

AUDIT COMMITTEE

MONDAY 25 JUNE 2012

7.00 PM

Bourges/Viersen Room - Town Hall

THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING

AGENDA

	Page No
1. Apologies for Absence	
2. Declarations of Interest and Whipping Declarations	
At this point Members must declare whether they have an interest, whether personal or prejudicial, in any of the items on the agenda. Members must also declare if they are subject to their party group whip in relation to any items under consideration.	
3. Minutes of the Meeting Held on 7 June 2012	1 - 4
4. Compliance Team Annual Report 2011 / 2012	5 - 16
To receive, consider and endorse the annual report on the investigation of fraud and other issues for the year ended 31 March 2012.	
5. Annual Review of the Effectiveness of Internal Audit 2011 / 2012	17 - 44
To receive, consider and endorse the annual review of the effectiveness of Internal Audit for the year ended 31 March 2012.	
6. Internal Audit: Annual Audit Opinion 2011 / 2012	45 - 74
To receive, consider and endorse the annual report on Internal Audit activities for the year ended 31 March 2012.	
7. Draft Annual Governance Statement 2011 / 2012	75 - 112
To receive, consider and endorse the draft Annual Governance Statement for the year ended 31 March 2012.	
8. Budget Monitoring Report Final Outturn 2011 / 2012	113 - 128
To receive, consider and endorse the final outturn position for 2011 / 2012.	
9. Statement of Accounts For The Year Ended 31 March 2012	129 - 230
To consider and comment on the Statement of Accounts for the year ended 31 March 2012.	

To review the work programme for 2012 / 2013



There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Gemma George on 01733 452268 as soon as possible.

Emergency Evacuation Procedure – Outside Normal Office Hours

In the event of the fire alarm sounding all persons should vacate the building by way of the nearest escape route and proceed directly to the assembly point in front of the Cathedral. The duty Beadle will assume overall control during any evacuation, however in the unlikely event the Beadle is unavailable, this responsibility will be assumed by the Committee Chair.

Committee Members:

Councillors: D Lamb (Chairman), C Harper (Vice Chairman), N Arculus, S Lane, M Fletcher, Knowles and Maqbool

Substitutes: Councillors: P Kreling, E Murphy and A Miners

Further information about this meeting can be obtained from Gemma George on telephone 01733 452268 or by email – gemma.george@peterborough.gov.uk

Public Document Pack



MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT THE TOWN HALL, PETERBOROUGH ON 7 JUNE 2012

Present: Councillors Lamb (Chairman), Harper (Vice Chairman), Knowles, McKean, Lane, Kreling and Fletcher.

Officers in

Attendance: Steve Crabtree, Chief Internal Auditor
Steven Pilsworth, Head of Corporate Services
Louise Tyers, Compliance Manager
Karen S Dunleavy, Governance Officer

1. Apologies for Absence

Apologies for absence were received from Councillors Arculus and Maqbool.

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest or whipping declarations.

3. Minutes of the Meeting held on 26 March 2012

The minutes of the meeting held on 26 March 2012 were approved as an accurate and true record.

4. Data Incident Response Policy

The Committee received a report on the draft Data Incident Response Policy (DIRP) being introduced for use by Peterborough City Council (PCC). The Committee was also informed that the Information Commissioner (IC) would expect to find a DIRP in place should a visit be necessary to the Council.

Audit Committee was asked to:

- Approve the Data Incident Response Policy.

The following key points within the report were highlighted:

- Eight principles of the Data Protection Act (DPA);
- How DPA breaches were being dealt with;
- The risks involved in losing data for a Council;
- Recent examples of fines received by other Councils;
- Nineteen notices issued by the Information Commissioner (IC) to other Councils; and
- The Council's responsibility under the DPA 1998.

