**63,828**	**Total**	**62,966**	**62,978**

The Authority does not set aside any amount for future uncollectable amounts.

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:

31st March 2013 £000s	Future Minimum Lease Payments	31st March 2014 £000s
	Operating Leases	
907	Not later than one year	909
3,498	Later than one year not later than five years	3,551
48,364	Later than five years	49,408
52,769	**Total**	**53,868**

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 £516k in 2013/14 (£393k in 2012/13). There were 17 void units at the 31st March 2014 (25 voids at the 31st March 2013).

37. Impairment Losses

Charges for impairment of £8.279m have been made during 2013/14. This included an amount of £7.296m where the expenditure on Council Dwellings has not produced a similar increase in the value: £684k in respect of the reduction in value of the Council Car Parks and £287k for HRA dwellings no longer available to let as part of the Regeneration Project The remaining £12k relates to 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 HRA Capital Expenditure of £7.602m mainly related to improvements to bathrooms, kitchens, central heating, electrical upgrades and disabled adaptations however, £306k related to the acquisition of 4 dwellings as part of the regeneration project. The impairment has been recognised as the advice of the Authority's internal valuer is that such improvements have not increased the overall value of the asset.

38. Termination Benefits

The Authority terminated the contracts of a number of employees in 2013/14, incurring liabilities of £10k (£80k in 2012/13) – see Note 31 Officers' Remuneration for detail of the number of exit packages with total cost per band and total cost of redundancies.

39. 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.

- The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Staffordshire County Council. Policy is determined in accordance with Pension Fund Regulations. The investment managers of the fund are appointed by the committee.

- The principal risk to the Authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme) changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund and Housing Revenue Account (HRA) the amounts required by statute as described in the accounting policies note.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. The are no plan assets built up to meet these pension liabilities.

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 (and HRA) 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 2012/13 Restated £000s	Discretionary Benefit Arrangements 2012/13 Restated £000s	Defined Benefit Pension Schemes	Local Government Pension Scheme 2013/14 £000s	Discretionary Benefit Arrangements 2013/14 £000s
		Comprehensive Income and Expenditure Statement:		
		Service Cost Comprising:		
1,354	72	Current service costs	1,841	72
21	-	Past service costs	-	-
		Financing and Investment Income and Expenditure		
3,840	-	Interest costs	4,206	-
(2,492)	-	Expected return on scheme assets	(2,651)	-
2,723	**72**	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**3,396**	**72**
		Remeasurement of the Net Defined Benefit Liability Comprising:		
(5,390)	102	Return on plan assets (excluding amounts included in net interest expense)	1,603	126
-	-	Actuarial gains & losses on changes in demographic assumptions	2,268	-
10,466	-	Actuarial gains & losses on changes in financial assumptions	2,202	-
(131)	-	Other	(2,727)	-
7,668	**174**	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**6,742**	**198**

Local Government Pension Scheme 2012/13 £000s	Discretionary Benefit Arrangements 2012/13 £000s	Defined Benefit Pension Schemes	Local Government Pension Scheme 2013/14 £000s	Discretionary Benefit Arrangements 2013/14 £000s
		Movement in Reserves Statement:		
(7,668)	(174)	Reversal of net charges made to the surplus/deficit on the provision of services for post employment benefits in accordance with the code	(6,742)	(198)
		Actual amount charged against the General Fund Balance for pensions in the year:		
1,473	-	Employers' contributions payable to the scheme	1,514	-
-	72	Retirement benefits payable to pensioners	-	72
(6,195)	**(102)**	**Total Movement in Reserves Statement**	**(5,228)**	**(126)**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31st March 2014 is a loss of £31.616m (£28.144m 2012/13).

Under the Housing Repairs contract, a separate pension scheme is operated for staff transferred as part of a TUPE arrangement.

c) Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

Local Government Pension Scheme 2012/13 £000s	Discretionary Benefit Arrangements 2012/13 £000s	Pensions Assets and Liabilities Recognised in the Balance Sheet	Local Government Pension Scheme 2013/14 £000s	Discretionary Benefit Arrangements 2013/14 £000s
93,792	-	Present Value of the Defined Benefit Obligation	99,219	-
(59,377)	-	Fair Value of Plan Assets	(59,450)	-
34,415	**-**	**Net Liability Arising From Defined Benefit Obligation**	**39,769**	**-**

d) Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

Local Government Pension Scheme 2012/13 Restated £000s	Reconciliation of fair value of scheme assets	Local Government Pension Scheme 2013/14 £000s
52,239	**Balance at 1 April 2013**	**59,377**
2,492	Interest Income on Plan Assets	2,651
5,288	Return on Assets excluding amounts included in net interest	(1,729)
1,473	Employer contributions	1,514
469	Contributions by scheme participants	494
(2,584)	Benefits paid	(2,857)
72	Contributions in respect of unfunded benefits	72
(72)	Unfunded benefits paid	(72)
59,377	**Balance at 31st March 2014**	**59,450**

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 £922k (£7.789m in 2012/13).

e) Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Local Government Pension Scheme 2012/13 Restated £000s	Discretionary Benefit Arrangements 2012/13 Restated £000s	Reconciliation of present value of scheme liabilities (defined benefit obligation)	Local Government Pension Scheme 2013/14 £000s	Discretionary Benefit Arrangements 2013/14 £000s
79,217	**1,140**	**Balance at 1st April 2013**	**92,622**	**1,170**
1,426	-	Current service costs	1,913	-
3,840	-	Interest Cost on Defined Benefit Obligation	4,206	-
469	-	Plan Participants Contributions	494	-
		Remeasurements (gains)/losses		
-	-	Changes in Demographic Assumptions	2,268	-
10,364	102	Changes in Financial Assumptions	2,076	126
(131)	-	Other Experience	(2,727)	-
(2,584)	(72)	Benefits paid	(2,857)	(72)
21	-	Past service costs	-	-
92,622	**1,170**	**Balance at 31st March 2014**	**97,995**	**1,224**

f) Local Government Pension Scheme Assets Comprised:

The asset values shown below are at bid value as required under IAS19.

As at 31st March 2013					As at 31st March 2014			
Quoted Prices in Active Markets	Quoted Prices Not in Active Markets	Total	Percentage of Total Assets	Fair Value of Employers Assets	Quoted Prices in Active Markets	Quoted Prices Not in Active Markets	Total	Percentage of Total Assets
£000s	£000s	£000s	%		£000s	£000s	£000s	%
				Equity Securities				
5,461.9	-	5,461.9	9	Consumer	4,515.7	-	4,515.7	8
3,333.5	-	3,333.5	6	Manufacturing	4,222.2	-	4,222.2	7
2,487.8	-	2,487.8	4	Energy & Utilities	2,487.9	-	2,487.9	4
4,553.0	-	4,553.0	8	Financial Institutions	4,461.1	-	4,461.1	8
3,089.0	-	3,089.0	5	Health Care	3,111.5	-	3,111.5	5
2,473.0	-	2,473.0	4	Information Technology	2,717.3	-	2,717.3	5
1,288.5	-	1,288.5	2	Other	1,252.6	-	1,252.6	2
				Debt Securities				
4,498.4	-	4,498.4	8	Corporate Bonds (Investment Grade)	4,449.0	-	4,449.0	7
				Private Equities				
-	1,899.0	1,899.0	3	All	-	1,862.3	1,862.3	3
				Real Estate				
-	4,621.5	4,621.5	8	UK Property	-	4,367.7	4,367.7	7
				Investment Funds & Unit Trusts				
18,179.7	-	18,179.7	31	Equities	17,591.4	-	17,591.4	30
3,021.6	-	3,021.6	5	Bonds	2,889.3	-	2,889.3	5
-	1,088.4	1,088.4	2	Hedge Funds	-	1,126.2	1,126.2	2
-	1,992.6	1,992.6	3	Other	-	1,872.4	1,872.4	3
				Cash & Cash Equivalents				
1,388.8	-	1,388.8	2	All	2,523.4	-	2,523.4	4
49,775.2	**9,601.5**	**59,376.7**	**100**	**Total Assets**	**50,221.4**	**9,228.6**	**59,450.0**	**100**

g) 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 31st March 2013.

The significant assumptions used by the actuary have been:

Local Government Pension Scheme 2012/13	Discretionary Benefit Arrangements 2012/13	Assumptions	Local Government Pension Scheme 2013/14	Discretionary Benefit Arrangements 2013/14
		Long-term expected rate of return on assets in the scheme:		
4.5%	-	Equity Investments	4.5%	-
4.5%	-	Bonds	4.5%	-
4.5%	-	Other	4.5%	-
		Mortality assumptions:		
		Longevity at 65 for current pensioners:		
21.2	21.2	Men	22.1	22.1
23.4	23.4	Women	24.3	24.3
		Longevity at 65 for future pensioners:		
23.3	23.3	Men	24.3	24.3
25.6	25.6	Women	26.6	26.6
2.8%	2.8%	CPI Rate	2.8%	2.8%
5.1%	5.1%	Rate of increase in salaries	4.6%	4.6%
2.8%	2.8%	Rate of increase in pensions	2.8%	2.8%
4.5%	4.5%	Rate for discounting scheme liabilities	4.3%	4.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be inter related. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from that used in the previous period.

Change in Assumptions at 31st March 2014	Impact on the Defined Benefit Obligation in the Scheme	
	Approx. % Increase to Liability 2013/14 %	**Approx. Monetary Value 2013/14 £000s**
0.5% Decrease in Real Discount Rate	10%	9,621
1 Year in Member Life Expectancy	3%	2,977
0.5% Increase in the Salary Increase Rate	3%	2,654
0.5% Increase in the Pension Increase Rate	7%	6,853

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31st March 2015 is £1.62m (£1.43m for 2013/14).

40. Contingent Liabilities

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the business rates came into effect on 1st April 2013. Billing authorities acting as agents on behalf of the major preceptors (10%), central government (50%) and themselves (40%) are required to make provisions for refunding ratepayers who have successfully appeals against the rateable value of their properties on the rating list.

The Authority has included a provision of **£0.4m** (the overall provision in the Business Rates Collection Fund is **£1.0m** and this Authority's share of the Local Business Rates Retention scheme is **40%**) for appeals outstanding on the 31st March 2014 of **£21.7m**. However, local businesses can still appeal against the Rateable Value on the 2010 Rating list until 31st March 2017. Therefore there are a number of future financial years where the cost of successful appeals could impact on the Authority's Financial Statements.

It is difficult to estimate the likelihood of businesses both submitting and being successful with an appeal and the Authority has therefore made no provision in the accounts. However, the level of historic appeals together with the average level of success and savings in Rateable Value is shown for both the 2005 and 2010 lists below:

Indicator	**2005 List**	**2010 List**	**Overall**
Total value of Rateable Values appealed	£115.98m	£86.12m	£202.10m
Average success rate (% of RV)	44.59%	22.73%	
Average % reduction in Rateable Value	8.28%	8.92%	8.42%
Total reduction in Rateable Value	**£4.29m**	**£1.34m**	**£5.63m**
Years since the List was compiled	9	4	
Average annual reduction in Rateable Value	£0.48m	£0.34m	
Standard Business Rate Multiplier in 2014/15	48.2p	48.2p	
Average annual cost of reduction based on 2014/15 Multiplier	**£0.231m**	**£0.164m**	
District Council Share at 40%	**£0.092m**	**£0.07m**	
Appeals outstanding 31/03/14	£0.34m	£21.34m	£21.68m
Provision included	£0.07m	£0.91m	£0.98m
Provision as a % of Appeals outstanding	19.65%	4.29%	

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41. Contingent Assets

There were no contingent assets for the Authority in 2013/14.

42. 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.

a) Overall Procedures for Managing Risk

The Authority’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 Authority 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 Authority 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 Authority’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 Authority'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 26th February 2013 and is available on the Authority website. The key issues within the strategy were:

- The Authorised Limit for 2013/14 was set at £92.112m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £72.268m. 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 £49.4m and £6.5m based on the Authority's net debt.
- The maximum and minimum exposures to the maturity structure of debt are shown at Annex 3 of the report.

These policies are implemented by the treasury team. The Authority 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.

b) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority'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 Authority's website the key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

This Authority uses the creditworthiness service provided by Capita Asset Services. 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 2013/14 was approved by Full Council on 26th February 2013 and is available on the Authority'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 Authority.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £8.696m 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 31st March 2014 that this was likely to crystallise.

The following analysis summarises the Authority'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 31st March 2014 £000s A**	**Historical Experience of Default % B**	**Historical Experience Adjusted for Market Conditions at 31st March 2014 % C**	**Estimated Maximum Exposure to Default and Uncollectability at 31st March 2014 £000s (A x C)**	**Estimated Maximum Exposure at 31st March 2013 £000s**
AAA rated counterparties	-	0.13%	13.00%	-	-
AA rated counterparties	-	0.38%	0.38%	-	-
A rated counterparties	8,000	0.86%	0.86%	69	71
BBB rated counterparties	-	2.00%	2.00%	-	-
Caa rated counterparties	70	46.27%	46.27%	-	117
Escrow	626	-	-	-	-
Trade Debtors	1,864	75.71%	75.71%	1,411	1,292
Total	**10,560**			**1,480**	**1,480**

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 Authority had £7.5m invested in this sector at that time. In accordance with accounting practice the Authority 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 Authority maintains strict credit criteria for investment counterparties.

The Authority does not generally allow credit for customers, such that £1.87m is past its due date for payment. The past due amount as at 31st March 2014 but not impaired amount can be analysed by age as follows:

Arrears	**31st March 2014 £000s**	**31st March 2013 £000s**
Less than six months;	322	343
Six months to one year;	196	258
More than one year;	343	455
More than two years.	1,004	770
Total	**1,865**	**1,826**

The Authority 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 2014 was £37.1k (£37.1k 2012/13).

d) Liquidity Risk

The Authority 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 Authority 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 Authority 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	**31st March 2014**		**31st March 2013**	
	Average Rate %	**Amount £000s**	**Average Rate %**	**Amount £000s**
PWLB	4.47%	65,426	4.47%	65,426
Total	**4.47%**	**65,426**	**4.47%**	**65,426**
Interest Due:				
Less than one year;	-	366	-	366
Maturing in 1 - 2 years;	7.29%	3,000	-	-
Maturing in 2 - 5 years;	11.75%	2,000	9.08%	5,000
Maturing in over 15 years.	4.09%	60,060	4.09%	60,060
Total	**4.47%**	**65,426**	**4.47%**	**65,426**

Refinancing and Maturity Risk

The Authority 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 Authority 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 Authority 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 Authority'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	31st March 2014 Average Rate %	Amount £000s	31st March 2013 Average Rate %	Amount £000s
less than one year	0.79%	8,726	1.88%	6,940
Maturing in 1 - 2 years	-	59	-	178
Total	**-**	**8,785**	**-**	**7,118**

* Excluding balances held with Icelandic Banking institutions.

All trade and other payables are due to be paid in less than one year – debtors of £2.3m are not included in the table above.

e) Market Risk

i) Interest Rate Risk

The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, 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 Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority'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 2014, the Authority 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 Authority 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 2013/14 £	Principal Default %
Glitnir	10/10/2007	09/10/2008	1,000,000	6.28	-	-	-
Glitnir	31/08/2007	28/08/2009	1,000,000	6.55	-	-	-
Glitnir	14/12/2007	12/12/2008	1,000,000	6.16	-	-	-
KSF	31/08/2008	09/08/2010	1,000,000	6.69	32,300	(4,924)	14.25
KSF	31/10/2007	29/10/2008	1,000,000	6.16	32,402	(7,905)	14.25
KSF	14/01/2008	14/10/2010	1,000,000	5.90	32,242	(7,699)	14.25
Heritable	12/09/2008	13/10/2008	500,000	5.38	-	(30,013)	5.98
Heritable	15/09/2008	22/10/2008	1,000,000	5.45	-	(60,006)	5.98
Total			**7,500,000**		**96,944**	**(110,547)**	

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 affairs 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 was in Icelandic Krona which was placed in an ESCROW account in Iceland and is currently earning interest of 4.2%. This element of the distribution has been retained in Iceland due to currency controls currently operating there and as a result is subject to exchange rate risk, over which the Authority has no control.

The Authority has recognised a gain of 0.05% of the claim amount due to currency fluctuations (7.4% 2012/13).

Prior to distribution of the Glitnir settlement, the banks Winding Up Board (WUB) required Authorities to sign an agreement that if any issues were found with the distribution calculations then they would agree to repay any sums required. The Authority signed this agreement following advice from the Local Government Association (LGA) and to avoid delay in the repayments that were due.

Following a decision in the Icelandic Courts regarding the winding-up of the Landsbanki claims, it has been determined that the WUB had used the incorrect date for the currency exchange rate conversion, resulting in a demand being made for the Authority to repay approximately £57k.

The Local Government Associations Solicitors (Bevan Brittan) who are acting our behalf and the other 52 Local Authorities affected by this, are currently undertaking negotiations with the WUB with regard to the basis of the sum repayable.

A Creditor in the sum of £57k has been included within the accounts, pending resolution of this issue.

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 85.75p in the £.

Date	Repayment
Received to date	81.50%
June 2014	2.25%
June 2015	2.00%

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 7th October 2008. When making payment of the last distribution in August 2013, the Administrators stated that they do not anticipate making any further payments. They have retained a reserve of £39.3 million to provide for legal costs in relation to the Landsbanki claim and for administrators' costs and expenses, until the matters are concluded. The Authority has used this final figure to calculate the impairment based on recovering 94.02p in the £.

Date	Repayment
Received to date	94.02%

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 2013/14 of £90k 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.

Bank	Amount Invested £	Interest £	Impairment £	Repaid £	Held in Escrow Account £	Carrying Value £
Glitnir	**3,000,000**	**659,772**	**(431,075)**	**(2,554,431)**	**(674,266)**	**-**
KSF	1,000,000	172,963	(265,313)	(875,350)	-	32,300
KSF	1,000,000	148,480	(253,900)	(862,178)	-	32,402
KSF	1,000,000	130,581	(248,033)	(850,306)	-	32,242
	3,000,000	**452,024**	**(767,246)**	**(2,587,834)**	**-**	**96,944**
Heritable	500,000	55,030	(83,336)	(471,694)	-	-
Heritable	1,000,000	110,946	(167,559)	(943,387)	-	-
	1,500,000	**165,976**	**(250,895)**	**(1,415,081)**	**-**	**-**
Total	**7,500,000**	**1,277,772**	**(1,449,216)**	**(6,557,346)**	**(674,266)**	**96,944**

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:

Expected Date	KSF £
31st March 2015	71,443
31st March 2016	63,505
Total	**134,948**

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

Bank	Credited 2010/11 £	Repayments 2010/11 £	Credited 2011/12 £	Repayments 2011/12 £	Credited 2012/13 £	Repayments 2012/13 £	Credited 2013/14 £	Repayments 2013/14 £
Glitnir	48,234	-	51,379	3,140,912	24,886	-	27,178	-
KSF	49,261	317,526	43,385	317,526	21,318	412,783	12,925	174,639
Heritable	33,360	268,130	19,109	268,130	11,417	140,858	5,617	251,913
Total	**130,855**	**585,656**	**113,873**	**3,726,568**	**57,621**	**553,641**	**45,720**	**426,552**

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 2009/10.

Approval of Accounts

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on 25th September 2014

Signed on behalf of Tamworth Borough Council

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

Dated 25th September 2014

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

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Authority charges rents to cover expenditure in accordance with legislative framework; this may be different from accounting cost. The increase or decrease in the year, on the basis which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2012/13 Restated £000s	HRA Comprehensive Income & Expenditure Statement	2013/14 £000s	2013/14 £000s
	Expenditure:		
3,125	Repairs and maintenance	3,608	
4,952	Supervision and management	5,859	
26	Rents, rates, taxes and other charges	34	
2,168	Depreciation and impairment of Non Current Assets	6,971	
16	Debt management costs	9	
146	Movement in the allowance for bad debts	145	
10,433	**Total Expenditure**		**16,626**
	Income:		
(17,232)	Dwelling rents	(18,133)	
(375)	Non-dwelling rents	(353)	
(402)	Charges for services and facilities	(413)	
(1,491)	Contributions towards expenditure	(1,670)	
(19,500)	**Total Income**		**(20,569)**
(9,067)	**Net Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement**		**(3,943)**
4	HRA services' share of Corporate and Democratic Core		5
(9,063)	**Net Expenditure / (Income) for HRA Services**		**(3,938)**
	HRA Share of the Operating Income and Expenditure Included in the Comprehensive Income and Expenditure Statement:		
(184)	(Gain) or loss on sale of HRA Non Current Assets		(354)
2,974	Interest payable and similar charges		2,974
(113)	Interest and investment income		(97)
280	Pensions interest cost and expected return on pensions assets		321
(6,106)	**(Surplus)/ Deficit for the Year on HRA Services**		**(1,094)**

Statement of Movement on the HRA Balance

2012/13 Restated £000s	Statement of Movement on the HRA Balance	2013/14 £000s	2013/14 £000s
4,487	Balance on the HRA at the end of the previous year		5,267
6,106	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	1,094	
(2,232)	Adjustments between accounting basis and funding basis under statute	599	
3,874	**Net (increase) or decrease before transfers to or from reserves**	**1,693**	
(3,094)	Transfers to/ (from) reserves	(1,479)	
780	(Increase) or decrease on the HRA		214
5,267	**Balance on the HRA at 31st March 2014**		**5,481**

Analysis of Adjustments

2012/13 Restated £000s	Analysis of Adjustments	2013/14 £000s
(1)	Difference between any other item of income and expenditure determined in accordance with the code and determined in accordance with HRA requirements	7
(184)	Gain or loss on sale of HRA Non Current Assets	(353)
275	HRA share of contributions to or from the Pensions Reserve	404
-	Capital expenditure funded by the HRA	(1,959)
(4,477)	Transfer to/ from the Major Repairs Reserve	(4,471)
(3)	Transfer to/ from the FIAA	-
2,158	Transfer to/ from the Capital Adjustment Account	6,971
(2,232)	**Total Adjustments Between Accounting Basis and Funding Basis Under Statute**	**599**

NOTES TO THE HRA

HRA1. Number & Type of Dwelling

The Authority 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 1st April 2013	2,859	764	884	**4,507**
Demolitions	-	-	-	**-**
Sales	(35)	(5)	(2)	**(42)**
Purchases	-	2	2	**4**
Reclassification of Assets	1	-	-	1
Housing stock as at 31st March 2014	**2,825**	**761**	**884**	**4,470**

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 2014 is £379.191m (31st March 2013 Vacant Possession Value was £369.844m).

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 2013/14, a nationally set adjustment factor for the West Midlands of 34% of vacant possession value has been used (34% for 2012/13).

Existing Use Social Housing Value of Dwellings

Existing Use Social Housing Value of Dwellings	Council Dwellings £000s	Other Land and Buildings £000s	Total £000s
Cost or Valuation			
As at 1st April 2013	**125,747**	**2,557**	**128,304**
Additions;	7,602	-	**7,602**
Accumulated Depreciation and Impairment written off to Gross Carrying Amount;	(9,385)	(401)	**(9,786)**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve;	3,460	369	**3,829**
Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on the Provision of Services;	2,778	-	**2,778**
Derecognition – Disposals;	(1,367)	(214)	**(1,581)**
Assets reclassified (to)/ from Investment Property.	52	-	**52**
As at 31st March 2014	**128,887**	**2,311**	**131,198**
Accumulated Depreciation & Impairment			
As at 1st April 2013	**-**	**(450)**	**(450)**
Depreciation Charge;	(2,103)	(64)	**(2,167)**
Accumulated Depreciation and Impairment written off to Gross Carrying Amount;	9,385	400	**9,785**
Impairment losses/ (reversals) recognised in the Revaluation Reserve;	(1)	(41)	**(42)**
Impairment losses/ (reversals) recognised in the Surplus/ Deficit on the Provision of Services;	(7,583)	(12)	**(7,595)**
Derecognition – disposals;	9	37	**46**
Other movements in depreciation and impairment.	-	10	**10**
As at 31st March 2014	**(293)**	**(120)**	**(413)**
Net Book Value			
As at 1st April 2013	125,747	2,107	127,854
As at 31st March 2014	**128,594**	**2,191**	**130,785**
Nature of holdings at year end			
Owned	**128,594**	**2,191**	**130,785**

HRA3. Movement on the Major Repairs Reserve (MRR)

The Major Repairs Reserve represents the long term average amount of capital spending required to maintain the stock in its current condition.

The Capital Expenditure shown was spent on maintaining council dwellings.

2012/13 £000s	Major Repairs Reserve	2013/14 £000s
-	**Balance at 1st April 2013**	**1,112**
4,477	Contributions to the Major Repairs Reserve	4,471
(3,365)	Capital Spending on Dwellings	(5,583)
1,112	**Balance at 31st March 2014**	**-**

HRA4. Capital Expenditure Summary

The following table details how £7.602m capital expenditure was financed during the year.

2012/13 £000s	Capital Expenditure	2013/14 £000s
	Capital Expenditure Type:	
3,365	Dwellings	7,602
3,365	**Total Capital Expenditure**	**7,602**
	Funded by:	
-	Usable capital receipts	60
-	Revenue contributions	1,959
3,365	Major Repairs Reserve	5,583
3,365	**Total Funding**	**7,602**

HRA5. Capital Receipts

During the year capital receipts totalling £1.944m were received in respect of dwellings sold, of which £339k 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

2012/13 £000s	Capital Receipts	2013/14 £000s
710	Sale of dwellings under right to buy	1,944
(305)	Amounts pooled to Central Government	(339)
405	**Net Capital Receipts**	**1,605**

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 £2.102m.

The charge for depreciation of £63k on non council dwellings has been calculated on a straight line basis over the period of their useful economic life.

Charges for impairment of £7.594m have been made during 2013/14. This included an amount of £7.296m where the expenditure on capital assets has not produced a similar increase in the value of the asset and £299k in respect of dwellings and council garages no longer available for letting.

HRA7. HRA Pensions Reserve

2012/13 Restated £000s	Pensions	2013/14 £000s
328	Difference between current service cost of pensions and past service cost in accordance with IAS 19 and actual employers' contributions	304
798	Interest on share of pensions liability	869
(615)	Expected return on share of assets	(548)
511	**Total**	**625**

HRA8. Rent Arrears

2012/13 £000s	Rent Arrears	2013/14 £000s
1,180	Gross arrears	1,306
6.8%	Gross arrears as percentage of gross rent income	7.2%

Of the rent arrears, 33.5% (31.6% 2012/13) refer to former tenants.

2012/13 £000s	Provision for Bad Debts	2013/14 £000s
	Rent arrears	
802	**Balance at 1st April 2013**	**920**
151	Contribution from / (to) HRA in year	154
(33)	Written off in year	(49)
920	**As at 31st March 2014**	**1,025**
	Sundry debtors	
68	**Balance at 1st April 2013**	**57**
(6)	Contribution from / (to) HRA in year	(9)
(5)	Written off in year	(2)
57	**Balance at 31st March 2014**	**46**
977	**Total Provision for Bad Debts**	**1,071**

Collection Fund

The Collection Fund statement shows the transactions of the Authority, as billing authority, in relation to the collection of council tax income on behalf of Staffordshire County Council, the OPCC, the Fire & Rescue Authority and this Authority's General Fund together with non-domestic rates collected on behalf of the Government, Staffordshire County Council, the Fire & Rescue Authority and this Authority's General Fund.

2012/13 £000s	Collection Fund Income and Expenditure Statement	2013/14 Council Tax £000s	2013/14 NNDR £000s	2013/14 Total £000s
	INCOME			
(28,377)	Income from council tax	(29,670)	-	(29,670)
	Transfers from General Fund			
(5,324)	- Council Tax Benefits	55	-	55
(30,256)	Income collectable from business ratepayers	-	(32,941)	(32,941)
(63,957)	**Total Income**	**(29,615)**	**(32,941)**	**(62,556)**
	EXPENDITURE			
	Precepts			
3,496	- Tamworth Borough Council	3,080	-	3,080
4,152	- OPCC Staffordshire	3,588	-	3,588
1,581	- Stoke on Trent & Staffordshire Fire & Rescue Authority	1,366	-	1,366
24,052	- Staffordshire County Council	20,749	-	20,749
	Business rate			
29,569	-Payment to national pool	-	-	-
-	-Tamworth Borough Council	-	12,200	12,200
-	-Payment to Government	-	15,250	15,250
-	-Payment to Fire	-	305	305
-	-Payment to Staffs County	-	2,745	2,745
93	Costs of collection	-	92	92
	Bad and Doubtful Debts			
744	-Provisions	165	133	298
-	-Provision for appeals	-	982	982
	Distribution of previous year's surpluses			
26	- Tamworth Borough Council	11	-	11
31	- OPCC Staffordshire	13	-	13
12	- Stoke on Trent & Staffordshire Fire & Rescue Authority	5	-	5
181	- Staffordshire County Council	72	-	72
63,937	**Total Expenditure**	**29,049**	**31,707**	**60,756**

2012/13 £000s	Collection Fund Income and Expenditure Statement	2013/14 Council Tax £000s	2013/14 NNDR £000s	2013/14 Total £000s
(20)	**(Surplus)/ Deficit for the year**	(566)	(1,234)	(1,800)
(449)	Fund Balance Brought Forward	(469)	-	(469)
(469)	**Fund Balance at 31st March 2014**	**(1,035)**	**(1,234)**	**(2,269)**
	Analysis of Fund Balance (Surplus)/ Deficit			
(50)	- Tamworth Borough Council	(112)	(494)	(606)
(59)	- OPCC Staffordshire	(129)	-	(129)
(22)	- Stoke on Trent & Staffordshire Fire & Rescue Authority	(49)	(12)	(61)
(338)	- Staffordshire County Council	(745)	(111)	(856)
	- Government (DCLG)	-	(617)	(617)
(469)	**Total**	**(1,035)**	**(1,234)**	**(2,269)**

NOTES TO THE COLLECTION FUND

CF 1. NNDR Rateable Value

The rateable value of Non Domestic properties in the Borough as at 31st March 2014 was £79,074,501 (£79,129,606 at 31st March 2013).

The NNDR multiplier for 2013/14 was 47.1p in the pound (2012/13 45.8p). The qualifying small business multiplier for 2013/14 was 46.2p in the pound (2012/13 45.0p).

CF 2. Council Tax Base Calculation

The Council base was as follows:

Number of chargeable properties 2012/13	Adjusted property base (Band D Equivalent) 2012/13	Calculation of Ctax Base	Number of chargeable properties 2013/14	Adjusted property base (Band D Equivalent) 2013/14
		Valuation Band (Multiplier)		
20	11	**A - Disabled Relief Reduction (5/9)**	**22**	12
8,025	5,350	**A - (6/9)**	**8,128**	5,419
10,473	8,146	**B - (7/9)**	**10,578**	8,227
4,919	4,372	**C - (8/9)**	**4,982**	4,429
3,275	3,275	**D - (9/9)**	**3,343**	3,343
1,588	1,940	**E - (11/9)**	**1,585**	1,938
372	538	**F - (13/9)**	**376**	543
59	99	**G - (15/9)**	**60**	100
2	3	**H - (18/9)**	**3**	5
	-	**Local Council Tax Reduction Scheme Adjustment**		(3,189)
28,733	23,734	**Totals**	**29,077**	**20,827**
	98.50%	**Assumed Collection Rate**		**97.90%**
	23,378	**Total Taxbase**		**20,389**

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

Council Tax

Precept 2012/13 £	Distribution of previous years estimated surplus/ (deficit) 2012/13 £	Total movement on the Collection Fund 2012/13 £	Precepts Analysis	Precept 2013/14 £	Distribution of previous years estimated surplus/ (deficit) 2013/14 £	Total movement on the Collection Fund 2013/14 £
3,496,180	49,997	3,546,177	**Tamworth Borough Council**	**3,080,349**	**111,769**	**3,192,118**
4,152,167	58,471	4,210,638	**OPCC Staffordshire**	**3,587,544**	**128,863**	**3,716,407**
1,581,199	22,267	1,603,466	**Stoke on Trent & Staffordshire Fire & Rescue Authority**	**1,366,260**	**49,075**	**1,415,335**
24,051,518	338,288	24,389,806	**Staffordshire County Council**	**20,749,467**	**745,310**	**21,494,777**
33,281,064	**469,023**	**33,750,087**	**Total**	**28,783,620**	**1,035,017**	**29,818,637**

NNDR

Precepts Analysis	Business Rates 2013/14 £	Distribution of previous years estimated surplus/ (deficit) 2013/14 £	Total movement on the Collection Fund 2013/14 £
Tamworth Borough Council	12,199,806	493,412	12,693,218
Stoke on Trent & Staffordshire Fire & Rescue Authority	304,995	12,335	317,330
Staffordshire County Council	2,744,956	111,018	2,855,974
Government (DCLG)	15,249,758	616,765	15,866,523
Total	**30,499,515**	**1,233,530**	**31,733,045**

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 2013/14. However, as a prudent measure £62,732.09 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:

2012/13 Restated £000s	Provision for Bad Debts	2013/14 £000s
	Council Tax	
709	**Balance at 1st April 2013**	**824**
150	Increase /(decrease) in provision	166
(35)	Written off in year	(39)
824	**As at 31st March 2014**	**951**
	Business Rates	
722	**Balance at 1st April 2013**	**789**
605	Increase /(decrease) in provision	133
(538)	Written off in year	(166)
789	**As at 31st March 2014**	**756**

Annual Governance Statement 2013/14

Scope of Responsibility

The Authority 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 Authority also has a duty under the Local Government Act 1999 (as amended) 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 Authority is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Authority 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 Authority's code is on our website at http://www.tamworth.gov.uk/council_and_democracy/governance.aspx. This statement explains how the Authority has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

The Governance Framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it is accountable to, engages with and leads its communities. 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 services and value for money.

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

The Governance Framework has been in place at the Authority for the year ended 31st March 2014 and up to the date of approval of the statement of accounts.

The Governance Framework

Our vision “One Tamworth, Perfectly Placed” was endorsed in 2011/12 as a single vision by this Authority along with our partners – County Council, Police, Health Service, Fire & Rescue Services, Voluntary Sector and others. The intended outcomes (corporate priorities) and actions to fulfil these are identified in the Corporate Plan. The Corporate Priorities are “To Aspire & Prosper” and “To be Healthier & Safer”. These priorities are supported by the Corporate Governance Principles of being “Approachable, Accountable and Visible” - value for money and accountability will underpin the delivery of all corporate priorities. By working with others, we will deliver services that are well-governed, ethical, effective, efficient and economically viable. To align with the corporate priorities, the Authority has “Statements of Intent” for **People, Place & Organisation**.

Some of the key elements of the systems, processes and controls that comprise the Authority’s governance arrangements are set out below in line with our statements of intent. Further details of the systems, processes and controls in place can be found in the Code of Corporate Governance.

The Code of Corporate Governance is a public statement which sets out the framework through which the Authority meets its commitment to good corporate governance and is based on the following principles:

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

These principles have supporting principles identified in the Code. The Code also identifies what assurance we want and what assurance we get to ensure that these principles are in place. Links to the various supporting assurance documents are included in the Code.

People

Every year, the Authority undertakes consultation with local people on a wide range of issues. Further details can be found in the Code of Corporate Governance. In August 2013, Cabinet endorsed “Planning for a Sustainable Future” as the overarching strategy for meeting the challenges forecast for the Council’s Medium Term Financial Strategy and a series of workstreams designed to deliver savings & efficiencies to mitigate grant & income reductions in the coming years.

Survey and consultation results are made available on the website. Communication and feedback is also completed through several publications which are made available on the website.

We use various types of media to communicate our vision and priorities. Examples are the Corporate Plan and quarterly reporting on achievements. All documents are available on the Authority's website and in hard copy format.

During 2013/14 Tamworth Listens initiative was a question time event held at the Assembly Rooms on the evening of 16th October 2013. This gave residents of Tamworth the opportunity to ask a panel of public sector representatives questions about Tamworth. The event was split into 2 themes; Future plans for the Town Centre, Safer Tamworth and a section for general questions. The event was well attended. Due to time constraints, not all questions were able to be answered; and those not answered at the event were given a written response following the meeting.

The Authority has adopted a Statement of Community Involvement which sets out the Vision & Strategy for community involvement in planning. It is the Authority's code of practice on how people can be expected to be involved in the planning process. It covers the production of different types of planning policy documents, and the different stages for each one.

There is a "Tell Us Scheme" in place which captures comments, compliments and complaints. The "Tell Us Scheme" is due for review in 2014/15.

The Authority has both a moral and legal obligation to ensure a duty of care for children and vulnerable adults across its services. We are committed to ensuring that all children and vulnerable adults are protected and kept safe from harm whilst engaged in services organised and provided by the Authority. We do this by:

- Having a Child & Adult Protection Policy and procedures in place;
- Having child & adult protection processes which give clear, step-by-step guidance if abuse is identified;
- Safeguarding training programme in place for staff and members;
- Carrying out the appropriate level of Disclosure & Barring Service checks on staff and volunteers;
- Working closely with Staffordshire Safeguarding Children Board & Staffordshire & Stoke-on-Trent Adult Safeguarding Partnership.

The Authority has continued to develop its partnerships and joint working with health partners and has been a key player in the development of the countywide Health and Wellbeing Board. Our Chief Executive represents all Staffordshire Chief Executives on the Board. The Health and Wellbeing Board has produced a countywide strategy for improving health across the County and the Authority is developing its approaches to deliver the aims of the strategy.

The Petitions Policy has been reviewed and updated so that it correlates with the Constitution thus ensuring that anomalies which existed between the two are corrected. This has resulted in a more streamlined and customer friendly process to deal with a petition.

Place

The Tamworth Strategic Partnership (TSP) is an umbrella partnership that brings together key local agencies from the public, private, voluntary and community sectors with the vision and priorities aligned to the Authority's. The TSP has in place a strategic plan, terms of reference, workstreams with lead officers and champions. Partnership Governance guidance has been developed for use in all partnerships.

The Authority is working to promote private sector growth and create quality employment locally. Some of the achievements during 2013/14 include, improvements to be made to the Tamworth Castle which successfully gained Heritage Lottery Funding; progression of the Gateway Projects with the County Council; development of the Creative Quarter, and influencing both the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP), and the Staffordshire and Stoke-on-Trent Local Enterprise Partnership, with successful outcomes for Tamworth.

Following the successful implementation of Council House Finance Reform the 30 year business plan was refreshed during 2013/14.

The Tamworth Growth & Regeneration Plan has been adopted and sets out the economic context we are operating in, identifies the Authority's strategic approach to growth & regeneration and brings together a range of key strands – connecting together the varied work streams that are being delivered internally and in some cases externally. Considerable consultation and engagement has been completed for both Housing Regeneration for Tinkers Green and the Kerria Centre and the revised Local Plan.

Organisation

The Authority ensures accountability and openness through the publishing of the Corporate Plan and the Annual Review which detail proposed plans for the coming year and achievement of objectives for the previous year. The Annual Review also details the summary accounts for the financial year. The Statement of Accounts is made available to the public on the website both at draft and final stage. The Authority has a balanced three year Medium Term Financial Strategy. The delivery of a balanced Medium Term Financial Strategy (three years for the General Fund and five years for the Housing Revenue Account (HRA)) is a major achievement for the Authority in light of the adverse economic conditions and increased financial demands from central government for service improvements in areas such as local democracy and transparency – as well as substantial reductions in Government grant support in the future.

During 2013/14, a Peer Assessment was completed and the Peer team feedback and final report were extremely complimentary about the political and managerial leadership and its ability to lead, plan and deliver against a clear Vision. The Peer Assessment Team assessed and reviewed five core components:

- Understanding of local context and priority setting;
- Financial planning and viability;
- Political and management leadership;

- Governance and decision making;
- Organisational capacity.

The Authority also identified two other areas for the assessment to focus on:

- Community Development; and
- Partnerships & Commissioning.

The Peer Assessment highlighted that the Authority has a clear vision, a sound understanding of the economic drivers impacting on the Borough. It also highlighted that the Authority was well led by the joint Member/Officer Executive that delivers. The Peer Assessment Team recognised the existence of good working relationships between senior political and managerial leadership, a willingness to stand by tough decisions, staff that have a clear passion and pride and commitment and a Medium Term Financial Strategy based on prudent assumptions. The Assessment also highlighted some suggestions for consideration which has resulted in a high level improvement plan for local context and priority setting, financial planning and viability, political and managerial leadership, governance and decision making and organisational capacity.

We have a Performance Management Framework in place which ensures that our performance against our intended outcomes as identified in the Corporate Plan, making the best use of resources available whilst obtaining value for money, is measured, monitored and reported on a quarterly basis. Details of performance against target are made available on the Authority's website.

The Constitution and Scheme of Delegation is reviewed and approved annually at Full Council. They detail roles and responsibilities of Members and the Statutory Officers and the protocol on Member/Officer relations. All new Members are given induction training which covers conduct and standards of behaviour. Members and Officers are required to declare gifts and hospitality and to register their interests. A Code of Conduct for officers has been included in the revised Constitution. There is an E-Induction programme in place which includes a section on conduct. All new staff and Members are required to complete an induction programme. On-going development of Members and Officers is identified through the Performance Development Review (PDR) process which is completed annually.

The Policy in Relation to Councillors for an Alleged Breach of the Code of Conduct is to be approved by Council on 16th September 2014.

A Risk Management Strategy is in place which has been formally approved by Corporate Management Team and the Audit & Governance Committee. It is updated and reviewed on a regular basis. There is a Corporate Risk Register in place which is monitored by the Corporate Management Team and reported to the Audit & Governance Committee. Operational risk registers are also identified and managed.