Comments and responses to questions were as follows:

- The Compliance Manager advised the Audit Committee that the IC would be lenient if an employee's laptop had been stolen from home if it had been stored in a secure location rather than left on display;
- The Compliance Manager confirmed that measures were in place to ensure that personal information was not included on websites and information portals;

- Members commented that consideration should be given to introduce a system to ensure that confidential emails, which had been sent incorrectly, were retrieved. *The Compliance Manager advised that there was an issue where some Councillors emails were being auto forwarded to a private email address. The Committee was also advised that officers were made aware of a recent breach and had been advised accordingly on what process to follow when sending emails to Councillors in future;*
- Members commented that the DIRP did not contain a measure on dealing with confidentiality for contractors handling Council data. *The Compliance Manager advised the Committee that large contracts would be expected to adhere to the Council's data protection rules and sign an agreement on any award of contract; and*
- Members sought clarification of the regularity of password changes on Information Technology equipment for Councillors. *The Compliance Manager confirmed that there was an issue with obtaining agreement from some Councillors to adopt the regular change of password system. The Audit Committee were also advised that the issue of non compliance had been raised at the Members Support Working Group.*

ACTION AGREED:

- The Committee approved the Data Incident Response Policy.

It was also agreed that the Compliance Manager would:

- Investigate what arrangement was in place for Small and Medium Enterprises contractors for protecting Council's data.

5. Audit Handbook (Edition 4)

The Committee received a report on the Handbook (Edition 4) for Audit Committee from the Chief Internal Auditor.

During consideration of the report, the Audit Committee was asked to receive and approve the revised Members handbook for the Audit Committee.

The following key points were highlighted:

- Providing ongoing training and support for Members;
- Suggested questions for Members on internal and external audit processes;
- A point of research for Members on audit requirements;
- Risk Management;
- Assurance Framework;
- Financial Reporting Standards;
- Changes to Audit Committee following implementation of the Localism Act
- best practice; and
- Agreement at Council in April to merge the Standards and Audit Committee which would also include Independent Members.

Comments and responses to questions were as follows:

- The Chief Internal Auditor advised Members that the main changes for 2012/13 Audit Handbook had incorporated the impact of the Localism Bill and the recent decision to merge Standards Committee with Audit Committee;
- Members thanked the Internal Auditor for the work carried out to produce the Audit Handbook;
- Members requested that the publication of the Audit Handbook should contain a key to all the abbreviations used;

- The Chief Internal Auditor advised the Audit Committee that the appropriate route for any query regarding responses to questions from Council, should be directed to the relevant Cabinet Member or appropriate Scrutiny Committee;
- Members sought clarification over the suggested questions contained in the Audit Handbook and whether Members were expected to use them at future Audit Committee meetings. *The Chief Internal Auditor advised the Committee that the questions were merely to be used as a guideline;*
- Members commented that consideration should be given to providing officers with a list of the suggested questions contained in the Audit Handbook in preparation for attendance at Audit Committee meetings;
- Members sought clarification over whether there were any legacy risks arising from 2011/12 which should be brought to future meetings of the Audit Committee for 2012/13. *The Chief Internal Auditor advised the Committee that Peterborough City Council's policy was to provide a high level strategic risk document to the Audit Committee every six months. The Committee was also advised that the last report considered by the Audit Committee was in February 2012; and*
- Members commented that consideration should be given to providing a Strategic Risk report at every meeting of Audit Committee.
- Members sought clarification over what level of risk the Council held over the current NHS dept for Adult Social Care. *The Chairman advised the Committee that although there was a high financial problem for the NHS, no services for Adult Social Care would cease to be provided.*

ACTION AGREED:

It was agreed to approve the adoption of the Audit Handbook (4th Edition).

It was also agreed that the Chief Internal Auditor, would:

- Produce a loose leaf booklet of the Audit Handbook, which would also contain a key to all abbreviations; and
- Consider the regularity of Strategic Risk reports for Audit Committee.

6. Work Programme 2012 / 2013

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2012 / 2013 for consideration and approval.

- Members sought clarification over the role of Audit Committee in respect of reviewing service issues for Adult Social Care and Children Services. The Head of Corporate Services advised Members that the Committee's role was to review and question strategic risks highlighted for the service from an audit and financial perspective. Members were also advised that the Creating Opportunities and Tackling Inequalities Scrutiny Committee was to conduct an in-depth review of any service issues.

AGREED ACTION:

The Committee noted and approved the 2012 / 2013 Work Programme, with the following amendment:

- The Review of Consultants to be included in the Work Programme and appear as an agenda item for 5 November 2012 Audit Committee meeting.