The Authority has in place a Counter Fraud & Corruption Policy Statement, Strategy and Guidance Notes and a Whistleblowing Policy which are available on the website. These are reviewed and revised on a regular basis.

The Authority has been undertaking a change management programme over the last two years. The corporate approach to project management has been strengthened by the strategic overview provided by a Corporate Change Board – set up in 2012/13. Given the nature and overarching significance of the "Planning for a Sustainable Future" strategic route map, the Corporate Change Board provide the project management and governance arrangements to ensure the effective and timely delivery of the wide ranging actions and associated outcomes and that all necessary authorities and approvals are in place.

A Service Review Policy and Procedure has been developed and further governance arrangements to support this have been identified.

In accordance with Section 38 of the Localism Act 2011, the Authority has updated and published a Pay Policy Statement setting out the Authority's approach to pay for all its officers.

The Authority's financial management arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)*. The Executive Director Corporate Services (the Chief Financial Officer) reports directly to the Chief Executive and is a member of the Corporate Management Team (CMT). The Chief Finance Officer is professionally qualified and his main responsibilities include those set out in the CIPFA Statement on the role of the Chief Finance Officer in Local Government and also as detailed in the Constitution.

The Authority's Assurance Arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit (2010)*. The Head of Internal Audit Services fulfils this role and is professionally qualified and reports directly to the Executive Director Corporate Services who is a member of the Corporate Management Team.

The Solicitor to the Council fulfils the role of the Monitoring Officer, the functions of which are detailed in the Constitution and include the responsibility for ensuring that the Authority follows agreed procedures and that all applicable statutes, regulations and other relevant statements of good practice are complied with, for example, changes that have been required regarding the Localism Act 2011 and the Local Authority (Executive Arrangements) (Access to Information) Regulations 2013.

The Chief Executive fulfils the role of the Head of Paid Service, the functions of which are detailed in the Constitution.

The Audit & Governance Committee has been in place since 2006 and its role and function are laid down in the Constitution. The core functions are as identified in *CIPFA's Audit Committees: Practical Guidance for Local Authorities*. Each year, the Committee completes a self assessment against CIFPA guidance to ensure compliance. The Chair reports to the Full Council on an annual basis on the actions taken by the Committee during the year.

Training in specialised areas is provided to members and during 2013/14 the following training was provided to members:

Constitution Workshop, Chairing Scrutiny workshop for the Chairs of Scrutiny, Governance Seminar, Protocols & Practice for Council Meetings, and Finance & Treasury Management Seminars. Workshops, seminars and briefings in other areas were also completed.

An Independent Remuneration Panel was established to review Member Allowances:

The Leader of the Council reported to Full Council in compliance with the Local Authorities Executive Arrangements (Meetings & Access to Information) Regulations 2012, that no urgent executive decisions had been made for the period to 30 April 2014;

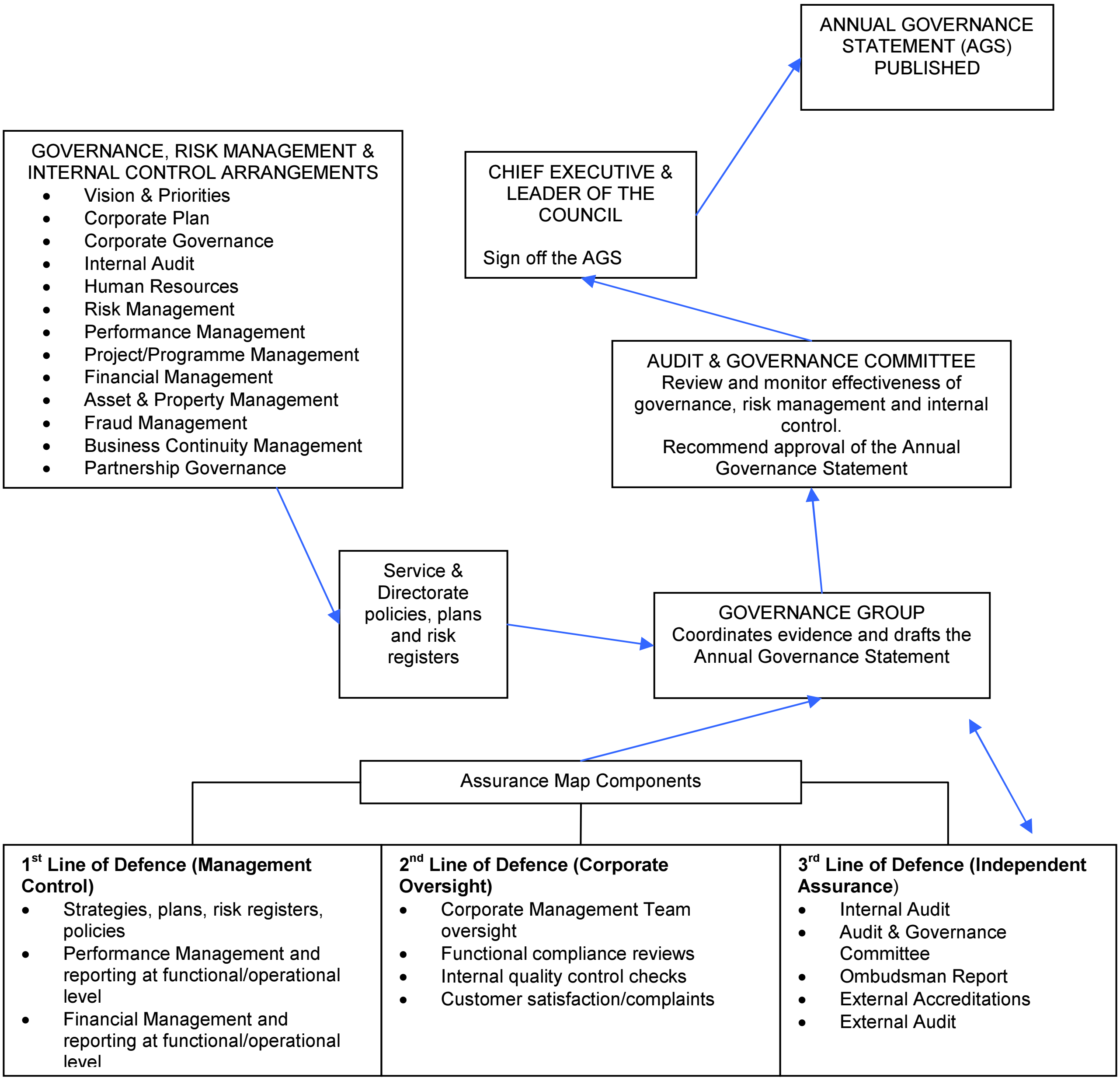
In compliance with the Localism Act 2011, two Independent persons have been appointed to join the Audit & Governance Committee when required to deal with Members Code of Conduct issues;

We are working towards compliance with the Local Government Transparency Code and have commenced work on improving the reporting requirements for the Contracts Register and the Grants Register;

In compliance with the Openness of Local Government Bodies Regulations 2014, the Authority revised the Constitution to meet the requirements of the legislation to allow reporting at meetings and taking into account Freedom of Information Legislation changes (to be approved by Council on 16th September 2014).

The Assurance Framework

The diagram below shows how the Assurance Framework is made up.



Review of Effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive 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 also by comments made by the External Auditors and other review agencies and inspectorates as detailed below:

- During 2013/14, the Governance Group has reviewed and updated against the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government;*

- Both the CIPFA Statement on the Role of the Chief Finance Officer and the CIPFA Statement on the Role of the Head of Internal Audit were reviewed and updated and reported to the Audit & Governance Committee;

- The Head of Internal Audit Services reports to the Audit & Governance Committee on a quarterly basis and provides an opinion on the overall effectiveness of the system of internal control based upon the work completed. For the 2013/14 financial year and 2014/15 to date, the Head of Internal Audit Services' overall opinion of the control environment at this time is that "reasonable assurance" can be given;

- From the 1st April 2013, Internal Audit are required to comply with the Public Sector Internal Audit Standards. As part of the requirement of compliance, Internal Audit are required to complete an annual self assessment against the Standards and produced a Quality Assurance & Improvement Programme (QAIP) which identifies areas for improvement both to ensure compliance with the Standards and other quality areas. The self assessment against the standards and the QAIP are reported to the Audit & Governance Committee;

- Our External Auditors report to each Audit & Governance Committee. In their Annual Audit Letter, they gave an unqualified opinion on the Statement of Accounts, an unqualified conclusion in respect of the Authority securing economy, efficiency and effectiveness, and an unqualified opinion on the production of the Whole of Government Accounts;

- The Ombudsman reported in September 2013 on the enquiries and complaints they received in 2012/13. In total, they received 11 enquiries/complaints of which 7 were passed to the investigative team all of which concluded that there was not enough evidence of fault;

- Managers Assurance Statements have been completed and have not identified any significant control issues;

- The Corporate Risk Register is owned and reviewed on a quarterly basis by the Corporate Management Team and reported in the Quarterly Healthcheck;

- The Performance Management Framework ensures that the financial healthcheck is reported to Cabinet on a quarterly basis and made readily available on the Authority's website;

- During 2013/14, the Authority commissioned a Peer Challenge to be completed by the Local Government Association. This identified that the Authority had a clear vision, a sound understanding of the economic drivers affecting the Authority, there were good working relationships between senior managers and politicians, staff worked with passion, pride and commitment and the Medium Term Financial Strategy was based on prudent assumptions. The Peer Challenge did identify areas for improvement and these have been formulated into a high level improvement plan;

- The Authority has successfully retained the BSI Accreditations for Information Security and Information Technology - Service Management;

- The Authority retained The Code of Connection Certificate after completing an annual assessment against the Code which included assessments against governance, service management and information assurance conditions. Compliance with the Code of Connection ensures access to the Public Services Network.

The Assurance Map identifies all sources of assurance received.

Tamworth Borough Council Assurance Map

1st line of Defence		2nd line of Defence		3rd line of defence	
Business Plans	✓	Corporate Management Team	✓	Head of Internal Audit Opinion	✓
Operational Risk Registers	✓	Statutory Officers	✓	External Audit Reports	✓
Policies & Procedures	✓	Tell Us Scheme	✓	Audit & Governance Committee	✓
Management/team meetings	✓	Management Controls	✓	Ombudsman Report	✓
Managers Assurance Statements	✓	Corporate Change Board	✓	Peer Challenge	⚠
Budget Monitoring & Reporting	✓	Corporate Risk Register	✓	ISO accreditation – Information Security	✓
		Performance Management Framework	✓	ISO accreditation – Information Technology Service Management	✓
		Governance group	✓	Code of Connection Certificate	✓
				QAS accreditation – Sheltered Housing	✓

Declaration

We have been advised on the implications of the results of the review of the effectiveness of the governance framework by the Audit & Governance Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The significant governance issues already addressed and those to be specifically addressed with new actions planned are outlined in the attached **Annex 1**. 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.

We propose over the coming year to take steps to address those matters raised to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operations as part of our next review.

Signed

D Cook	A E Goodwin
Leader	Chief Executive

Date

On behalf of the Authority

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..

Significant Governance Issues raised 2012/13 and action completed

The significant governance issues identified in relation to the Authority achieving its vision in 2012/13 and action completed are:

No	Issue	Action	Update
1	**Medium Term Financial Strategy (MTFS)** The financial planning process has enabled a balanced MTFS to be delivered and has estimated closing balances over three years to £0.5m which is the minimum approved level.	Review on a regular basis the plans in place to deliver the MTFS to ensure that plans remain realistic and achievable including development of the Sustainability Strategy to address future financial constraints.	The Authority holds sufficient funds in reserves and balances to allow it to plan its approach to budget setting, and Cabinet, on 22nd August 2013, endorsed the document 'Planning for a Sustainable Future' as the overarching strategy for meeting the challenges forecast for the Authority's Medium Term Financial Strategy (MTFS) and a series of workstreams designed to deliver savings and efficiencies designed to tackle the forecast deficit long before it becomes a reality. This includes exploring new and innovative ideas and to be more commercial in our approach to business, including making better use of our assets. Council, on 25th February 2014, approved a 3 year Medium Term Financial Strategy for the General Fund with Council Tax increases lower than the Government referendum limits – in order to continue to deliver those services essential to the Local Community. However, in the longer term, the Authority faces on-going grant reductions and income uncertainties which mean that substantial savings will need to be made from 2017/18 onwards to deliver a balanced budget.

No	Issue	Action	Update
			The Local Plan has identified the need for increased housing provision within the Borough and associated service demand. In the future, under the current funding arrangements, financial resilience is strongly linked to future growth in council tax and business rates income. Opportunities for identifying, promoting and supporting economic growth are actively being pursued. Capital spending for the General Fund is extremely limited by resource constraints – each project is robustly challenged through a business case, return on investment assessment. With regard to the Housing Revenue Account (HRA), a 5 year MTFS was approved by Council, including significant investment in Regeneration projects to meet future housing needs and sustain the HRA in the longer term. Following HRA self financing, the majority of the capital funding is made through revenue contributions. A recent update to the 30 year HRA Business plan has recently been finalised and shows that the HRA is financially sound for the future. In addition a model has been developed to monitor delivery of the savings included within the MTFS (for the General Fund & HRA) – and to identify the savings target for the next 3/5 Medium Term Planning Period. The development of which also meets the action arising from the Peer Challenge process recommendations / improvement plan. This includes updated forecasts for new homes bonus / council tax income arising from expected housing developments together with revised business rates income forecasts following completion of NNDR1.

No	Issue	Action	Update
			These will be monitored / updated regularly on a monthly / quarterly basis. Regular monitoring meetings with planning, economic development and strategic housing as well as the Valuation Office have been put in place – as a proactive measure to facilitate maximisation of income. The model also includes stress testing of the forecast to give a range over best, central and worse case scenarios and will be used in the strategic monitoring of the progress made in delivering the workstream savings against the MTFS targets – and the longer term savings which will be required to ensure the ongoing sustainability of the Authority.
2	**Town Centre Redevelopment** The Authority is making plans for the redevelopment of the Town Centre.	Maintain and review plans on a regular basis to ensure that they can be delivered without detrimental impact on the MTFS.	The Authority has worked in partnership with the public and private sector to support economic growth and regeneration in the town centre. Regeneration proposals are considered against their direct and indirect financial impact on the authority and economy.
3	**Housing Regeneration** An in-depth study of council housing in Tamworth has identified that some housing in Tinkers Green in Wilnecote and the Kerria Centre in Amington was unpopular with residents, outdated and unsuitable for current housing needs.	A major redevelopment plan has been approved by the Authority's Cabinet to involve the demolition and rebuilding of parts of the Tinkers Green and Kerria estates. The Authority will invest around £21.5 million over the next six years in the redevelopment of the two estates.	The regeneration of Tinkers Green and Kerria areas are progressing well with Development Consultants appointed and currently developing master planning proposals. These will be submitted for approval by the Authority's Planning Committee later this year. It is anticipated that the project will move to detailed design stages during 2015 and a developer procured during this period.

No	Issue	Action	Update
4	**Golf Course** The provision of golfing in Tamworth was at risk due to the financial stability of the management company running the golf course. The Authority has reopened and is managing the golf course for a period of up to two years.	Work is progressing to look at other options for securing the long-term future of the golf course site, including future redevelopment and investment options.	The Authority has completed its future options appraisal for the Golf Course and Cabinet has chosen to close the course at the end of September 2014. A project to prepare the site for sale and redevelopment part of it for housing is being progressed. In the meantime the Authority continues to run the Golf Course in house until the end of September 2014.

Significant Governance Issues 2013/14

The significant governance issues identified in relation to the Authority achieving its vision in 2013/14 are:

No	Issue	Action
1	**Medium Term Financial Strategy (MTFS)** Whilst actions have been taken to ensure that the MTFS remains balanced, this is still a significant risk to the Authority.	Review on a regular basis the plans in place to deliver the MTFS to ensure that plans remain realistic and achievable including development of the Sustainability Strategy to address future financial constraints.
2	**Town Centre Redevelopment** The Authority is making plans for the redevelopment of the Town Centre.	Maintain and review plans on a regular basis to ensure that they can be delivered in accordance with the MTFS.
3	**Housing Regeneration** An in-depth study of council Housing in Tamworth has identified that some housing in Tinkers Green in Wilnecote and the Kerria Centre in Amington was unpopular with residents, outdated and unsuitable for current housing needs.	The regeneration of Tinkers Green and Kerria areas are progressing well with Development Consultants appointed and currently developing master planning proposals. These will be submitted for approval by the Authority's Planning Committee later this year. It is anticipated that the project will move to detailed design stages during 2015 and a developer procured during this period.

No	Issue	Action
4	**Peer Challenge High Level Action Plan** The peer Challenge confirmed the need for a more proactive approach to member training with clear rules on compliance and sanctions and with particular regard to the Scrutiny function.	Completion of a more proactive approach to member training in accordance with the details in the Peer Challenge High Level Action Plan
5	**Golf Course redevelopment** Following Cabinet approval a project has been established to investigate and implement the redevelopment of the site for housing including the provision of significant open space. A project team has been established and external support procured to instigate the site constraints and prepare for an outline planning application prior to a sale of the site. Note some land will be withheld by the Authority for public open space.	Deliver the high level project plan as approved by Cabinet.

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 Authority 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 Authority, including the accumulated surplus of income over expenditure. Balances form part of the Authority's reserves.

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

Business Rates Retention Scheme
This was introduced with effect from 1 April 2013, and requires the Authority to operate a Collection Fund to account for business rates in a similar way to council tax. Rather than collecting business rates on behalf of the Government, the Authority can now retain a share of the business rates it collects, and pays out a share to Government, Staffs County Council and the Fire & Rescue Authority.

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 Authority in providing its services beyond the year of the account e.g. land and buildings.

Capital Financing Requirement
This represents the Authority'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 with an insignificant risk of change in value.

Cash Flow Statement
This shows the changes in cash and cash equivalents of the Authority 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 and business rates income in the Comprehensive Income and Expenditure Statement as it falls due 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 overall cost of the asset; materially different useful lives; and/or different methods of depreciation, 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 Authority a possible asset which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Authority'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 contingent liability arises where an event has taken place that gives the Authority a possible obligation, subject to uncertain future events not wholly within the Authority's control. Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts..

Creditors
Amounts owed by the Authority 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 Authority for work done or services supplied, for which income has not been received 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.

Exceptional Items
A material item of income or expenditure, significant to an understanding of the Authority's financial performance, disclosed separately within the CIES or in a note to the accounts.

.**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.

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

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 (e.g. 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 Authority'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 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.

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 Authority 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 represents the estimated long-term average amount of capital spending required to maintain the Authority'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 Rates (NNDR)
The tax paid on non domestic properties, set annually by government. In previous years, this tax was collected by billing authorities and paid over to the Government, with the Authority receiving a share of the national pool as part of its resources used to meet total net expenditure. Under the new scheme introduced with effect from 1st April 2014, local authorities now retain a proportion of the business rates generated in their area.

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 its continuing use

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, OPCC Staffordshire and the Stoke-on-Trent and Staffordshire Fire & Rescue Authority as a means of obtaining income. The payment is met from the Authority's collection fund and is based on the council tax base.

Provision
An amount set aside to meet a liability that is likely to be incurred, and a reasonable estimate can be made, charged as an expense to the appropriate service line in the CIES.

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.

Revaluation Reserve
This reserve records the net gain from revaluations of the Authority's plant, property and equipment, and Intangible Assets, made after 1st April 2007.

Revenue Expenditure
The day-to-day expenditure incurred by the 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.

Usable Reserves

The purpose of each usable reserve is detailed below:

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

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

Capital Receipts Reserve
This reserve holds all of the Authority'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.

Major Repairs Reserve
This reserve is to meet the capital investment requirements of the Authority'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 financial statements

We have audited the financial statements of Tamworth Borough Council for the year ended 31 March 2014 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 2013/14.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Tamworth Borough Council as at 31st March 2014 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 2013/14.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
in our 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;
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
we 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
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our 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 2013, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are 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 31st March 2014.

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

James Cook

Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza, 20 Colmore Circus, Birmingham, West Midlands, B4 6AT

30th September 2014

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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AUDIT & GOVERNANCE COMMITTEE

25th September 2014

Report of the Executive Director Corporate Services

REVIEW OF THE TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2014/15 and the ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2013/14

Purpose

In line with policy and legislation to avail the Audit & Governance Committee the opportunity to scrutinise and review the Treasury Management Strategy Statement, Minimum Revenue Provision Statement and Annual Investment Statement 2014/15 and the Annual Report on the Treasury Management Service and Actual Prudential Indicators 2013/14 approved by Council on 25th February 2014 and 16th September 2014 respectively.

Recommendation

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

Executive Summary

The Treasury Management Strategy Statement, Minimum Revenue Provision Statement and Annual Investment Statement 2014/15 and the Annual Report on the Treasury Management Service and Actual Prudential Indicators 2013/14 were approved by Council on 25th February 2014 and 16th September 2014 respectively.

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 2014/15 is attached at **Annex 1**, together with a copy of the Annual Report on the Treasury Management Service and Actual Prudential Indicators 2013/14 at **Annex 2.**

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.

Report Author:
Please contact Phil Thomas, Financial Accountant or Stefan Garner, Director of Finance, extension 239 or 242.

Background Papers:-	Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2014/15 to 2016/17 Including Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2014/15. Council 25th February 2014
	Annual Treasury Report 2013/14 Council 16th September 2014
	Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2010/11 Council 23rd February 2010.
	Treasury Management Practices 2014/15 (Operational Detail).

Appendices

Annex 1 - Treasury Management Strategy and Prudential Indicators for 2014/15
Annex 2 - Annual Report on the Treasury Management Service and Actual Prudential Indicators 2013/14

ANNEX 1

TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2014/15

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 requires the Council to produce prudential indicators in line with the Prudential Code.

This report outlines the Council's prudential indicators for 2014/15 – 2016/17 and sets out the expected Treasury operations for this period. This report and associated tables fulfil the statutory requirement of the Local Government Act 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 (DCLG) investment guidance);
- Affirming the effective management and responsibility for the control of risk and clearly identifying our appetite for risk. The Council's risk appetite is low in order to give priority to **S**ecurity, **L**iquidity then **Y**ield (or return on investments).

Note: The UK has been downgraded by 2 rating agencies to AA+. The Sovereign / Creditworthiness has not been affected by the market. UK investment will remain the fundamental investment area subject to any further changes.

The main issues for Members to note are:

1. The CIPFA Code of Practice and associated Guidance Notes adopted by the Council in December 2012 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 Capita Asset Services (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 Council 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 Capita Asset Services 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

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Background Papers:-	***Local Government Act 2003***
	CIPFA Code of Practice on Treasury Management in Public Services 2011
	DCLG Guidance on Local Government Investments March 2010
	Annual Treasury Report 2012/13 Council, 10/09/13
	Mid-year Treasury Report 2013/14 Council, 17/12/13
	Budget & Medium Term Financial Strategy 2014/15
	Treasury Management Practices 2014/15 (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 plans. These capital plans 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 committee. This role is undertaken by the Audit and Governance Committee.

Prudential and Treasury Indicators and Treasury Strategy (This report) - The first, and most important report covers:

- the capital plans (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).

A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and report whether the treasury strategy is meeting the strategy or whether any policies require revision.

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 2014/15

The strategy for 2014/15 covers two main areas:

a) Capital Issues

- the capital plans and the prudential indicators (2.1, 2.2);
- the Minimum Revenue Provision (MRP) strategy (2.3).

b) Treasury Management Issues

- the current treasury position (2.4);
- treasury indicators which will limit the treasury risk and activities of the Council (3);
- prospects for interest rates (3.3);
- the borrowing strategy (3.4);
- policy on borrowing in advance of need (3.5);
- debt rescheduling (3.6);
- the investment strategy (4.1);
- creditworthiness policy (4.2); and
- policy on use of external service providers (4.7).

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.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was undertaken by Members in February and October 2010 and September 2011. Detailed Treasury Management training was put in place for February 2014 and further training will be arranged as required. The training needs of treasury management officers are regularly reviewed.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services 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.

2. The Capital Prudential Indicators 2014/15 – 2016/17

The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 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	2012/13 Actual £m	2013/14 Probable Outturn* £m	2014/15 Estimate** £m	2015/16 Estimate £m	2016/17 Estimate £m
Non-HRA	1.622	1.766	2.982	0.593	0.385
HRA	3.365	8.517	6.003	14.504	14.960
Total	**4.987**	**10.283**	**8.985**	**15.097**	**15.345**

** Projected at Period 9*

*** excludes projected slippage from 2013/14*

The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Capital Financing (GF / HRA)	2012/13 Actual £m	2013/14 Probable Outturn £m	2014/15 Estimate** £m	2015/16 Estimate £m	2016/17 Estimate £m
Capital Receipts	0.602	0.605	0.305	1.230	1.810
Capital Grants	0.929	0.650	2.310	0.224	0.224
Capital Reserves	0.090	3.619	0.300	0.081	-
Revenue Reserves	3.366	5.409	4.819	7.794	6.471
Revenue	-	-	1.251	3.526	1.868
Net financing need for the year	**-**	**-**	**-**	**2.242**	**4.972**
Total	**4.987**	**10.283**	**8.985**	**15.097**	**15.345**

2.2 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 CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council is asked to approve the CFR projections below:

CFR Projections	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Capital Financing Requirement					
CFR – Non Housing	1.525	1.227	1.162	0.503	0.440
CFR - Housing	68.054	68.044	68.034	70.266	75.229
Total CFR	**69.579**	**69.271**	**69.196**	**70.769**	**75.669**
Movement in CFR*	**(0.089)**	**(0.308)**	**(0.075)**	**1.573**	**4.900**

Movement in CFR represented by					
Net financing need for the year (above)	-	-	-	2.242	4.972
Less: MRP/VRP and other financing movements	(0.089)	(0.308)**	(0.075)	(0.669)**	(0.072)
Movement in CFR	**(0.089)**	**(0.308)**	**(0.075)**	**1.573**	**4.900**

* CFR 2011/12 £69.668m

**include capitalisation reversals associated with Icelandic deposits

2.3 Minimum Revenue Provision (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, 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 is required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, regulations allow the Major Repairs Allowance to be used as a proxy for depreciation for five years from 2012/13.

2.4 Core Funds and expected Investment Balances

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	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Fund Balances/Reserves	21.100	21.488	18.781	13.416	13.380
Capital Receipts	1.695	1.492	0.887	0.657	0.496
Provisions	0.148	0.110	0.110	-	-
Other	0.048	-	-	-	-
Total core funds	**22.991**	**23.090**	**19.778**	**14.073**	**13.876**
Working Capital*	2.527	4.137	4.499	4.658	3.596
(Under)/Over Borrowing	(4.519)	(4.210)	(4.137)	(3.467)	(3.395)
Expected Investments	**20.999**	**23.017**	**20.140**	**15.264**	**14.077**

*Working capital balances shown are estimated year end; these may be higher mid year.

2.5 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:

2.6 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	2012/13 Actual %	2013/14 Revised Estimate %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Non-HRA	(0.90)	0.80	(1.33)	4.96	(2.81)
HRA (inclusive of settlement)	14.37	34.91	34.97	34.16	33.44

The estimates of financing costs include current commitments and the proposals in this budget report.

2.7 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

Incremental Impact on Council Tax	2012/13 Actual £:p	2013/14 Estimate £:p	2014/15 Estimate £:p	2015/16 Estimate £:p	2016/17 Estimate £:p
Band D	0.28	0.24	0.16	0.37	(0.34)

2.8 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

Incremental Impact	2012/13 Actual £:p	2013/14 Estimate £:p	2014/15 Estimate £:p	2015/16 Estimate £:p	2016/17 Estimate £:p
Weekly housing rent levels	0.06	0.03	(0.04)*	0.19	0.60

* Revised capital programme lower than originally planned.

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

3. Borrowing

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 31st March 2013, 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.

Treasury Portfolio	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
External Debt					
Debt at 1st April	65.060	65.060	65.060	65.060	67.302
Expected change in Debt	-	-	-	2.242	4.972
Actual gross debt at 31st March	**65.060**	**65.060**	**65.060**	**67.302**	**72.274**
The Capital Financing Requirement	**69.579**	**69.271**	**69.196**	**70.769**	**75.669**
Under / (over) borrowing	**4.519**	**4.211**	**4.136**	**3.467**	**3.395**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. A key indicator 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 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Executive Director Corporate Services 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	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	72.268	72.268	74.510	79.482
Other long term liabilities	-	-	-	-
Total	**72.268**	**72.268**	**74.510**	**79.482**

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:

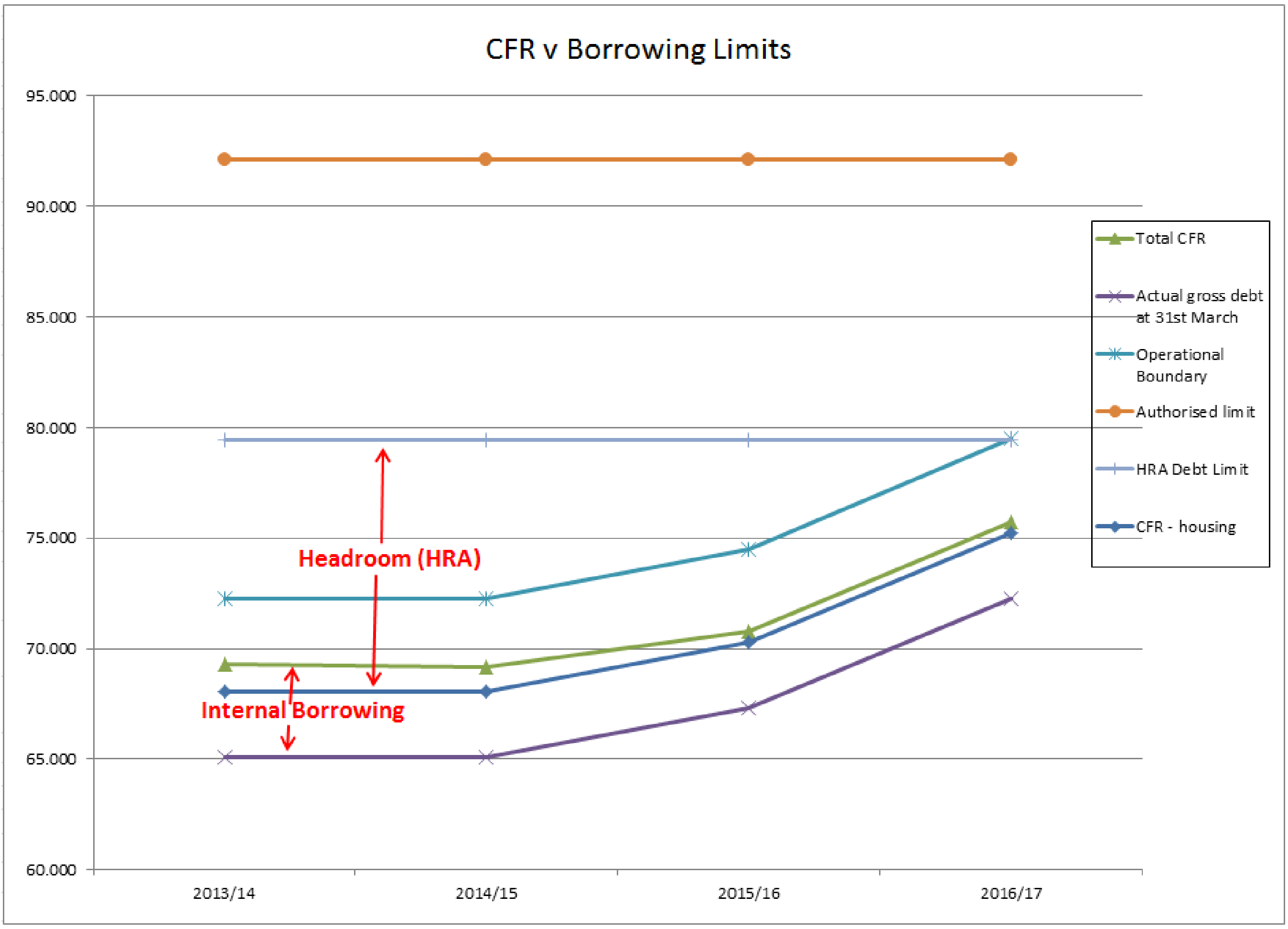
Authorised limit	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing*	89.112	89.112	89.112	89.112
Other long term liabilities	3.000	3.000	3.000	3.000
Total	**92.112**	**92.112**	**92.112**	**92.112**

** 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	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Total	79.407	79.407	79.407	79.407

This information is summarised graphically below:



3.3. Prospects for Interest Rates

The Council has appointed Capita Asset Services 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 Capita Asset Services' central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2013	0.50	2.50	4.40	4.40
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.40	4.40
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.50	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.20	5.00	5.10
Jun 2016	0.50	3.30	5.10	5.20
Sep 2016	0.75	3.50	5.10	5.20
Dec 2016	1.00	3.60	5.10	5.20
Mar 2017	1.25	3.70	5.20	5.30

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded in quarter 1 and 2 of 2013 to surpass all expectations. Growth prospects remain strong looking forward, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below CPI inflation so disposbale income and living standards are under pressure, although income tax cuts have ameliorated this to some extent.

A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury mangement implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt, in some countries, continue to rise to levels that compound already existing concerns. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this 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 relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Executive Director Corporate Services 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 the anticipated rate to US tapering of asset purchases, or 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 are still lower than they will be in the next few years.

While interest rates are at historic lows, consideration has to be given to taking debt before it is required due to the cost associated with holding the debt – i.e. debt costs would far outweigh investment returns in the short term.

Any decisions will be reported to Cabinet and full Council at the next available opportunity.

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:

Interest Rate Exposure	**2014/15**	**2015/16**	**2016/17**
	£m	**£m**	**£m**
Limit:	**Upper**	**Upper**	**Upper**
Limits on Fixed Interest Rates based on net debt	49.712	53.159	58.583
Limits on Variable Interest Rates based on net debt	6.506	6.618	6.978
Limits on Fixed Interest Rates:			
Debt only	65.060	66.181	69.781
Investments only	25.580	21.704	18.665
Limits on Variable Interest Rates:			
Debt only	6.506	6.618	6.978
Investments only	10.232	8.682	7.466

Maturity structure of Fixed Interest Rate borrowing 2014/15		
	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%

Maturity structure of Variable Interest Rate borrowing 2014/15		
	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;
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identifying 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.

4. Annual Investment Strategy

4.1 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 and 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 our ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, 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, Capita Asset Services in producing its colour codings which show the varying degrees of suggested 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 diversification 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.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. 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 suggested duration for investments. The Council will therefore use counterparties within the following durational bands*:*

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- 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 Capita Asset Services 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 Capita Asset Services 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.

4.3 Country Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA or AA+ 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.

Capita Asset Services 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 Capita's recommendation (based on current average investment levels).

4.4 Investment Strategy

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).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days and for all investments during each financial year for the next four years are as follows:

Year	Up to 100 Days %	All Investments %
2014/15	0.50	0.75
2015/16	0.50	1.25
2016/17	0.75	2.25
2017/18	2.25	2.75

Investment 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			
Treasury Indicator	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**
Principal sums invested > 364 days	2.0	2.0	2.0

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, Call accounts, 15, 30 and 95 day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

4.5 Icelandic Bank Investments

Glitnir - £2.55m partial repayment of our deposits was received on the 15th March 2012. The balance due to the Council is currently being held in Icelandic Krone (ISK) but release of these funds is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside the country. Interest will accrue on these funds untill the date of final settlement.

Heritable – In September 2013 the Council received what could be the final distribution from the Administrators. The total sum received is £1.415m against our claim of £1.505m, making a total recovery of 94.02%. The Administrators are witholding a sum as a contingency against disputed claims, which if rejected, could result in a further residual distribution.

Kaupthing Singer & Friedlander – At the end of November 2013, the Council had received £2.587m against our claim of £3.175m. Latest estimates given by the administrator project a total recovery of 85.25% or approximately £2.707m, with the final distribution estimated for June 2015.

4.6 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.

4.7 External Fund Managers

The Council uses Capita Asset Services 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.

4.8 Scheme of delegation

Please see **ANNEX 5**.

4.9 Role of the Section 151 Officer

Please see **ANNEX 6.**

10. Annex

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ANNEX 1

Interest Rate Forecasts 2014 – 2017

Capita Asset Services Interest Rate View	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
3 Month LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.30%
6 Month LIBID	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.30%
5yr PWLB Rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB Rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
UBS	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.60%	2.60%	2.60%	2.60%	2.70%	2.80%	3.00%	3.20%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
UBS	3.70%	3.80%	3.90%	4.05%	4.05%	4.30%	4.55%	4.55%	-	-	-	-	-
Capital Economics	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	4.05%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
UBS	4.55%	4.55%	4.80%	4.80%	5.05%	5.05%	5.30%	5.30%	-	-	-	-	-
Capital Economics	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.45%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
UBS	4.45%	4.45%	4.70%	4.70%	4.90%	4.90%	5.05%	5.05%	-	-	-	-	-
Capital Economics	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.60%	-	-	-	-	-

Please Note - The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Economic Background

THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that: -

In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC's intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.

Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

Forward guidance. The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate has already fallen to 7.4% on the three month rate to October 2013 (although the rate in October alone was actually 7.0%). The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that there is potential for a significant amount of GDP growth to be accommodated without a major reduction in unemployment. However, it has been particularly encouraging that the strong economic growth in 2013 has also been accompanied by a rapid increase in employment and forward hiring indicators are also currently very positive. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing its 7.0% threshold rate and/or by adding further wording similar to the Fed's move in December (see below).

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, will also start in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

AAA rating. The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

THE GLOBAL ECONOMY

The Eurozone (EZ). The sovereign debt crisis has eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of Greece 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness,

USA. The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its $85bn per month asset purchases programme of quantitative easing by $10bn. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.

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 of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.
- The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

Specified and Non-Specified Investments:

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). To facilitate use of such instruments a Custodian account was opened during 2012/13 with King & Shaxson Ltd (a primary participant authorised to bid at Treasury bill tenders on behalf of investors regulated by the Financial Services Authority (FSA) and subject to its rules and guidance in their activities);
- 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 (MMFs) 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 £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 MMFs) 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).

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** • **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.). • **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) 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 the Council.
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 (1 Rating Agency) AA+ Sovereign Rating (2 Rating Agencies)	Custodian Account opened with King & Shaxson to trade on our behalf
3	**Certificates of Deposit** with credit rated deposit takers (Banks and Building Societies)	Capita Asset Services Minimum Credit Worthiness rating	Custodian Account opened with King & Shaxson to trade on our behalf

4	**Term deposit with a body which has been nationalised/part nationalised** by high credit rated (sovereign rating AAA or AA+) 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 or AA+ 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 or AA+ Sovereign Rated Capita Asset Services 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 Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services 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 Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services 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 Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services 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))	Capita '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))	Capita '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))	Capita 'Yellow'	3 yrs	£4m
Banks Nationalised/Part nationalised by high credit rated (sovereign rating AAA or AA+) countries *(a)*	Capita 'Blue' (UK)	Specified in Guarantee	£4m
An Eligible Institution eligible under the HM Treasury Credit Guarantee Scheme *(c)*	Capita 'Blue'	Specified in Guarantee	£4m
Government guarantee on ALL deposits by high credit rated (AAA sovereign rating) countries *(b).*	Capita '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)	Capita '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)	Capita '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 Capita Asset Services 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

Country	Agency		
	Fitch	Moody's	Standard & Poor
Australia	AAA	Aaa	AAA
Canada	AAA	Aaa	AAA
Denmark	AAA	Aaa	AAA
Finland	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
Hong Kong	AA+	Aa1	AAA
Luxembourg	AAA	Aaa	AAA
Netherlands	AAA	Aaa	AA+
Norway	AAA	Aaa	AAA
Singapore	AAA	Aaa	AAA
Sweden	AAA	Aaa	AAA
Switzerland	AAA	Aaa	AAA
USA	AAA	Aaa	AA+
UK*	AA+	Aa1	AAA

(Per Capita Asset Services Credit Rating List at
07thFebruary 2014)

* 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 2014/15.

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

- 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.

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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/treasury-practices

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, Council 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 its self 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 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 TMP6 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 for 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. 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)	Interest rates are set by the Bank's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met. Their primary target (as set by the Government) is to keep inflation at or around 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
Supranational Bonds	A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the World Bank. Similarly to the government bonds, the bonds issued by these institutions are considered very safe and have a high credit rating.
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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ANNEX 2

CABINET

11th September 2014

COUNCIL

16th September 2014

REPORT OF THE PORTFOLIO HOLDER FOR OPERATIONS & ASSETS

ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2013/14

EXEMPT INFORMATION

None

PURPOSE

The Annual Treasury report is a requirement of the Council's reporting procedures. It covers the Treasury activity for 2013/14, and the actual Prudential Indicators for 2013/14.

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 requested to,

1. **Approve the actual 2013/14 Prudential Indicators within the report and shown at APPENDIX 1;**
2. **Accept the Treasury Management stewardship report for 2013/14.**

EXECUTIVE SUMMARY

This report covers Treasury operations for the year ended 31st March 2014 and summarises:

- the Council's Treasury position as at 31st March 2014;
- performance measurement.

The key points raised for 2013/14 are;

The Council's Capital Expenditure and Financing 2013/14

The Council's Overall Borrowing Need

Treasury Position as at 31 March 2014

The Strategy for 2013/14

The Economy and Interest Rates

Borrowing Rates in 2013/14

Borrowing Outturn for 2013/14

Investment Rates in 2013/14

Investment Outturn for 2013/14

Performance Measurement

Icelandic Bank Defaults.