It was also agreed that:

- The Chief Internal Auditor and the Head of Corporate Services would arrange for the current Strategic Risk Register to include all high level risks for Children's Services and Adult Social Care;
- Members would inform the Chair of Audit Committee if a strategic risk was highlighted for Children's Services or Adult Social Care following the Creating Opportunities and Tackling Inequalities Scrutiny Committee; and
- If appropriate to the Audit Committee's work, which would concern financial or audit issues, officers from Adult Social Care and Children's Services would be invited to attend the meeting scheduled for 24 September 2012 to provide a report to the Audit Committee in order to discuss what measures were being introduced to lessen the strategic risks.

7.00pm – 8.10pm
Chairman

AUDIT COMMITTEE	AGENDA ITEM No. 4
25 June 2012	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Diane Baker, Head of Governance	☎ 452 559

COMPLIANCE TEAM ANNUAL REPORT 2011/2012

RECOMMENDATIONS	
FROM : Helen Edwards, Solicitor to the Council	Deadline date : N/A
Audit Committee is recommended to	
1. Receive, consider and endorse the attached annual report on the investigation of fraud and other issues for the year ended 31 March 2012.	

1. **ORIGIN OF REPORT**

This report is submitted to the Committee as a scheduled report on fraud and irregularity in accordance with the established Work Programme 2011/2012.

2. **PURPOSE AND REASON FOR REPORT**

The main purpose of this report is to provide an overview of the Council's approach to combating fraud, and its delivery over the period April 2011 - March 2012. This report is to be considered in accordance with its Terms of Reference 2.2.15 - *To monitor council policies on "raising concern at work" and the anti fraud and anti corruption strategy and the Council's complaints process.*

3. **BACKGROUND**

3.1 The United Kingdom public sector maintains high standards of probity and has a good reputation for protecting the public purse. Sound systems of public accountability are vital to effective management and in maintaining public confidence. Peterborough City Council shares these high standards and is committed to protecting the public funds entrusted to it. The minimisation of losses to fraud and corruption is essential for ensuring that resources are used for their intended purpose - that of providing services to the citizens of Peterborough.

3.2 The public is entitled to expect the Council to conduct its affairs with integrity, honesty and openness and demand the highest standards of conduct from those working for it. In addressing this expectation, the Council has shown its commitment by creating a dedicated Investigation Team, which is tasked in investigating all allegations of fraud / impropriety, breaches in codes of conduct and high level complaints. The Compliance and Ethical Standards Team, which comprises corporate investigations, benefit fraud investigations and Information Management, has been in operation since 1st April 2007 – with the Information Management stream joining in January 2008.

- 3.3 The attached report (**Appendix A**) demonstrates the success of the Compliance Team and provides an insight into how this unique service will continue to operate as a key operation within the Council.

4. **CONSULTATION**

Consultation has taken place between the following parties:

- Solicitor to the Council;
- Executive Director of Strategic Resources (as the designated s.151 officer); and
- Chief Internal Auditor

5. **ANTICIPATED OUTCOMES**

That the Audit Committee is informed of the proactive measures taken across the organisation to tackle and prevent fraudulent activity. Furthermore, this will assist in the development of future policies and procedures and allow the Committee to support this important function.

6. **REASONS FOR RECOMMENDATIONS**

To enable the Audit Committee to continue to monitor the council's approach to the areas dealt with by the Investigations team and set out within this report.

7. **ALTERNATIVE OPTIONS CONSIDERED**

The option is not to present a comprehensive report, which addresses the risk of fraud and identifies areas for improvement. This could result in a lack of awareness and a potential lack of support from the Audit Committee.

8. **IMPLICATIONS**

The implications of this report are that the Council will become more fraud aware and will continue to consider the risks and consequences of this type of abuse. The team have already created a positive profile and the quality of referrals has improved in accordingly. Fraud is unacceptable and requires a well thought through approach. The presumption must be about preventing fraud by designing systems to stop it happening in the first place but where it occurs, there should be an equal presumption that its perpetrators will face tough action. This can only serve to increase the standards of conduct in the Council.

9. **BACKGROUND DOCUMENTS**

(Used to prepare this report in accordance with the Local Government (Access to Information) Act 1985)



**Compliance Team
Annual Report
2011/2012**

1 Introduction

Peterborough City Council, in common with all other public bodies, has an ongoing duty to protect the public purse. The main purpose of this report is to provide an overview of general and specific fraud issues that are of relevance to Peterborough City Council. Given the size and complexity of the Council we must view our performance against reasonable standards of materiality. Public sector standards of governance are high and the control systems are effective in minimising the exposure to fraud.