The Treasury Function has achieved the following favourable results:

The Council 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 £28.4m and achieved an average return of 0.71% (budgeted at £20.56m and an average return of 1.00%).

  These results compare favourably with the Council's own Benchmarks of the average 7 day and the 3 month LIBID rates for 2013/14 of 0.35% and 0.39% respectively, and in line with the CIPFA Treasury Benchmarking Club (50 LA members) average rate of 0.84%. 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 Councils;
- The closing weighted average internal rate on borrowing has remained at 4.47%;
- The Treasury Management Function has achieved an outturn investment income of £183k compared to a budget of £214k, the under achievement being due to anticipated increases in bank base rate not coming to fruition.

During 2013/14 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 2014, the Council's external debt was £65.060m (£65.060m at 31st March 2013) and its external investments totalled £28.557m (£20.999m at 31st March 2013) – including interest credited. This excludes £1.355m Icelandic Banking sector deposits (plus accrued interest at claim date) that were 'At Risk' at the year end (£1.75m at the 31st March 2013).

OPTIONS CONSIDERED

None

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 Capita Asset Services (Sector), the Council's current Treasury advisers, has proactively managed its debt and investments over this very difficult year.

SUSTAINABILITY IMPLICATIONS

None

REPORT AUTHOR

If Members would like further information or clarification prior to the meeting please contact Phil Thomas Ext 709239 or email phil-thomas@tamworth.gov.uk

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 26th February 2013);
- Treasury Management Mid-Year Review 2013/14 (Council 17th December 2013);
- Treasury Outturn Report 2012/13 (Council 10th September 2013);
- CIPFA Treasury Benchmarking Club Report 2014.

APPENDICES

Appendix 1 - Prudential and Treasury Indicators
Appendix 2 - CIPFA Benchmarking Club Investments Performance

Annual Treasury Management Review 2013/14

Purpose

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 2013/14. 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 2013/14 the minimum reporting requirements were that the full Council should receive the following reports:

- an Annual Treasury Strategy in advance of the year (Council 26th February 2013)
- a Mid-year (minimum) Treasury Update report (Council 17th December 2013)
- 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.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, 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 to give scrutiny to all of the above Treasury Management Reports by the Audit and Governance Committee before they were reported to the full Council. Member training on Treasury Management issues was undertaken during the year on 4th February 2014 in order to support Members' Scrutiny Role.

Executive Summary

During 2013/14, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential & Treasury Indicators	2012/13 Actual £m	2013/14 Estimate £m	2013/14 Actual £m
Capital Expenditure			
Non HRA	1.622	0.505	**1.339**
HRA	3.365	6.993	**7.602**
Total	4.987	7.498	**8.941**
Capital Financing Requirement			
Non HRA	1.525	1.500	**1.311**
HRA	68.054	68.063	**68.042**
Total	69.579	69.563	**69.353**
Gross Borrowing			
External Debt	65.060	65.060	**65.060**
Investments			
Longer than 1 year	-	-	**-**
Less than 1 year	20.999	15.655	**28.557**
Total	20.999	15.655	**28.557**
Net Borrowing	44.061	49.405	**36.503**

Other prudential and treasury indicators are to be found in the main body of this report. The Executive Director Corporate Services confirms that no borrowing was undertaken in year and the statutory borrowing limit (the authorised limit) was not breached.

The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing 2013/14

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m General Fund	2012/13 Actual £m	2013/14 Estimate £m	2013/14 Actual £m
Capital expenditure	1.622	0.505	**1.339**
Financed in year	1.622	0.505	**1.339**
Unfinanced capital expenditure	-	-	**-**

£m HRA	2012/13 Actual £m	2013/14 Estimate £m	2013/14 Actual £m
Capital expenditure	3.365	6.993	**7.602**
Financed in year	3.365	6.993	**7.602**
Unfinanced capital expenditure	-	-	**-**

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2013/14 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2013/14 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2013/14 on 26/02/2013.

The Council's CFR for General Fund and the HRA for the year are shown below, and represents a key prudential indicator.

CFR (£m): General Fund	31 March 2013 Actual £m	31 March 2014 Budget £m	31 March 2014 Actual £m
Opening balance	1.606	1.552	**1.525**
Add unfinanced capital expenditure (as above)	-	-	**-**
Less MRP/VRP*	(0.081)	(0.052)	**(0.213)**
Less PFI & finance lease repayments	-	-	**-**
Closing balance	1.525	1.500	**1.312**

- As a result of notifications that there would probably be no further distributions from the Administrators of the Icelandic Bank Heritable, the Council has made an additional Voluntary Revenue Provision (VRP) in year of £135k to reduce the original Capitalisation of our potential loss.

CFR (£m): HRA	31 March 2013 Actual £m	31 March 2014 Budget £m	31 March 2014 Actual £m
Opening balance	68.063	68.063	**68.054**
Add unfinanced capital expenditure (as above)	-	-	**-**
Less VRP	(0.009)	-	**(0.012)**
Less PFI & finance lease repayments	-	-	**-**
Closing balance	68.054	68.063	**68.042**

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2013/14) plus the estimates of any additional capital financing requirement for the current (2014/15) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2013/14. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2013 Actual £m	31 March 2014 Budget £m	31 March 2014 Actual £m
Gross borrowing position	65.060	65.060	**65.060**
CFR	69.579	69.563	**69.353**

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2013/14 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of 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.

General Fund	2013/14 £m
Authorised limit	12.705
Maximum gross borrowing position	1.230
Operational boundary	1.367
Average gross borrowing position	1.230
Financing costs as a proportion of net revenue stream %	1.22%

HRA	2013/14 £m
Authorised limit	79.407
Maximum gross borrowing position	63.831
Operational boundary	70.901
Average gross borrowing position	63.831
Financing costs as a proportion of net revenue stream %	15.39%

3. Treasury Position as at 31st March 2014

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2013/14 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

General Fund	31 March 2013 Principal £m	Rate/ Return %	Average Life yrs	31 March 2014 Principal £m		Rate/ Return %	Average Life yrs
Fixed rate funding:							
-PWLB	-	-	-	-	-	-	-
-Market	-	-	-	-	-	-	-
Variable rate funding:							
-PWLB	-	-	-	-	-	-	-
-Market	-	-	-	-	-	-	-
Total debt	**-**	**-**	**-**	**-**	**-**	**-**	**-**
CFR	***1.53***	**-**	**-**	**-**	***1.31***	**-**	**-**
Over / (under) borrowing	***(1.53)***				***(1.31)***		
Investments:							
- in house	10.55	1.09%		16.50		0.71	
Total investments	***10.55***	***1.09%***			***16.50***	***0.71%***	

HRA	31 March 2013 Principal £m	Rate/ Return %	Average Life yrs	31 March 2014 Principal £m		Rate/ Return %	Average Life yrs
Fixed rate funding:							
-PWLB	65.06	4.47	36.43	65.06		4.47	35.43
-Market	-	-		-		-	-
Variable rate funding:							
-PWLB	-			-			
-Market	-	-		-		-	-
Total debt	***65.06***	***4.47***			***65.06***	***4.47***	
CFR	***68.05***				***68.04***		
Over / (under) borrowing	***(2.99)***				***(2.98)***		
Investments:							
- in house	10.45	1.09		12.05		0.71	
Total investments	***10.45***	***1.09***			***12.05***	***0.71***	

Maturity Structures

Debt - The maturity structure of the debt portfolio was as follows:

	31 March 2013 Actual £m	2013/14 original limits £m	31 March 2014 Actual £m
Under 12 months	-	13.01	**-**
12 months and within 24 months	-	13.01	**3.00**
24 months and within 5 years	5.00	16.27	**2.00**
5 years and within 10 years	-	48.80	**-**
10 years and within 20 years	1.00		**1.00**
20 years and within 30 years	4.00	65.06	**4.00**
30 years and within 40 years	5.00		**10.00**
40 years and within 50 years	50.06		**45.06**

Investments - All investments held by the Council were invested for under one year.

The exposure to fixed and variable rates was as follows:

	31 March 2013 Actual	2013/14 Original Limits	31 March 2014 Actual
Fixed rate - principal	44.061	49.409	**36.503**
Variable rate - interest	-	6.506	**-**

4. The Strategy for 2013/14

The expectation for interest rates within the strategy for 2013/14 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2013/14. 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 that PWLB rates were on a sharply rising trend during 2013 as markets anticipated the start of tapering of asset purchases by the Fed. This duly started in December 2013 and the US FOMC (the Fed.), adopted a future course of monthly reductions of $10bn (from a starting position of $85bn), meaning that asset purchases were likely to stop by the end of 2014. However, volatility set in during the first quarter of 2014 as fears around emerging markets, various vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine, caused rates to dip down, reflecting a flight to quality into UK gilts.

5. The Economy and Interest Rates

The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

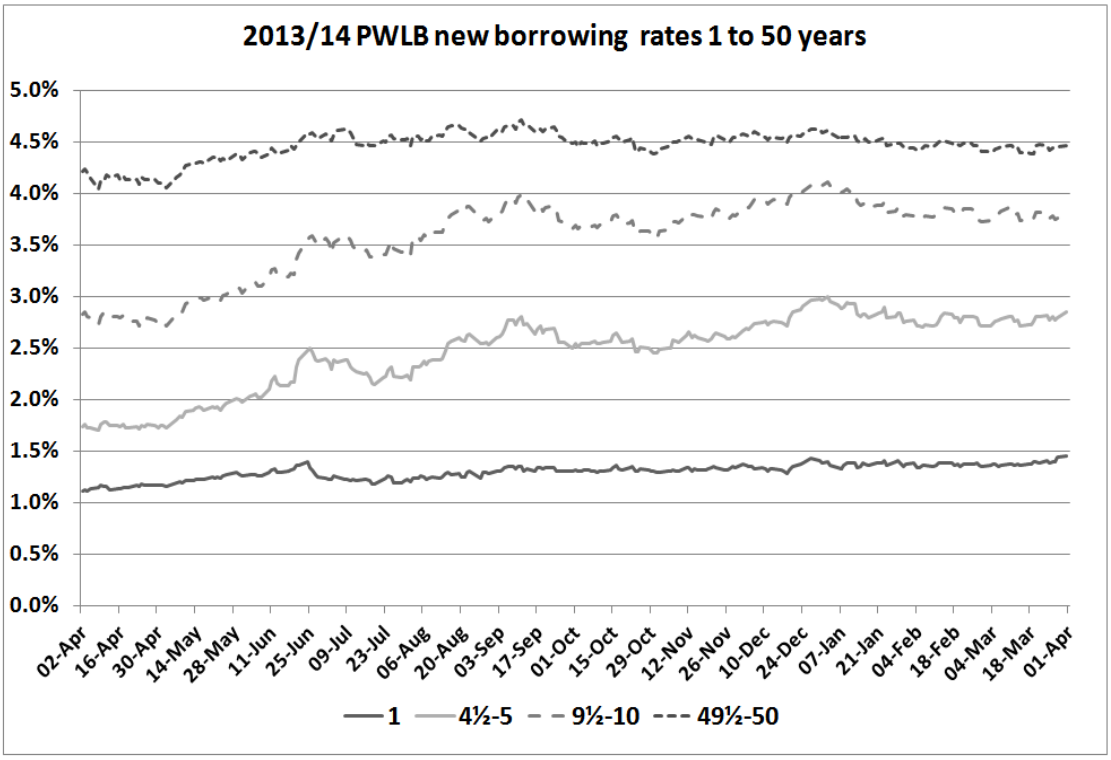
Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality. The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

6. Borrowing Rates in 2013/14

PWLB borrowing rates - the graph for PWLB certainty maturity rates below, shows, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.



7. Borrowing Outturn for 2013/14

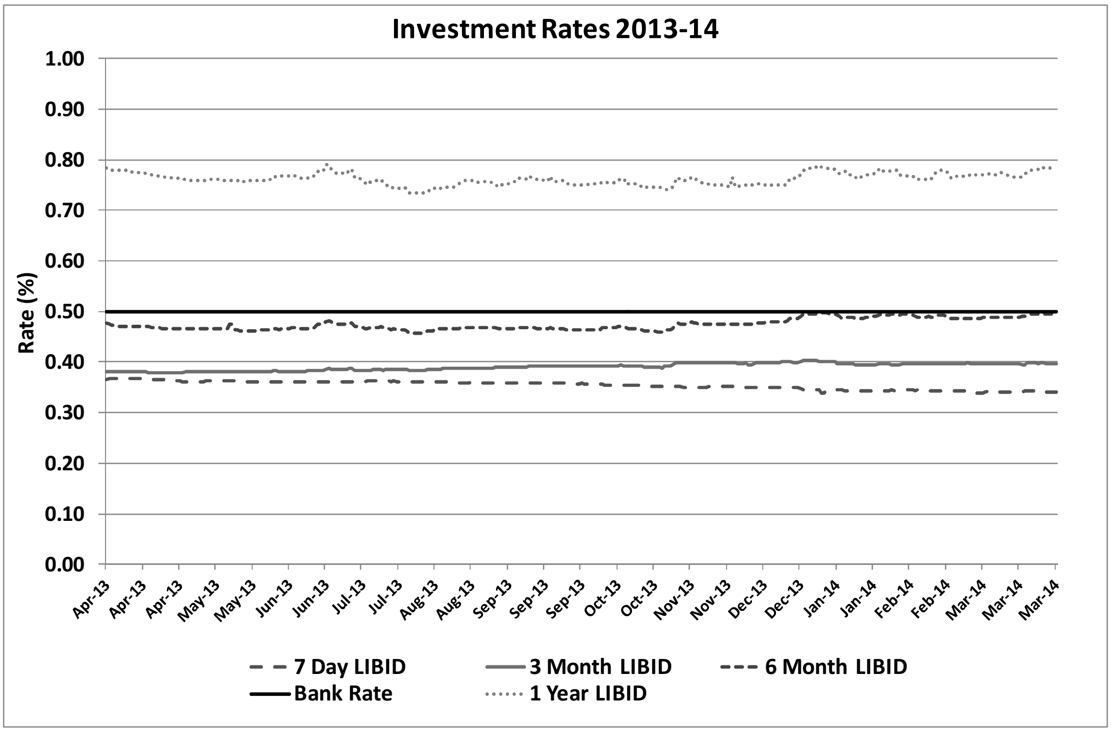
Treasury Borrowing

Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

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 2013/14

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of monetary tightening ended up almost unchanged at around the end of 2014 / start of 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.



9. Investment Outturn for 2013/14

Investment Policy – the Council's investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 26th February 2013. 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.

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources General Fund (£m)	31-Mar-13	31-Mar-14
Balances	4.619	**4.570**
Earmarked reserves	6.353	**5.987**
Provisions	0.148	**0.547**
Usable capital receipts	0.910	**0.826**
Total	12.030	**11.930**

Balance Sheet Resources HRA (£m)	31-Mar-13	31-Mar-14
Balances	5.267	**5.481**
Earmarked reserves	4.909	**5.276**
Provisions	-	**-**
Usable capital receipts	0.785	**2.116**
Total	10.961	**12.873**

Total Authority Resources	22.991	**24.803**

10. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide *(as incorporated in the table in section 3).* The Council's performance indicators were set out in the Annual Treasury Management Strategy.

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 2013/14 was £14,954 cr (in hand) (£15,713 cr in hand in 2012/13);

The net loss of interest for 2013/14 (loss of investment interest on un-invested balances less any overdraft interest incurred) was £18 compared to £21 for 2013/14 (approximately 5p 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 0.71% compared to the average 3 month LIBID of 0.39% (0.32% 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 (50 participating Authorities). Our average return for the year (as mentioned above) was 0.71% compared to the group average of 0.84% (information from CIPFA Benchmarking Report 2013/14) Combined In-House Investments 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
Fixed investments up to 30 days Managed in-house	-	1.5	-	0.47
Fixed investments 31 to 90 days Managed in-house	1.3	5.3	0.46	0.51
Fixed investments 91 to 365 days Managed in-house	11.3	49.6	1.01	0.95
Fixed investments between 1 year and 5 year Managed in-house	-	28.5	-	1.90
Fixed investments over 5 years	-	8.0	-	4.92
Notice Accounts	7.7	35.0	0.64	0.66
DMADF	-	10.3	-	0.25
CD's Gilts and Bonds	1.0	19.3	0.54	0.97
Callable and Structured Deposits	-	22.2	-	1.64
Money Market Funds Constant NAV	7.2	18.7	0.36	0.39
Money Market Funds Variable NAV	-	8.6	-	0.49
All Investments Managed in-house	**28.4**	**128.4**	**0.71**	**0.84**

Graphs showing a summary of the Authority's investment performance over the year can be found at **APPENDIX 2**.

11. Icelandic Bank Defaults

The U.K. Government, Local Government Association, administrators and other agencies have continued to work throughout 2013/14 in recovering assets and co-ordinating repayments to all UK councils with Icelandic investments.

In the case of Heritable Bank plc, a significant repayment was made in August 2013, bringing the total repayments to approximately 94%. This is expected to be the last payment, although the final position has yet to be confirmed.

In the case of Kaupthing, Singer and Friedlander Ltd, the administrators made two dividend payments during the financial year. Further payments and updates are anticipated during 2014/15.

Investments outstanding with the Iceland domiciled bank Glitnir Bank hf 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 Krone have been held back pending changes to Icelandic law. This sum has been placed in an interest baring account and negotiations are still continuing for their early release.

Members will be periodically updated on the latest developments of these efforts.

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 @ 31/03/2014 £m	Balance Outstanding £m	Anticipated Total Recovery %
Glitnir	3.000	0.232	3.232	-0.077	2.554	0.601	100
Kaupthing Singer & Friedlander	3.000	0.175	3.175	0	2.588	0.587	86
Heritable	1.500	0.005	1.505	0	1.415	0.09	94
TOTALS	7.500	0.412	7.912	-0.077	6.557	1.278	

APPENDIX 1: Prudential and Treasury Indicators

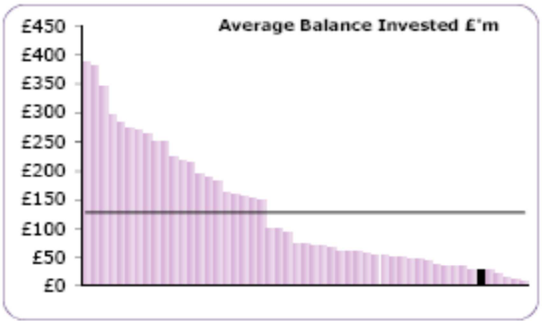
1. PRUDENTIAL INDICATORS	2012/13	2013/14	2013/14
Extract from budget and rent setting report	**actual**	**original**	**actual**
Capital Expenditure	**£m**	**£m**	**£m**
Non - HRA	1.622	0.505	1.339
HRA	3.365	6.993	7.602
TOTAL	4.987	7.498	8.941
Ratio of financing costs to net revenue stream	**%**	**%**	**%**
Non - HRA	(0.90)	(2.28)	1.22
HRA	14.37	15.67	15.39
Gross borrowing requirement General Fund	**£m**	**£m**	**£m**
brought forward 1 April	0	0	0
carried forward 31 March	0	0	0
in year borrowing requirement	0	0	0
Gross borrowing requirement HRA	**£m**	**£m**	**£m**
brought forward 1 April	65.060	65.060	65.060
carried forward 31 March	65.060	65.060	65.060
in year borrowing requirement	0	0	0
	£m	**£m**	**£m**
Gross debt	65.060	65.060	65.060
Capital Financing Requirement	**£m**	**£m**	**£m**
Non – HRA	1.525	1.500	1.311
HRA	68.054	68.063	68.042
TOTAL	69.579	69.563	69.353
Annual change in Capital Financing Requirement	**£m**	**£m**	**£m**
Non – HRA	(0.081)	(0.052)	(0.214)
HRA	(0.009)	0.000	(0.012)
TOTAL	(0.090)	(0.052)	(0.226)
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	0.28	(0.05)	(0.05)
Increase in average housing rent per week	0.08	(0.01)	(0.01)

2. TREASURY MANAGEMENT INDICATORS	2012/13	2013/14	2013/14
	actual	original	actual
	£m	£m	£m
Authorised Limit for external debt - General Fund			
borrowing	9.705	9.705	9.705
other long term liabilities	3.000	3.000	3.000
TOTAL	12.705	12.705	12.705
Authorised Limit for external debt - HRA			
borrowing	79.407	79.407	79.407
other long term liabilities	0	0	0
TOTAL	79.407	79.407	79.407
Operational Boundary for external debt - General Fund	£m	£m	£m
borrowing	1.367	1.367	1.367
other long term liabilities	0	0	0
TOTAL	1.367	1.367	1.367
Operational Boundary for external debt - HRA	£m	£m	£m
borrowing	70.901	70.901	70.901
other long term liabilities	0	0	0
TOTAL	70.901	70.901	70.901
Actual external debt	£m	£m	£m
	65.060	65.060	65.060
Maximum HRA debt limit	£m	£m	£m
	79.407	79.407	79.407
Interest Rate Exposure (Upper Limit)	£m	£m	£m
Limits on Fixed Interest Rates based on net debt	52.461	49.409	47.926
Limits on Variable Interest Rates based on net debt	6.506	6.506	6.506
Limits on Fixed Interest Rates:			
Debt only	65.060	65.060	65.060
Investments only	20.999	26.085	28.557
Limits on Variable Interest Rates:			
Debt only	6.506	6.506	6.506
Investments only	8.399	10.434	11.423
Upper limit for total principal sums invested for over 364 days	3.000	2.500	2.500
(per maturity date)			

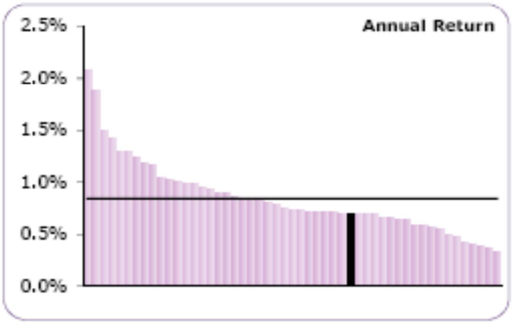
Maturity structure of fixed rate borrowing during 2013/14	upper limit	lower limit
under 12 months	0	20.00%
12 months and within 24 months	0	20.00%
24 months and within 5 years	0	25.00%
5 years and within 10 years	0	75.00%
10 years and over	0	100.00%

APPENDIX 2 - CIPFA Benchmarking Club Investments Performance

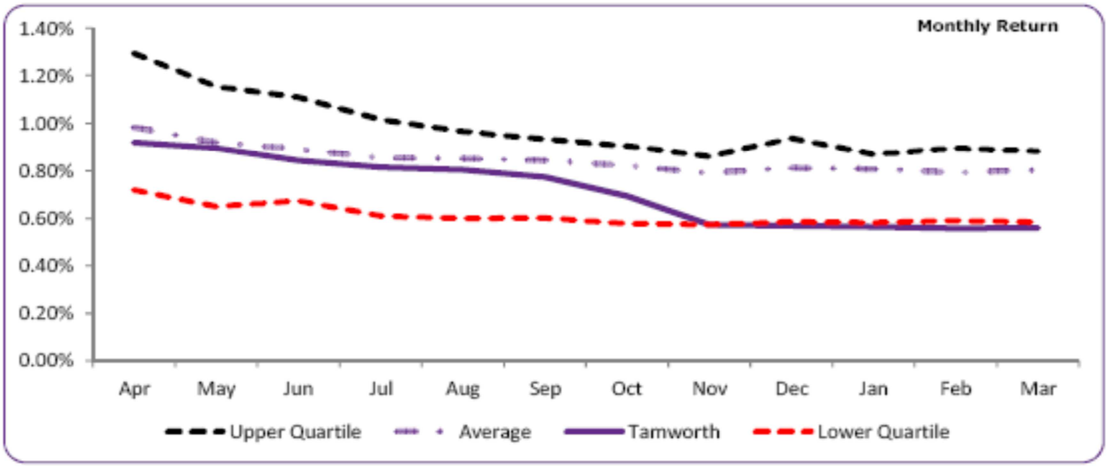
COMBINED IN-HOUSE INVESTMENTS (excluding impaired investments)



Tamworth 28.4 *Avg 128.2*



Tamworth 0.71% *Avg 0.84%*



Monthly Return (April 13 - March 14)	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Year
Av Bal £'m	24.59	24.64	25.42	27.19	27.73	29.49	30.20	31.02	30.51	31.32	30.21	28.79	28.42
Earned £'k	18.6	18.7	17.6	18.8	19.0	18.8	17.8	14.6	14.8	15.0	12.9	13.7	200.4
Upper Quartile	1.29%	1.15%	1.11%	1.01%	0.97%	0.93%	0.90%	0.86%	0.94%	0.87%	0.90%	0.88%	1.00%
Average	*0.98%*	*0.92%*	*0.89%*	*0.86%*	*0.85%*	*0.84%*	*0.82%*	*0.79%*	*0.81%*	*0.81%*	*0.79%*	*0.80%*	*0.84%*
% Return	0.92%	0.90%	0.84%	0.82%	0.81%	0.77%	0.69%	0.57%	0.57%	0.57%	0.56%	0.56%	0.71%
Lower Quartile	0.72%	0.65%	0.67%	0.61%	0.60%	0.60%	0.58%	0.57%	0.59%	0.58%	0.59%	0.59%	0.65%
% Diff from Av	-0.06%	-0.03%	-0.05%	-0.04%	-0.05%	-0.07%	-0.13%	-0.22%	-0.24%	-0.24%	-0.23%	-0.24%	

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AUDIT & GOVERNANCE COMMITTEE

25th SEPTEMBER 2014

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 2014/15.

RECOMMENDATIONS

That the Committee endorses:

1. The updated Fighting Fraud Checklist for Governance (Appendix 1)
2. The Counter Fraud Work Plan (Appendix 2)
3. The Fraud Risk Register (Appendix 3)

EXECUTIVE SUMMARY

The Audit Commission publishes a report "Protecting the Public Purse" on an Annual basis which considers the key fraud risks and pressures facing councils and related bodies. It identifies good practice in fighting fraud. As part of the report, the Audit Commission has produced a checklist for those charged with governance to enable an assessment of the effectiveness of the Council's current counter-fraud arrangements to be made against. The Fighting Fraud Checklist for Governance has been updated with the current status to date and is attached as **Appendix 1**.

The Counter Fraud Work Plan forms part of the Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes and has been updated to reflect progress to date and is attached as **Appendix 2** for members' information.

In line with good practice, a Fraud Risk Register is maintained and reviewed on a quarterly basis. The latest Fraud Risk Register is attached as **Appendix 3**.

Work has progressed with the National Fraud Initiative (NFI) across the Council on the data matches identified in the 2012/13 run. In total, 1461 data matches were identified and the majority of these have been investigated. To date, a total of , 4 frauds/errors have been identified with a total fraud/error cost of £5,160.

RESOURCE IMPLICATIONS

None

LEGAL/RISK IMPLICATIONS BACKGROUND

None

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

None

REPORT AUTHOR

Angela Struthers ex 234

LIST OF BACKGROUND PAPERS

None

APPENDICES

Appendix 1 – Fighting Fraud Checklist for Governance
Appendix 2 – Counter Fraud Work Plan
Appendix 3 – Fraud Risk Register

Appendix 1

Fighting Fraud Checklist for Governance

Protecting the public purse 2013

November 2013

General	Yes	No
1. **Do we have a zero tolerance policy towards fraud?**	●	○
Previous action Identified within the Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes.		
2014 Update Zero tolerance still remains		
2. **Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with *Fighting Fraud Locally*?**	●	○
Previous action Measured against Fighting Fraud Locally and the NAFN resilience toolkit (details below)		
2014 Update As previous action		
3. **Do we have dedicated counter-fraud staff?**	●	○
Previous action Benefits fraud –yes. Internal Audit for other frauds		
2014 Update Current staffing levels and responsibilities remain the same		
4. **Do counter-fraud staff review all the work of our organisation?**	●	○
Previous action Internal Audit will cover all other activities apart from benefits fraud		
2014 Update As previous action		
5. **Does a councillor have portfolio responsibility for fighting fraud across the council?**	●	○
Previous action Portfolio for Operations & Assets has responsibility		
2014 Update Portfolio for Operations & Assets has responsibility		
6. **Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?**	●	○
Previous action		

Regular updates on fraud areas presented to the Audit & Governance Committee.

2014 Update

Regular updates presented the Audit & Governance Committee

7. Have we assessed our management of counter-fraud work against good practice?

Previous action

As detailed in various documents

2014 Update

As previous

General	Yes	No
8. Do we raise awareness of fraud risks with:		
■ **new staff (including agency staff);**	●	○
■ **existing staff;**	●	○
■ **elected members; and**	●	○
■ **our contractors?**	●	○
Previous action Counter Fraud Policy part of the induction checklist process. Policies available on intranet and website. 2013/14 more detailed awareness through Internal Audit presence at team meetings/e learning solution		
2014 Update Counter fraud policy part of the induction process. Policies available on the intranet and website. E learning package developed, reviewed and updated.		
9. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	●	○
Previous action Take part in the National Fraud Initiative Member of National Anti Fraud Network, Midlands Fraud Forum and take part in Staffordshire and Midland networks		
2014 Update Take part in the National Fraud Initiative Member of National Anti Fraud Network, Midlands Fraud Forum and take part in Staffordshire and Midland networks		
10. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	●	○
Previous action Take part in the National Fraud Initiative Member of National Anti Fraud Network, Midlands Fraud Forum and take part in Staffordshire and Midland networks		
2014 Update Continue to participate in national and regional networks		

11. **Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?** ● ○

Previous action

Completed through Internal Audit plan and agreed management actions. Agreed managements actions followed up within 6 months to ensure implemented.

2014 Update

As previous. In addition, management reports are now generated from the system for Managers and Directors to review outstanding management actions.

12. **Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?** ● ○

Previous action

Progress to date reported to the Audit & Governance Committee

2014 Update

Progress on the outcomes of the data matching exercise reported to the Audit & Governance Committee.

13. **Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?** ● ○

Previous action

Money Laundering Policy in place.

2014Update

Money laundering awareness is part of the E learning solution

General	Yes	No
14. Do we have effective arrangements for:		
■ **reporting fraud?; and**	●	○
■ **recording fraud?**	●	○
Previous action Frauds to be reported annually to the Audit & Governance Committee Whistleblowing policy regularly reviewed and update and available on the intranet and website.		
2014 Update Frauds reported annually to the Audit & Governance Committee. National Fraud & Corruption survey completed annually.		
15. Do we have effective whistle-blowing arrangements? In particular are staff:		
■ **aware of our whistle-blowing arrangements?**	●	○
■ **have confidence in the confidentiality of those arrangements?**	●	○
■ **confident that any concerns raised will be addressed?**	●	○
Previous action		
2014 Update The Whistleblowing Policy is regularly reviewed and updated and approved by the Audit & Governance Committee. Awareness will be raised to staff through the E learning solution.		
16. Do we have effective fidelity insurance arrangements?	●	○
Previous action Adequate insurance arrangements are in place.		
2014 Update Adequate insurance arrangements are in place		
Fighting fraud with reduced resources	**Yes**	**No**
17. Have we reassessed our fraud risks since the change in the financial climate?	●	○
Previous action Fraud risks assessed quarterly.		

2014 Update

Fraud risks are reviewed and reassessed on a quarterly basis and reported to the Audit & Governance Committee

18. Have we amended our counter-fraud action plan as a result? ● ○

Previous action

Awareness of new and emerging risks identified and will change action plan as required.

2014 Update

Awareness of new and emerging risks continually completed and action plan will be changed accordingly

19. Have we reallocated staff as a result? ● ○

Previous action

2014 Update

Staffing levels remain the same.

Current risks and issues	Yes	No
Housing tenancy		
20. **Do we take proper action to ensure that we only allocate social housing to those who are eligible?**	●	○
Previous action Allocations Policy Internal Audit of systems		
2014 Update Allocations Policy in place and resident checks completed. Internal audit of systems.		
21. **Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?**	●	○
Previous action Tenancy checks completed Illegal subletting initiative completed		
2014 Update Residence checks completed.		
Procurement		
22. **Are we satisfied our procurement controls are working as intended?**	●	○
Previous action Regular audits completed		
2014 Update Regular audits completed in procurement areas		
23. **Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels, and compared them with best practice?**	●	○
Previous action Contract letting procedures reviewed on a regular basis		
2014 Update Contract letting procedures reviewed on a regular basis.		
Recruitment		
24. **Are we satisfied our recruitment procedures:**		
■ **prevent us employing people working under false identities;**	●	○
■ **confirm employment references effectively;**	●	○
■ **ensure applicants are eligible to work in the UK; and**	●	○

■ **require agencies supplying us with staff to undertake the checks that we require?**	●	○

Previous action

Recruitment procedures in place and subject to regular audit

2014 Update

Recruitment procedures are in place and subject to regular audit

Current risks and issues	Yes	No
Personal budgets		
25. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?	○	○
Previous action N/A		
2014 Update N/A		
26. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	●	○
Previous action Whistleblowing Policy updated following the Enterprise & Regulatory Reform Act 2013		
2014 Update Whistleblowing Policy reviewed and updated September 2014		
Council tax discount		
27. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	●	○
Previous action Work completed on NFI SPD review as well as county initiative		
2014 Update SPD review to be completed in the current financial year plus participating in the NFI data matching exercise		
Housing benefit		
28. When we tackle housing benefit fraud do we make full use of:		
■ **National Fraud Initiative;**	●	○
■ **Department for Work and Pensions Housing Benefit matching service;**	●	○
■ **internal data matching; and**	●	○
■ **private sector data matching?**	●	○
Previous action All available routes used to identify potential frauds		

2014 Update

All available routes used to identify potential frauds

Emerging fraud risks	Yes	No
29. Do we have appropriate and proportionate defences against emerging fraud risks:		
■ **business rates;**	●	○
■ **Right to Buy;**	●	○
■ **Social Fund and Local Welfare Assistance;**	○	○
■ **council tax reduction;**	●	○
■ **schools; and**	○	○
■ **grants?**	●	○
Previous action Emerging fraud risks are identified and controls tested		
2014 Update Emerging fraud risks are identified and controls tested		

Source: Audit Commission (2013)

Audit Commission
3rd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Switchboard: 0303 444 8300

TAMWORTH BOROUGH COUNCIL INTERNAL AUDIT COUNTER FRAUD WORK PLAN 2014/15

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: a) Roll out of the e learning package on governance (includes counter fraud & whistleblowing) b) Provide drop in sessions (if required) to staff and members c) Continue to make available counter fraud strategies/policies on the intranet/website	1. Failure to train staff and members could result in the Authority failing to comply with Section 7 of the Bribery Act 2010 – which establishes a strict liability offence for a company's failure to prevent bribery and this could be extended to prevent financial crime. (**High Risk**) 2. Failure to make staff, members and the public aware that their suspicions will be treated confidentially, objectively and professionally. (**Medium Risk**)	The Organisational Development service will be rolling out the e-learning package for Members by 30 September 2014 then further roll out to staff. Drop in type sessions to be completed as required. Completed.
	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 (**Medium Risk**)	Evaluation and adaptation of National Fraud Authority Fraud Campaign Pack evaluated – awaiting roll out of E Learning solution.
	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 (**Medium Risk**)	To be reviewed in accordance with the timescales
Review financial guidance and update and amend as appropriate.	Out of date policies and procedures which do not cover relevant legislation (**Medium Risk**)	Revised version approved by the Audit & Governance Committee 26 June 2014. Further revision to be completed during this financial year as known changes will need to be applied
Review and update the fraud risk register in line with potential system weaknesses identified during audits or investigations.	Potential risks not identified (**Medium Risk**)	Completed quarterly
	Resources (Days)	**9**

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 maybe deemed negligible by the perpetrator. (**Medium Risk**)	On-going
Undertake local proactive exercises at the Authority as agreed with the Executive Director Corporate Services	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. (**Low Risk**)	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. (**Medium Risk**) The staff (or others) making the allegation feel they are not taken seriously and referrals cease to be made. (**Medium Risk**)	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. (**Low Risk**)	As required
	Resources (Days)	

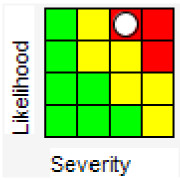
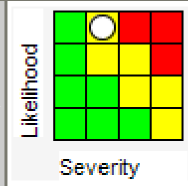
REDRESS		
OBJECTIVE	**RISK**	**PROGRESS**
Maintain comprehensive records of time spent on each investigation so that this can be included in any compensation claim. Identify and maintain a record of the actual proven amount of loss so that appropriate recovery procedures can be actioned.	Fraudsters may not realise that any and all measures will be taken to recover any money lost to fraud. (**Low Risk**)	As required
	Resources (Days)	

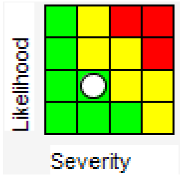
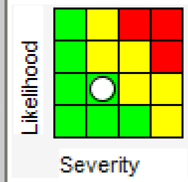
MANDATORY COUNTER FRAUD ARRANGEMENTS (STRATEGIC WORK)		
OBJECTIVE	**RISK**	**PROGRESS**
Attendance at relevant fraud forums/meetings to ensure that professional knowledge and skills are maintained. Completion and agreement of work plan. Regular meetings with the Executive Director Corporate Services. Quarterly report of counter fraud work. Attendance at relevant training as required.	Failure to ensure the completion of mandatory strategic work may mean that the professional knowledge and skills are not maintained to a high standard. (**Medium Risk**)	On-going On-going On-going On-going On-going
	Resources (Days)	**5**
	TOTAL RESOURCES (Days)	**51**

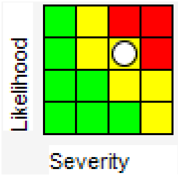
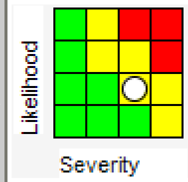
Appendix 3

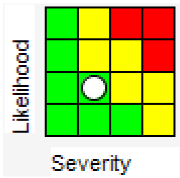
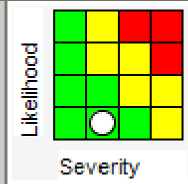
Fraud Risk Register 2014/15

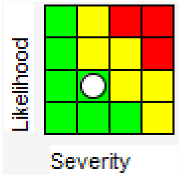
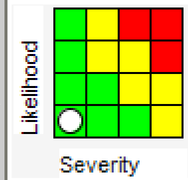
Generated on: 05 August 2014

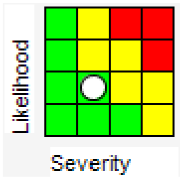
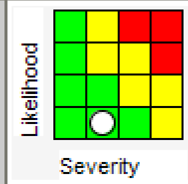
Risk Code	RR RDIAFC001	**Risk Title**	Benefits fraud - claimant	**Current Risk Status**	
Description of Risk	Claimant fraudulently claims benefits			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	12	trained staff media coverage - forms, TV radio data matching internal audit 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**	28-Jul-2014
Risk Notes					

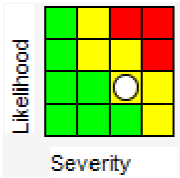
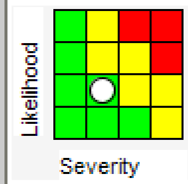
Risk Code	RR RDIAFC002	Risk Title	Benefits fraud - third party eg landlord	Current Risk Status	
Description of Risk	fraudulent claim by third party			Assigned To	
Gross Risk Matrix		Risk Treatment Measures Implemented		Current Risk Matrix	
Gross Risk Score	4	trained staff media coverage - forms, TV radio Data matching Internal Audit Supervisory checks 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	28-Jul-2014
Risk Notes					

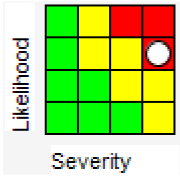
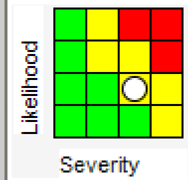
Risk Code	RR RDIAFC003	**Risk Title**	Benefits fraud - internal	**Current Risk Status**	
Description of Risk	Fraudulent claim by member of staff			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	9	recruitment checks data matching supervisory checks system controls audit trails 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**	28-Jul-2014
Risk Notes					

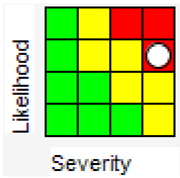
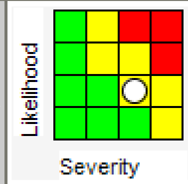
Risk Code	RR RDIAFC004	**Risk Title**	Cash theft	**Current Risk Status**	
Description of Risk	theft of takings disguised by manipulation of accounts			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	4	reconciliations supervisory checks policies and procedures financial regulations and guidance segregation of duties budgetary controls internal audit confidential reporting policy fraud & corruption strategy		**Current Risk Score**	2
Gross Severity	2			**Current Severity**	2
Gross Likelihood	2			**Current Likelihood**	1
Gross Risk Review Date				**Last Risk Review Date**	28-Jul-2014
Risk Notes					

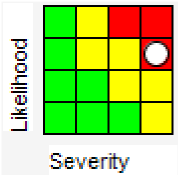
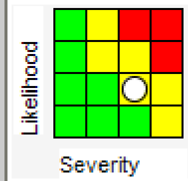
Risk Code	RR RDIAFC005	Risk Title	Cash theft	Current Risk Status	
Description of Risk	theft of cash without disguise			Assigned To	
Gross Risk Matrix		Risk Treatment Measures Implemented		Current Risk Matrix	
Gross Risk Score	4	reconciliations supervisory checks policies and procedures financial regulations segregation of duties budgetary controls internal audit confidential reporting policy fraud & corruption strategy 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	29-Jul-2014
Risk Notes					