The Council has clear anti-fraud and whistle blowing in place to ensure that we have a robust response to any allegation raised.

The Council has a dedicated team, which considers all allegations of fraud and financial irregularity. From 1st April 2011, the team became part of the new Governance Team, which comprised the former Democratic Services, Chief Executive's Outer Office and Compliance and Ethical Standards Team. This report details progress and performance in all areas of the Compliance Team's work during 2011/12.

2 Quantity of Fraud

According to last figures issued by the National Fraud Authority, fraud costs the UK over £73 billion a year. Loss estimates to fraud by sector are:

- Public - £20.3 billion
- Private - £45.5 billion
- Individuals - £6.1 billion
- Not for profit - £1.1 billion

In terms of local issues which have affected Peterborough City Council, an example is outlined below:



A woman was prosecuted for using her father's Blue Badge to park in a disabled bay at the rear of the Town Hall. The Compliance Team investigated this allegation as a result of a referral from a member of the public, who believed the driver was abusing the Blue Badge scheme. The woman concerned was interviewed under caution and subsequently prosecuted for the misuse. The woman was subsequently fined £235, ordered to pay costs of £250 and a victim surcharge of £15.

Blue Badge fraud is considered to be an emerging threat within the public sector and the entire Blue Badge service was moved to the Compliance from 1st April 2010. This move has ensured a robust approach has been adopted not only at the enforcement stage of the process but during the award stage of a Blue Badge, when fraud is often perpetrated. The service intends to use

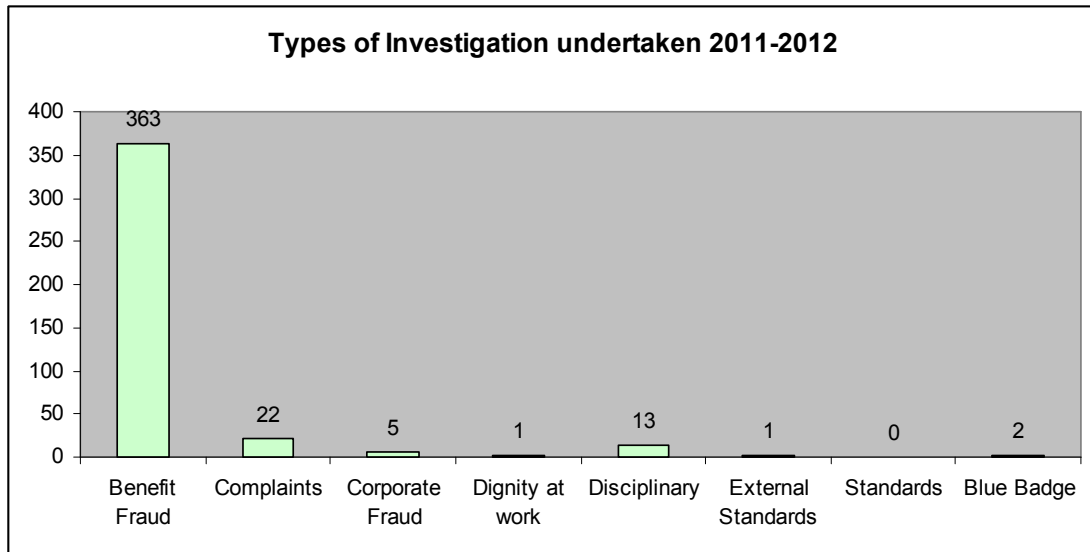
Compliance Team Annual Report 2011-2012

independent assessors for those applicants who qualify for a badge after a medical assessment in line with Department for Transport best practice. We will continue to investigate allegations of misuse of badges or abuse of the scheme and prosecute where appropriate.