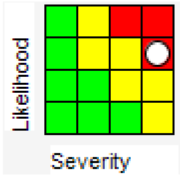
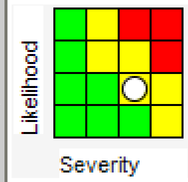
Risk Code	RR RDIAFC006	Risk Title	Credit Income	Current Risk Status	
Description of Risk	suppression of any notification of debt to be raised improper write-off failing to institute recovery proceedings switching/transferring arrears or manipulation of credit balances			Assigned To	
Gross Risk Matrix		Risk Treatment Measures Implemented		Current Risk Matrix	
Gross Risk Score	4	reconciliations budgetary controls internal audit write off policy authorisation levels audit trail debt recovery procedures supervisory controls 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	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC007	**Risk Title**	Creditor payments	**Current Risk Status**	
Description of Risk	invoicing for goods/services not supplied/false invoices 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 reconciliations audit trail segregation of duties financial guidance inventories		**Current Risk Score**	4
Gross Severity	3			**Current Severity**	2
Gross Likelihood	2			**Current Likelihood**	2
Gross Risk Review Date				**Last Risk Review Date**	29-Jul-2014
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 segregation of duties internal audit authorised signatories budgetary controls preferred/approved borrowers audit trail 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**	29-Jul-2014
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 standing orders procurement specialist OJEU regulations authorised signatories management controls segregation of duties 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**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC010	**Risk Title**	Contracts/procurement	**Current Risk Status**	
Description of Risk	contract not delivered properly contractor overpaid			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	12	contract conditions contract monitoring legal advice 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**	29-Jul-2014
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 management controls segregation of duties register of interests confidential reporting policy 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**	29-Jul-2014
Risk Notes					

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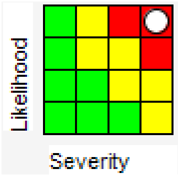
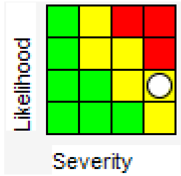
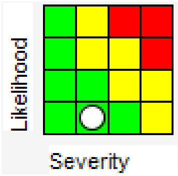
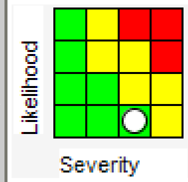
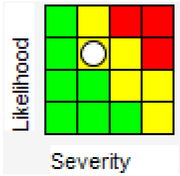
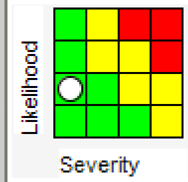
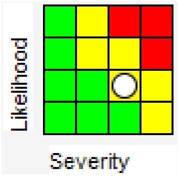
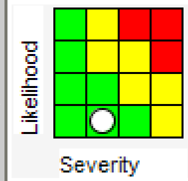
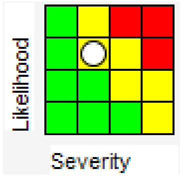
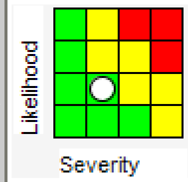
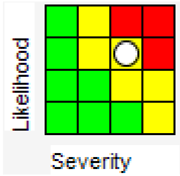
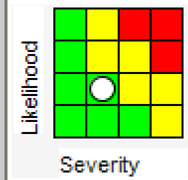
Risk Code	RR RDIAFC012	**Risk Title**	Contracts/procurements	**Current Risk Status**	
Description of Risk	collusion by tenderers			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	16	benchmarking tendering procedures		**Current Risk Score**	8
Gross Severity	4			**Current Severity**	4
Gross Likelihood	4			**Current Likelihood**	2
Gross Risk Review Date				**Last Risk Review Date**	29-Jul-2014
Risk Notes					

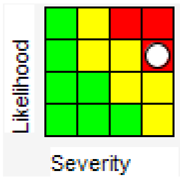
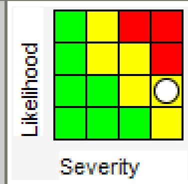
Risk Code	RR RDIAFC013	**Risk Title**	Payroll	**Current Risk Status**	
Description of Risk	payment to non existent employees			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	2	management checks establishment list budget monitoring segregation of duties data matching 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**	29-Jul-2014
Risk Notes					

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 budget monitoring authorisation process 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**	29-Jul-2014
Risk Notes					

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 system administrator segregation of duties management controls 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**	29-Jul-2014
Risk Notes					

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 restricted access segregation of duties 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	29-Jul-2014
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 asset tagging inventories 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**	29-Jul-2014
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 staff awareness passwords access controls restricted access to building security policy 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**	29-Jul-2014
Risk Notes					

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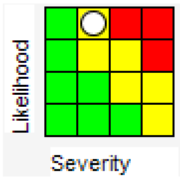
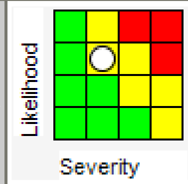
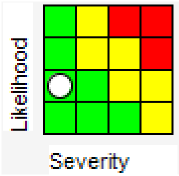
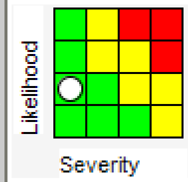
Risk Code	RR RDIAFC019	Risk Title	Assets	Current Risk Status	
Description of Risk	Inappropriate use of Council assets for private use			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	8	register of interests financial guidance management controls induction process security policy 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**	29-Jul-2014
Risk Notes					

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 management checks reconciliations authorised signatories imprest values kept to a minimum 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**	29-Jul-2014
Risk Notes					

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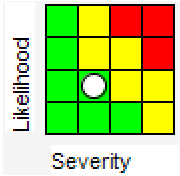
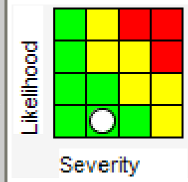
<tr><td>Risk Code</td><td>RR RDIAFC021</td><td>Risk Title</td><td>Sheltered schemes</td><td>Current Risk Status</td><td></td></tr>
<tr><td>Description of Risk</td><td colspan="3">Theft of customer monies</td><td>Assigned To</td><td></td></tr>
<tr><td>Gross Risk Matrix</td><td>
</td><td colspan="2">Risk Treatment Measures Implemented</td><td>Current Risk Matrix</td><td>
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<tr><td>Gross Risk Score</td><td>4</td><td colspan="2" rowspan="4">segregation of duties
reconciliations
restricted access
CRB checks</td><td>Current Risk Score</td><td>2</td></tr>
<tr><td>Gross Severity</td><td>2</td><td>Current Severity</td><td>2</td></tr>
<tr><td>Gross Likelihood</td><td>2</td><td>Current Likelihood</td><td>1</td></tr>
<tr><td>Gross Risk Review Date</td><td></td><td>Last Risk Review Date</td><td>29-Jul-2014</td></tr>
<tr><td>Risk Notes</td><td colspan="5"></td></tr>
</table>

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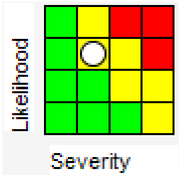
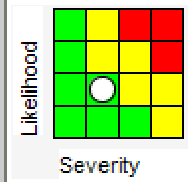
Risk Code	RR RDIAFC022	**Risk Title**	Expenses claims	**Current Risk Status**	
Description of Risk	claiming expenses for journeys not undertaken claiming for more miles than actually travelled			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	6	management checks authorisation procedures 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**	29-Jul-2014
Risk Notes					

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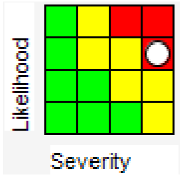
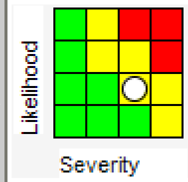
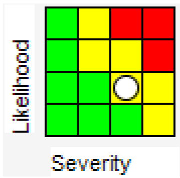
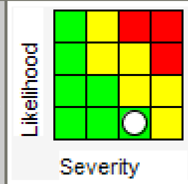
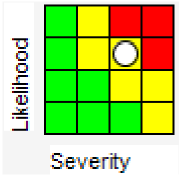
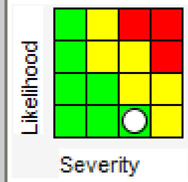
Risk Code	RR RDIAFC023	**Risk Title**	Corruption	**Current Risk Status**	
Description of Risk	Contracts - tendering, awarding and payment			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	12	management checks register of interests constitution procurement unit legislation tendering system 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**	29-Jul-2014
Risk Notes					

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 asset management plan asset disposal policy asset register 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**	29-Jul-2014
Risk Notes					

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 segregation of duties delegated powers constitution 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**	29-Jul-2014
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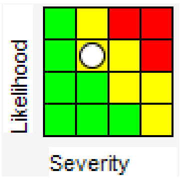
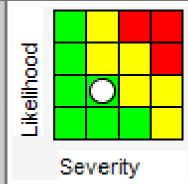
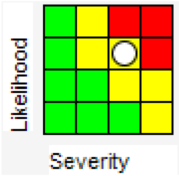
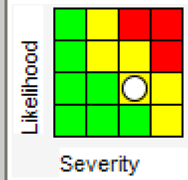
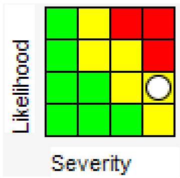
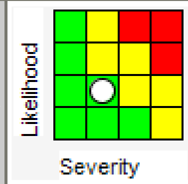
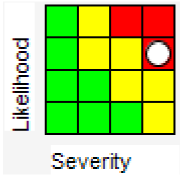
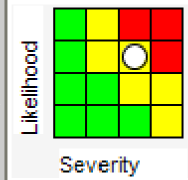
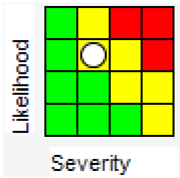
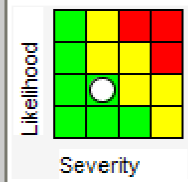
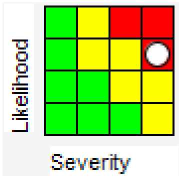
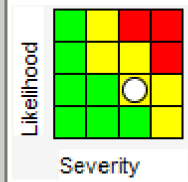
Risk Code	RR RDIAFC026	**Risk Title**	Corruption	**Current Risk Status**	
Description of Risk	Acceptance of gifts, hospitality, secondary employment			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	6	gifts and hospitality policy gifts and hospitality register NFI constitution 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**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC027	**Risk Title**	Car parking	**Current Risk Status**	
Description of Risk	theft of takings disguised by manipulation of accounts theft of taking without disguise recycling of tickets			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	9	budget monitoring audit trail reconciliations		**Current Risk Score**	6
Gross Severity	3			**Current Severity**	3
Gross Likelihood	3			**Current Likelihood**	2
Gross Risk Review Date				**Last Risk Review Date**	29-Jul-2014
Risk Notes					

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	raised awareness money laundering policy training of officers 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	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC029	**Risk Title**	ICT fraud	**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 surf control access controls ISO27001 standard		**Current Risk Score**	9
Gross Severity	4			**Current Severity**	3
Gross Likelihood	3			**Current Likelihood**	3
Gross Risk Review Date				**Last Risk Review Date**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC030	**Risk Title**	Employee - general	**Current Risk Status**	
Description of Risk	Abuse of flexi system falsification of car loans			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	6	flexible working policy management checks time recording systems flexi records car inspection reports 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**	29-Jul-2014
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 claimants understating income 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 grant assessments land registry checks quotes for work segregation of duties inspections 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**	29-Jul-2014
Risk Notes					

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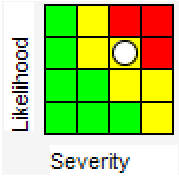
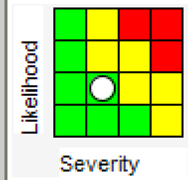
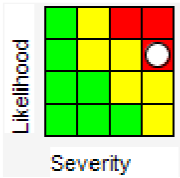
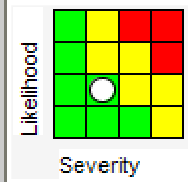
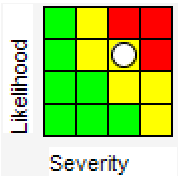
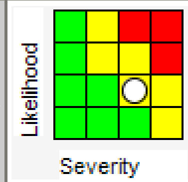
Risk Code	RR RDIAFC032	**Risk Title**	Insurance claims	**Current Risk Status**	
Description of Risk	Claiming for non existent injuries Claiming at another establishment for the same injury Over-claiming			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	9	Insurance brokers claim forms 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**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC033	**Risk Title**	Loans & Investments	**Current Risk Status**	
Description of Risk	Misappropriation of funds Fraudulent payment or investment of funds			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	12	Written procedures segregation of duties authorisation process counterparty listing reconciliations treasury management policy treasury management strategy access controls 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**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC034	**Risk Title**	Council Tax & NNDR	**Current Risk Status**	
Description of Risk	Fictitious refunds duplicate bank accounts intercepting income suppressing arrears exemptions/discounts awarded incorrectly exemptions/discounts claimed fraudulently 3rd party collections stolen/misappropriated			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	9	separation of duties management/supervisory checks access controls authorisation processes reconciliations review of suppressed recovery action interrogation reports void inspections discount/exemption reviews 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**	29-Jul-2014
Risk Notes					

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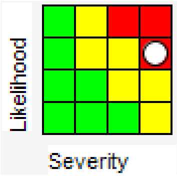
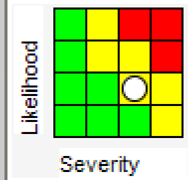
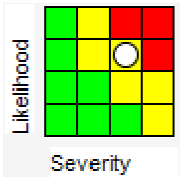
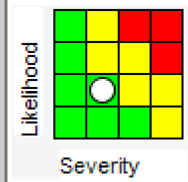
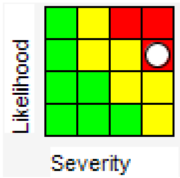
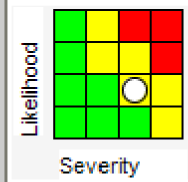
Risk Code	RR RDIAFC035	**Risk Title**	Regeneration development corruption	**Current Risk Status**	
Description of Risk	Developer awarded contracts for financial incentive Inducements for the granting of planning consents Contract granted to developer at a reduced price in exchange for cash payments to officers and members Backhanders to reduce restraints on developer			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	12	Business cases project teams declaration interests Officers present 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**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC036	**Risk Title**	Housing allocations	**Current Risk Status**	
Description of Risk	Housing allocated for financial reward fraudulent allocation of property			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	9	separation of duties housing register management checks 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**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC037	**Risk Title**	Elections	**Current Risk Status**	
Description of Risk	Fraudulent voting Fraudulent acts by canvassers			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	12	supervisory roles at counts postal votes counts supervised access controls ballot box controls ballot paper account insurance pre employment checks 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**	29-Jul-2014
Risk Notes					

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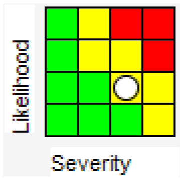
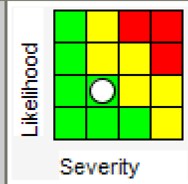
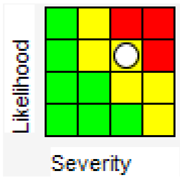
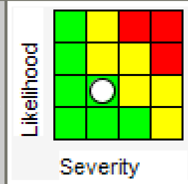
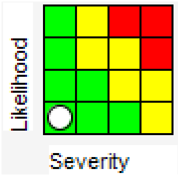
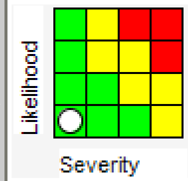
Risk Code	RR RDIAFC038	**Risk Title**	financial statements	**Current Risk Status**	
Description of Risk	the financial statements may be materially mis-stated due to fraud			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	6	Internal Audit financial guidance Final Account Process Review / Quality Check (Including journal transfers/ budgetary control) 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**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC039	Risk Title	Creditor payments	Current Risk Status	
Description of Risk	Fraudulent requests for creditor payments to be paid to different bank accounts			Assigned To	
Gross Risk Matrix		Risk Treatment Measures Implemented		Current Risk Matrix	
Gross Risk Score	9	Rigorous process to check authenticity of changes to creditor details		Current Risk Score	4
Gross Severity	3			Current Severity	2
Gross Likelihood	3			Current Likelihood	2
Gross Risk Review Date	30-Nov-2011			Last Risk Review Date	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC040	**Risk Title**	External funding	**Current Risk Status**	
Description of Risk	Fraudulently using external funding			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	1	Budget monitoring Management checks Financial regulations Independent verification Internal Audit		**Current Risk Score**	1
Gross Severity	1			**Current Severity**	1
Gross Likelihood	1			**Current Likelihood**	1
Gross Risk Review Date	12-Nov-2012			**Last Risk Review Date**	29-Jul-2014
Risk Notes					

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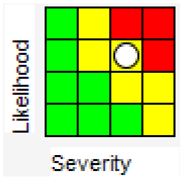
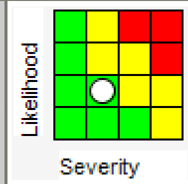
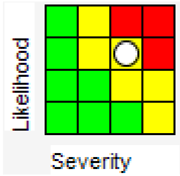
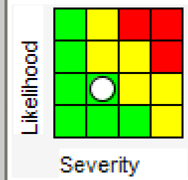
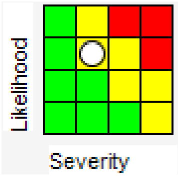
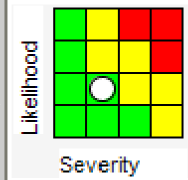
Risk Code	RR RDIAFC041	**Risk Title**	New starter	**Current Risk Status**	
Description of Risk	Fraudulent job application			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	9	Evidence obtained of qualifications References taken up from past employers Recruitment Policy and process Identity checks completed		**Current Risk Score**	4
Gross Severity	3			**Current Severity**	2
Gross Likelihood	3			**Current Likelihood**	2
Gross Risk Review Date				**Last Risk Review Date**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC042	**Risk Title**	ICT abuse	**Current Risk Status**	
Description of Risk	Improper use of IT equipment			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	9	internet use policy surf control access controls ISO27001 standard		**Current Risk Score**	4
Gross Severity	3			**Current Severity**	2
Gross Likelihood	3			**Current Likelihood**	2
Gross Risk Review Date	18-Nov-2013			**Last Risk Review Date**	29-Jul-2014
Risk Notes					

Risk Code	RR RDIAFC043	**Risk Title**	Illegal sub letting	**Current Risk Status**	
Description of Risk	Illegal sub letting of council property			**Assigned To**	
Gross Risk Matrix		**Risk Treatment Measures Implemented**		**Current Risk Matrix**	
Gross Risk Score	6	Tenancy checks		**Current Risk Score**	4
Gross Severity	2			**Current Severity**	2
Gross Likelihood	3			**Current Likelihood**	2
Gross Risk Review Date	08-Apr-2014			**Last Risk Review Date**	29-Jul-2014
Risk Notes					

AUDIT & GOVERNANCE COMMITTEE

25TH September 2014

Report of the Head of Internal Audit Services

INTERNAL AUDIT QUARTERLY REPORT 2014/15 QUARTER 1

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 2014/15 – 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.

RECOMMENDATION

That the Committee considers the attached quarterly report and raises any issue 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 Services on the outcome of service reviews. Professional good practice recommends that this opinion be given periodically throughout the year to inform the Annual Governance Statement. This opinion is given on a quarterly basis to the Audit & Governance Committee.

The Head of Internal Audit Services' quarterly opinion statement for Apr – Jun 2014 (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 for this quarter is that "limited 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 2014/15.

RESOURCE IMPLICATIONS

None

LEGAL/RISK IMPLICATIONS

Failure to report would lead to non-compliance with the requirements of the Annual Governance Statement and the Public Sector Internal Audit Standards.

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 Performance Report 2014/15 Quarter 1
Appendix 2 Percentage of Management Actions Agreed 2014/15 Quarter 1
Appendix 3 Implementation of Agreed Management Actions 2014/15

INTERNAL AUDIT QUARTERLY REPORT – Q1 - 2014/15

1. INTRODUCTION

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (Public Sector Internal Audit Standards)

Internal Audit's role is to provide independent assurance to the Council that systems are in place and are operating effectively.

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. **Appendix 1** shows the progress at the end of quarter 1 of the work completed against the plan and highlights the work completed in the first quarter. During the first quarter, internal audit have commenced 24 areas of work which equates to 29% of the total annual plan – which at this time includes 6 additional implementation reviews not originally identified. The report has been split to distinguish between audits and implementation reviews.

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 draft reports issued in this quarter of the year were issued within this deadline.

3. AUDIT REVIEWS COMPLETED QUARTER 1 2014/15

The audits finalised in the 1st quarter of 2014/15 are shown in **Appendix 2** and this identifies the number of recommendations made. A total of 79 recommendations were made in the first quarter with 74 (94%) of the recommendations being accepted by management. Those not accepted were all medium priority.

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. Nine Implementation reviews were completed during the 1st quarter of 2014/15. **Appendix 3** details the implementation progress to date for 2014/15 with 72% of the agreed management actions implemented or partially implemented. Internal Audit is fairly satisfied with the progress made by management to reduce the level of risk and its commitment to progress the outstanding issues. As there are still a number of high priority actions still requiring to be completed, additional implementation reviews will be carried out to ensure the implementation of the actions is completed.

4. INDEPENDENCE OF THE INTERNAL AUDIT ACTIVITY

Attribute Standards 1110 to 1130 in the Public Sector Internal Audit Standards require that Internal Audit have organisational and individual independence and specifically state that the Head of Internal Audit Services must confirm this to the Audit & Governance Committee at least annually. As performance is reported quarterly, this confirmation will be provided quarterly.

The Head of Internal Audit Services confirms that Internal Audit is operating independently of management and is objective in the performance of internal audit work.

5 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 "limited 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.

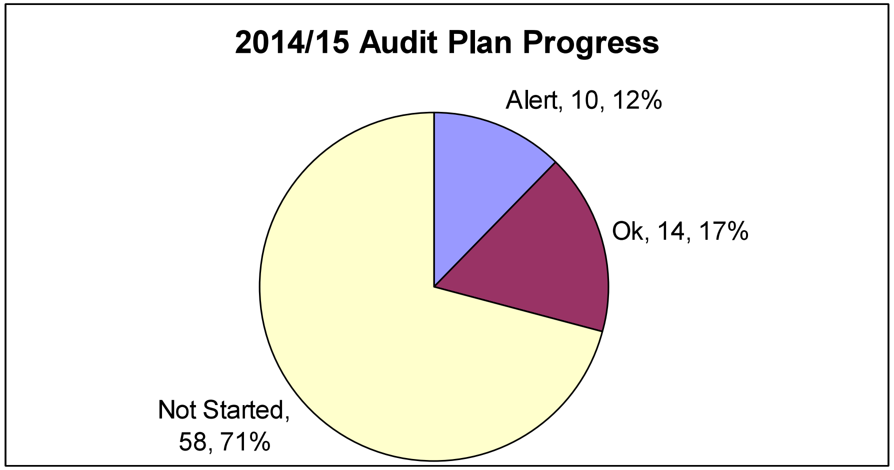
Specific issues:

There were no specific issues highlighted through the work of Internal Audit in the first quarter of the 2014/15 financial year

Angela Struthers,
Head of Internal Audit Services

Appendix 1

Progress Against 2014/15 Audit Plan



Finalised Audit Reports Quarter 1

Audit File	Audit File Progress Icon	Audit Assurance Type	Audit File Overall Opinion	Revised Audit Opinion	Audit Assurance Level
1415.HH.04 Estate Caretaking		Risk Workshop			
1314.AE14 Property Contracts		Main financial system – full	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls		

Finalised Audit Reports Quarter 1

Audit File	Audit File Progress Icon	Audit Assurance Type	Audit File Overall Opinion	Revised Audit Opinion	Audit Assurance Level
			are in place but operating poorly, or controls in place are inadequate.		
1314.HH02 Housing Repairs		Main financial system – full	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.		
1314.FIN10 Procurement		System based review	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.		
1415.FIN.05 Treasury Management Qtr 4 2013/14		Main financial system – interim	Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its	No recommendations have been made.	

Finalised Audit Reports Quarter 1

Audit File	Audit File Progress Icon	Audit Assurance Type	Audit File Overall Opinion	Revised Audit Opinion	Audit Assurance Level
			objectives safely and effectively and that controls are in place and operating satisfactorily.		
1314.STTC04 Gifts & Hospitality		System based review	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.		
1314.TCP01 Payroll		Main financial system – full	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.		
1415.SCC.01 Pension Contributions		Transactional	Audit are pleased to be able to report reasonable assurance can be given that the system, process or	Recommendations have not been made for this audit	

Finalised Audit Reports Quarter 1

Audit File	Audit File Progress Icon	Audit Assurance Type	Audit File Overall Opinion	Revised Audit Opinion	Audit Assurance Level
			activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.		
1314.AE.10IR Public Protection - Food Safety		Risk based review	Audit are pleased to be able to report reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.		
1314.TCP02 Organisational Development		Risk based review	A focus workshop type session has been carried out for the Organisational Development section to identify potential risks and the measures in place/ to be put in place to mitigate against risks within the area.		
1314.CPP01 Section 106		System based review	It is with some concern that		

Finalised Audit Reports Quarter 1

Audit File	Audit File Progress Icon	Audit Assurance Type	Audit File Overall Opinion	Revised Audit Opinion	Audit Assurance Level
Agreements			Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.		
1314.FIN06 NNDR	✓	Main financial system – full	Audit are pleased to be able to report reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.		✓

Implementation Reviews Completed Quarter 1

Audit File	Audit File Progress Icon	Audit Assurance Type	Audit File Overall Opinion	Revised Audit Opinion	Audit Assurance Levels
1314.HH04IR Housing Allocations		Implementation Review	The initial audit opinion was that only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively	
1314.TechCPIR09 ISO 20000 Implementation Review		Implementation Review	The initial audit opinion was that only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	The revised audit opinion is that only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	

Implementation Reviews Completed Quarter 1

1415.AE.02IR Disabled Facilities Grants Implementation Review	Implementation Review	The initial audit opinion was that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	The revised opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	
1314.TechCP13IR Mobile Telephony	Implementation Review	The initial audit opinion was that only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	The revised audit opinion remains as limited assurance.	

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Implementation Reviews Completed Quarter 1

1314.COR04IR Corporate Business Continuity		Implementation Review	The initial audit opinion was that limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	Due to the priority of the outstanding recommendations the revised audit opinion is that limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	
1314.TechCP10IR IT Physical & Environmental Controls		Implementation Review	The initial audit opinion was that only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	

Implementation Reviews Completed Quarter 1

1415.AE02IR Corporate Property Management Implementation Review	Implementation Review	The initial audit opinion was that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	The revised audit opinion is that substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.	
1415.TCP07FIR Health & Safety Further Implementation Review	Additional Implementation Review	The initial audit opinion was that only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.	Due to the nature of the outstanding recommendations, i.e. policies not in place, outstanding and not being updated has meant that there has been no change in the audit assurance level of limited.	

Implementation Reviews Completed Quarter 1

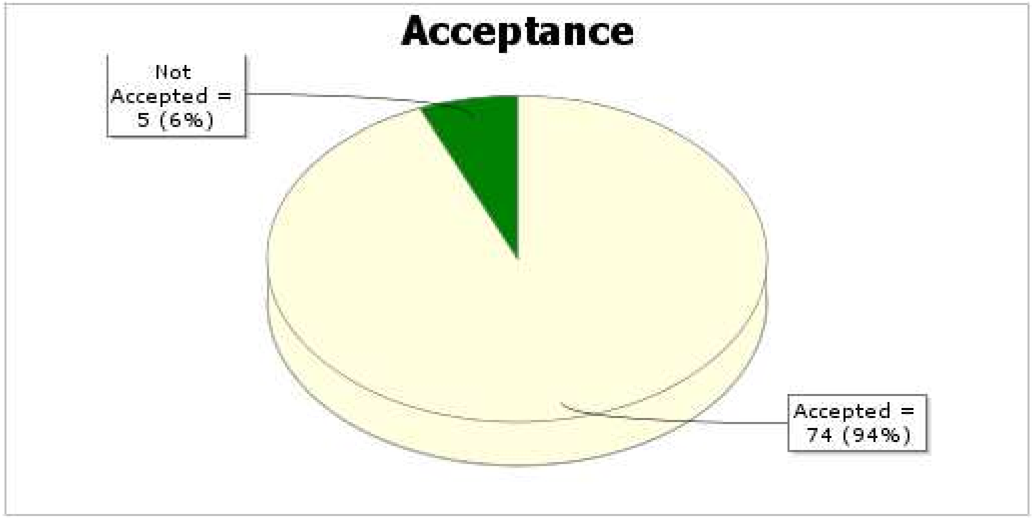
1415.TCP05FIR Building Security Further Implementation Review		Additional Implementation Review	The initial audit opinion was that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	The revised audit opinion is that reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.	

Assurance Levels

	Substantial
	Reasonable
	Limited
	None

Percentage of Management Actions Agreed Quarter 1

Appendix 2



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Appendix 3

Implementation Reviews Quarter 1 2014/15

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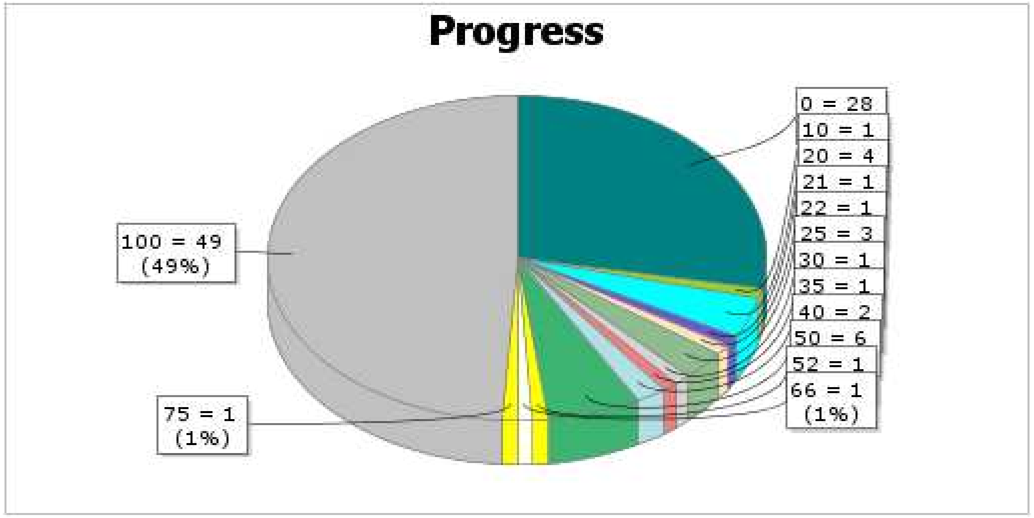

Recommendations Not Implemented				
Audit Recommendation Code & Title	Audit Recommendation Status Icon	Audit Recommendation Priority	Audit Recommendation Progress Bar	Directorate
Housing Allocations				**Housing & Health**
1213 HoAl 1.2 Development for CBL		High Priority	0%	
1213 HoAl 3.1 Application Process		High Priority	0%	
1213 HoAl 4.3 Superusers and Supplier		Medium Priority	0%	

Recommendations Not Implemented				
Audit Recommendation Code & Title	Audit Recommendation Status Icon	Audit Recommendation Priority	Audit Recommendation Progress Bar	Directorate
ID's				
Mobile Telephony				**Technology & Corporate Programmes**
1213 MobTel 1.1 Mobile phone policy and procedures		High Priority	0%	
1213 MobTel 1.2 Mobile phone procedures		High Priority	0%	
1213 MobTel 1.3 Mobile phone usage		High Priority	0%	
1213 MobTel 1.4 Policy sign up		High Priority	0%	
1213 MobTel 2.1 Mobile Phone Contract		High Priority	0%	
1213 MobTel 3.4 Issue of mobile telephones		High Priority	0%	
1213 MobTel 3.5 Reconciliation of mobile telephones		High Priority	0%	
1213 MobTel 3.2 Review of mobile phone bills		Medium Priority	0%	
1213 MobTel 3.3 Payment for personal usage of mobile telephones		Medium Priority	0%	
IT Physical & Environmental Controls				**Technology & Corporate Programmes**
1213ITP&EC5.1 Insurance		High Priority	0%	
1213ITP&EC1.1 Physical Security Policy		Medium Priority	0%	

Recommendations Not Implemented				
Audit Recommendation Code & Title	Audit Recommendation Status Icon	Audit Recommendation Priority	Audit Recommendation Progress Bar	Directorate
1213ITP&EC1.3 Physical security		Medium Priority	0%	
Corporate Business Continuity				**Technology & Corporate Programmes**
1213 BC 4.2 Business Continuity Plans		Medium Priority	0%	
1213 BC 4.3 Minutes and Agendas		Medium Priority	0%	
1213 BC 5.2 Training		Medium Priority	0%	
1213 BC 6.2 Lessons Learned		Medium Priority	0%	
Health & Safety				**Transformation & Corporate Performance**
1213 H&S 4.2 Health and safety policy issue		Medium Priority	0%	
ISO 2000				**Technology & Corporate Programmes**
1314 20000 08.3 Business Continuity Testing		High Priority	0%	
1314 20000 02.1 3rd Party Access Agreements		Medium Priority	0%	
1314 20000 04.1 Customer Satisfaction		Medium Priority	0%	
1314 20000 06.1 Service Catalogue		Medium Priority	0%	
1314 20000 08.1 Business Continuity Plan		Medium Priority	0%	
Building Security				**Transformation & Corporate Performance**

Recommendations Not Implemented				
Audit Recommendation Code & Title	Audit Recommendation Status Icon	Audit Recommendation Priority	Audit Recommendation Progress Bar	Directorate
1314 BldgSec 1.1 Policies and Procedures		Medium Priority	0%	
Disabled Facilities Grants				**Assets & Environment**
1314 DFG 1.01 DFG Risk Register		Medium Priority	0%	
1314 DFG 2.01 Publicise DFG		Medium Priority	0%	

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Audit Recommendation Status

Revised implementation date not yet due

Revised implementation date overdue

AUDIT & GOVERNANCE COMMITTEE

25 SEPTEMBER 2014

REPORT OF THE SOLICITOR TO THE COUNCIL AND MONITORING OFFICER

LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER 2013/14

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 the Annual Review Letter as attached at Appendix 1 subject to recognition that the statistics include not only complaints investigated by Tamworth Borough Council but also any enquiries made to the ombudsman's office as noted in their systems.

Executive Summary

In the year 2013/14 the Ombudsman report indicates that it received 26 enquiries and complaints about our authority and made 28 decisions or referrals. Whilst this figure appears to amount to a substantial increase in complaints against the authority from the previous year's figure of 11 complaints in 2012/13 it is worth noting that the Ombudsman's office now records in its system every contact made with their office. This means in effect that a telephone call to the ombudsman seeking advice or details of where or how to complain on a local issue will appear in their statistics. Thus the figures from the Ombudsman show that in the year 2013/14 the Ombudsman made 28 decisions or referrals. As the ombudsman received 26 enquiries and complaints in the year this means that 2 referrals had been made in an earlier year. Of these only 5 detailed investigations were carried out. Three of the five investigations were upheld thus the statistics show that the Ombudsman upheld 60% of complaints even although this amounts to only three referrals. 11 complaints were referred back to the Council for local resolution. In 7 cases the enquiries were dealt with by the Ombudsman providing advice.

Three cases were closed after initial enquiries and 2 were either incomplete or invalid.

Because their figures include enquiries, they will not match what we as the council hold. For example the ombudsman can offer advice on, or refer complaints back to the council. We classify these as decisions and because no contact between the ombudsman and local authority has been made, it is unlikely you will hold a record of them. As a result contact has been made with the Ombudsman office direct to obtain the exact detail of the complaints noted in their system. This data will then be compared with the data in our system so that a more accurate record is available for members.

The main subject area covered by the Ombudsman in 2013/14 has been Housing Services (13 complaints). The other areas of complaint were Benefits and Tax 4 complaints, Corporate and other services 5 complaints, Environmental services, public protection and regulation 3 complaints and 1 Highways and Transportation complaint. There were no complaints made in relation to Planning and Development Services.

The Ombudsman no longer monitors the average time to respond however we continue to work to the 28 day target.

Background Information

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. From April 2013, as a result of the Localism Act

2011, local authority tenants take complaints about their landlord to the Independent Housing Ombudsman. The Local Government Ombudsman has stated that it will work with the Independent Hosing Ombudsman to ensure transition. The arrangement appears to be working well and the collated figures indicate a good operating relationship.

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.

The Ombudsman has stated that it knows that their statistics will not be the same as those recorded by councils. This is not an error by either the LGO or the Council. However, they are confident that it is an accurate representation of the data hold by them for the last 12 months. Councils may not have recorded their data in the same way. The ombudsman has also indicated that it has categorised complaints slightly different to how councils may record their own. For example it has included disabled facilities grant complaints within either Adult Care Services or Education and Children's Services depending on the age of the person affected.

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
Review of Local Government Complaints 2013-14 (see link below)

Local Gov 14.07.2014 final watermark.pdf

Appendices
Appendix 1 - Local Government Ombudsman Annual Review Letter 2014

Local Government
OMBUDSMAN

7 July 2014

By email

Mr Tony Goodwin
Chief Executive
Tamworth Borough Council

Dear Mr Tony Goodwin

Annual Review Letter 2014

I am writing with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2014. This is the first full year of recording complaints under our new business model so the figures will not be directly comparable to previous years. This year's statistics can be found in the table attached.

A summary of complaint statistics for every local authority in England will also be included in a new yearly report on local government complaint handling. This will be published alongside our annual review letters on 15 July. This approach is in response to feedback from councils who told us that they want to be able to compare their performance on complaints against their peers.

For the first time this year we are also sending a copy of each annual review letter to the leader of the council as well as to the chief executive. We hope this will help to support greater democratic scrutiny of local complaint handling and ensure effective local accountability of public services. In the future we will also send a copy of any published Ombudsman report to the leader of the council as well as the chief executive.

Developments at the Local Government Ombudsman

At the end of March Anne Seex retired as my fellow Local Government Ombudsman. Following an independent review of the governance of the LGO last year the Government has committed to formalising a single ombudsman structure at LGO, and to strengthen our governance, when parliamentary time allows. I welcome these changes and have begun the process of strengthening our governance by inviting the independent Chairs of our Audit and Remuneration Committees to join our board, the Commission for Administration in England. We have also recruited a further independent advisory member.

Future for local accountability

There has been much discussion in Parliament and elsewhere about the effectiveness of complaints handling in the public sector and the role of ombudsmen. I have supported the creation of a single ombudsman for all public services in England. I consider this is the best way to deliver a system of redress that is accessible for users; provides an effective and comprehensive service; and ensures that services are accountable locally.

To contribute to that debate we held a roundtable discussion with senior leaders from across the local government landscape including the Local Government Association, Care Quality Commission and SOLACE. The purpose of this forum was to discuss the challenges and opportunities that exist to strengthen local accountability of public services, particularly in an environment where those services are delivered by many different providers.

Over the summer we will be developing our corporate strategy for the next three years and considering how we can best play our part in enhancing the local accountability of public services. We will be listening to the views of a wide range of stakeholders from across local government and social care and would be pleased to hear your comments.

Yours sincerely

Jane Martin

Dr Jane Martin
Local Government Ombudsman
Chair, Commission for Local Administration in England

Local authority report – Tamworth Borough Council

For the period ending – 31/03/2014

For further information on interpretation of statistics click on this link to go to http://www.lgo.org.uk/publications/annual-report/note-interpretation-statistics/

Complaints and enquiries received

Local authority	Adult care services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services and public protection and regulation	Highways and transport	Housing	Planning and development	Total
Tamworth BC	0	4	5	0	3	1	13	0	26

Decisions made

	Detailed investigations carried out						
Local authority	Upheld	Not upheld	Advice given	Closed after initial enquiries	Incomplete/Invalid	Referred back for local resolution	Total
Tamworth BC	3	2	7	3	2	11	28

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AUDIT & GOVERNANCE COMMITTEE

25 SEPTEMBER 2014

REPORT OF THE SOLICITOR TO THE COUNCIL AND MONITORING OFFICER

REGULATION OF INVESTIGATORY POWERS ACT 2000

Purpose

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.

On 13 December 2012, the Council re-adopted the RIPA policy and agreed that quarterly reports on the use of RIPA powers be submitted to Audit & Governance Committee.

Recommendation

That Audit and Governance Committee

1) **endorse the quarterly RIPA monitoring report and**
2) **acknowledge the forthcoming visit from the Office of Surveillance Commissioner**

Executive Summary

The Council is required to adhere to the Codes of Practice and legislative requirements in relation to surveillance and as such requires, amongst other duties, to submit quarterly reports to Audit and Governance Committee, which in turn the minutes thereof are part of an Annual report to Council, provide relevant training for officers, keep an up to date RIPA policy and from time to time receive visits form the Office of the Surveillance Commissioner (OSC).The Council received the last visit from the OSC on 18 July 2011. Following the visit, the Council, received a favourable report and implemented the recommendations arising therefrom. The OSC has indicated the intention to visit Tamworth Borough Council on 6 October 2014 and preparations are being made ahead of the visit. I shall report on the conclusions arising from the visit back to Audit and Governance Committee and Council in due course.

Background Information

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).

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 2014 to 30 June 2014 and to the date of this report.

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.

There have been no authorisations for the use of CHIS.

Financial year 2014/15

Month	Service	Reason
No applications		

Background papers

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"