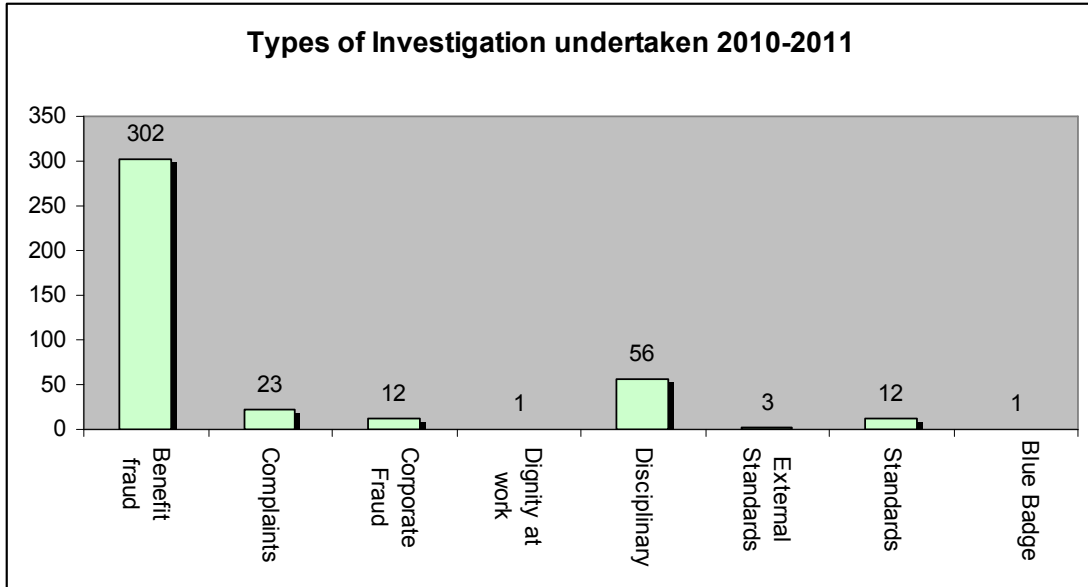
During 2011/2012, the Compliance Team received details of seven potential fraud or financial irregularities for investigation, all seven cases (five corporate fraud and two Blue Badge) proceeded to a full investigation. This represents a decrease in referrals from 13 in 2010/2011. The investigations of the Corporate Compliance team are shown in specific categories for the year.

Additionally, 970 allegations of benefit fraud were received as opposed to 755 in 2010/2011. 363 were investigated following a strict risk assessment, which allows priority to be given to the most serious cases. 173 cases resulted in a positive outcome which shows that the team have a 47% success rate in the investigations carried out. This is a slight decrease on last year however the team is still close to achieving a positive outcome in around one in two cases.

Types of investigations undertaken during 2011/2012 are detailed in the chart below:

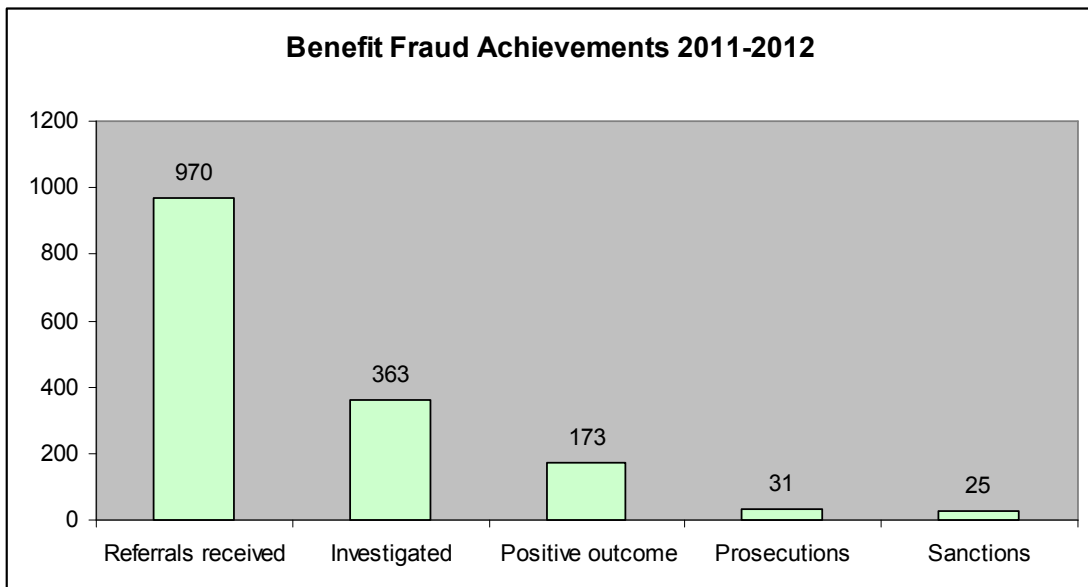


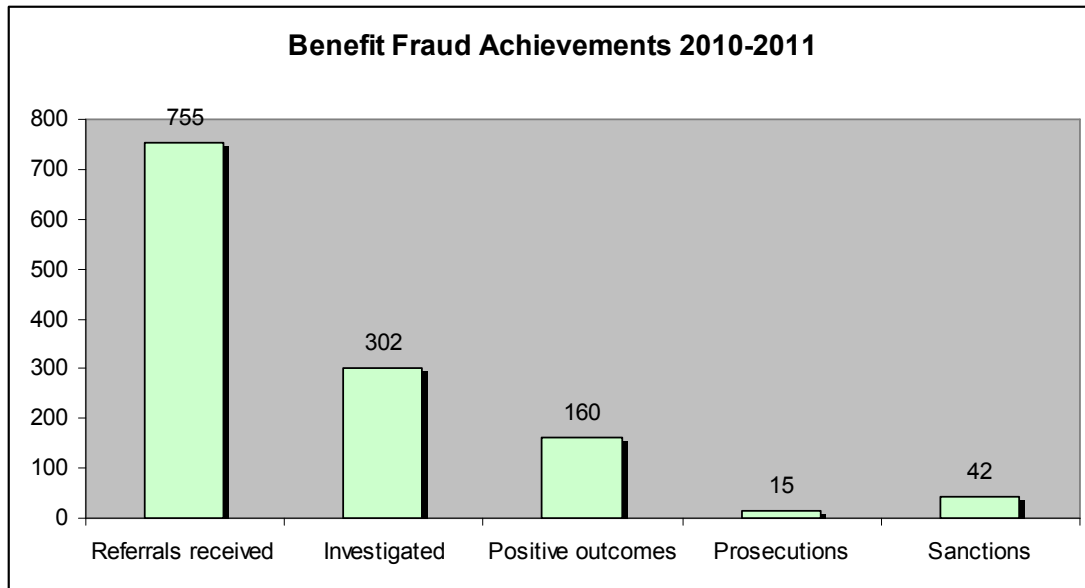
Compliance Team Annual Report 2011-2012



4 Housing and Council Tax Benefit

Benefit fraud will always be the greatest risk faced by local authorities owing to the high volumes of payments and complexities of legislation. The Compliance Team continue to work closely with the Benefits Service to reduce the incidence of fraud and error entering the system. The chart below highlights the success of the team in 2011-2012:



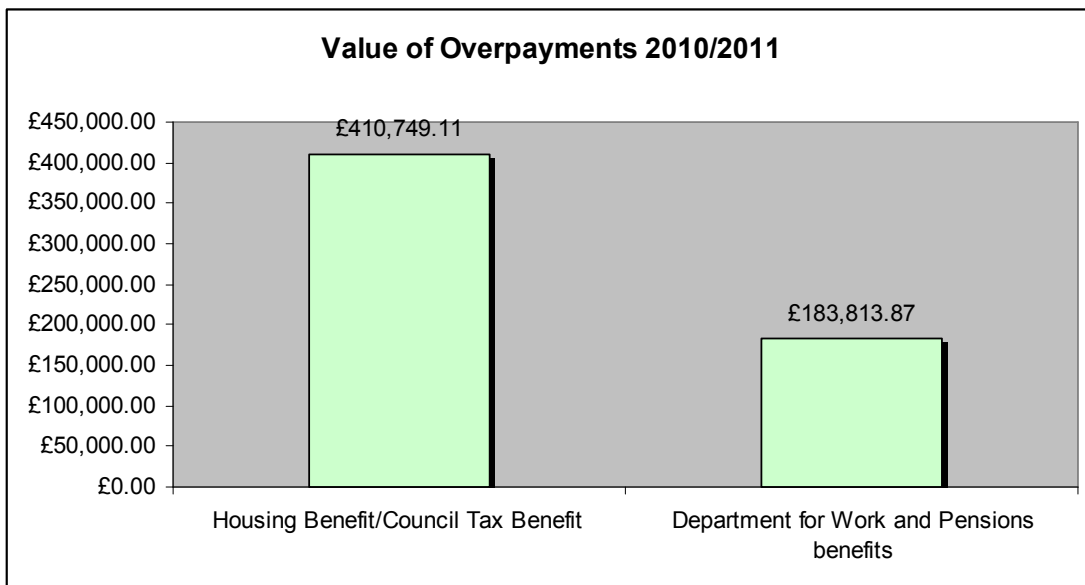
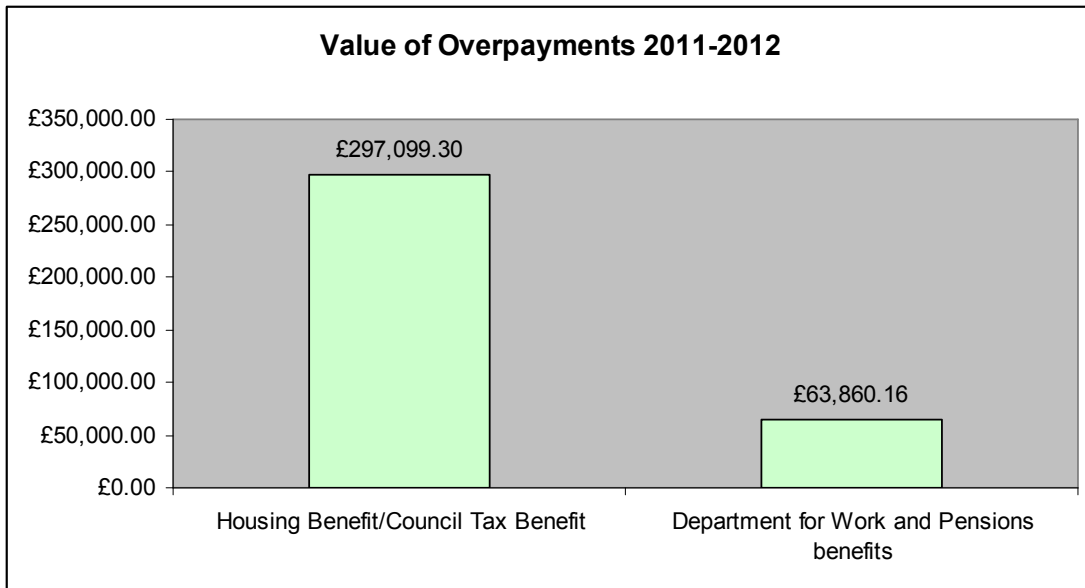


There was a decrease in the number of cautions and administrative penalties this year however the team has doubled the number of people successfully prosecuted this year. A prosecution is the most visible of all the sanctions available to the team and each prosecution will be publicised. This approach sends out a strong message of assurance to the residents of Peterborough and encourages reports of alleged abuse to be made to the Council's fraud hotline and dedicated fraud email address.

It is important to note that any referrals that do not qualify for investigation after the risk assessment process are not ignored; these cases are either referred to our colleagues at the Department for Work and Pensions or referred internally for a visit to be undertaken by Officers within the Benefits Service.

The value of fraudulent benefit uncovered by the team is shown below:

Compliance Team Annual Report 2011-2012



There has been a decrease in the values of overpayment from this year of both Housing Benefit and Council Tax Benefit as well as benefits paid by the DWP. However this can in part be due to some large cases in 2010-2011, an example is that two cases from 2010-2011, the DWP alone had a combined overpayment of £174,252.35.

An example of a successful investigation is outlined below:



A customer obtained over £44,000 in Housing Benefit, Council Tax Benefit and Income Support by failing to notify Peterborough City Council and the Department for Work and Pensions that her partner was living with her. An investigation led by Peterborough City Council established that the partner had been living with the customer for four years. The case was referred for prosecution with the customer pleading guilty to charges of failing to declare a change of circumstance. She was sentenced to eight months imprisonment with immediate effect. She will also have to repay the overpaid benefits she received as a result of her actions.

5 National Fraud Initiative

In January 2011, the Audit Commission released their latest National Fraud Initiative matches in respect of Council data, which had been matched against a number of public sector agencies such as central government and local government. A number of cases of previously undeclared occupational pensions have been investigated and one match has led to a prosecution following the uncovering of just over £16,000. In February 2012, a further data match was released which matched properties where a Council Tax single person discount is place but there are more than one person named on the Electoral Register. The matches will continue to be investigated and the appropriate action taken in respect of anyone found to have received a discount to which they were not entitled.

6. Electoral Integrity Initiative

The Chief Executive has continued to make it a priority to take strong and effective action to counter electoral fraud in Peterborough. The Head of Governance is a member of the Council's Election Working Group and joins other key officers and stake-holders to maintain a robust stance against abuse of the system. This approach continues to include the introduction of a new Register of Electors on an annual basis with no carry forward of names; the use of identify checks for all persons seeking to be added to the Register after the annual canvass; recording of unique reference numbers and a publicity campaign to alert the public to potential abuse and internal databases continue to be matched to provide a list of properties where occupancy is high.

The National Fraud Initiative matches between the Council Tax and the Electoral Register referred to above also helped identify 90 children who had been entered onto the register following their incorrect inclusion on the registration forms. These 90 were removed ahead of the 2012 local elections.

During three weeks of February 2012, officers visited 262 such properties and confirmed the names and identities of the occupants. These visits identified

over almost 284 adults for the purposes of the Electoral Register. 242 occupants who were not available at any of the three visits to each property were invited to attend Review Hearings where they can tender documentary evidence to support their registration details.

A strong partnership approach between Peterborough City Council and Cambridgeshire Constabulary has also continued to thrive with both organisations holding regular meetings and sharing good practice. Between January 2012 and May 2012, 130 incidents were recorded on the electoral integrity log with 20 matters investigated by the Police. A number of these resulted in evidence being sent for forensic testing, suspected identified and arrests made. The Compliance Team will investigate over 80 incidents where there are discrepancies in benefit claims or in Council Tax discounts.

7. Publicity

The Compliance Team is maintaining the publication of all cases where prosecution has been the appropriate outcome. This approach sends out a strong message of assurance to the residents of Peterborough and encourages reports of alleged abuse to be made to the Council's fraud hotline and dedicated fraud email address.

8. Other Investigations

A number of other investigations have been undertaken by the team during 2011/2012:

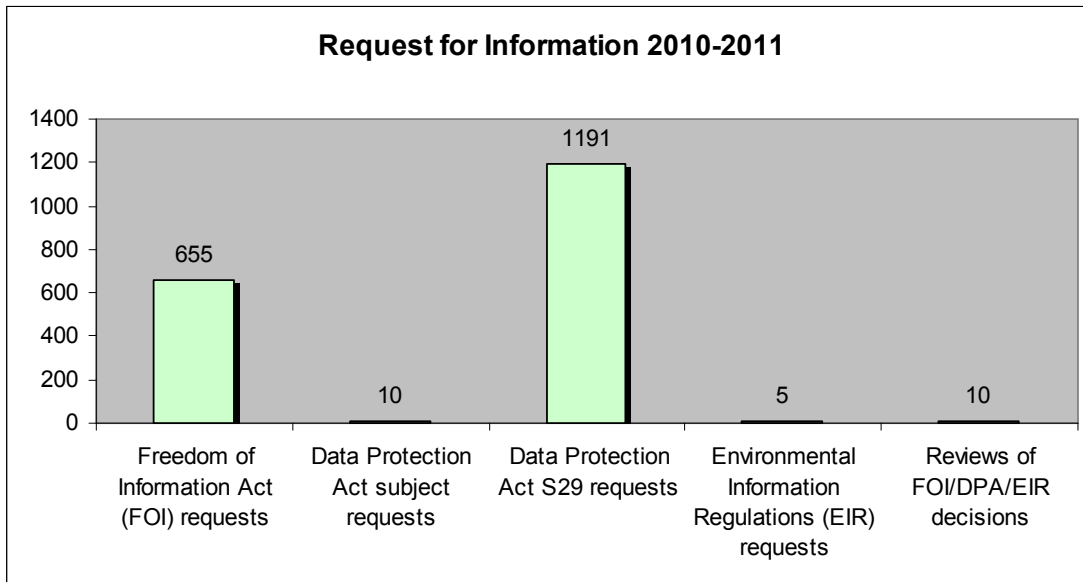
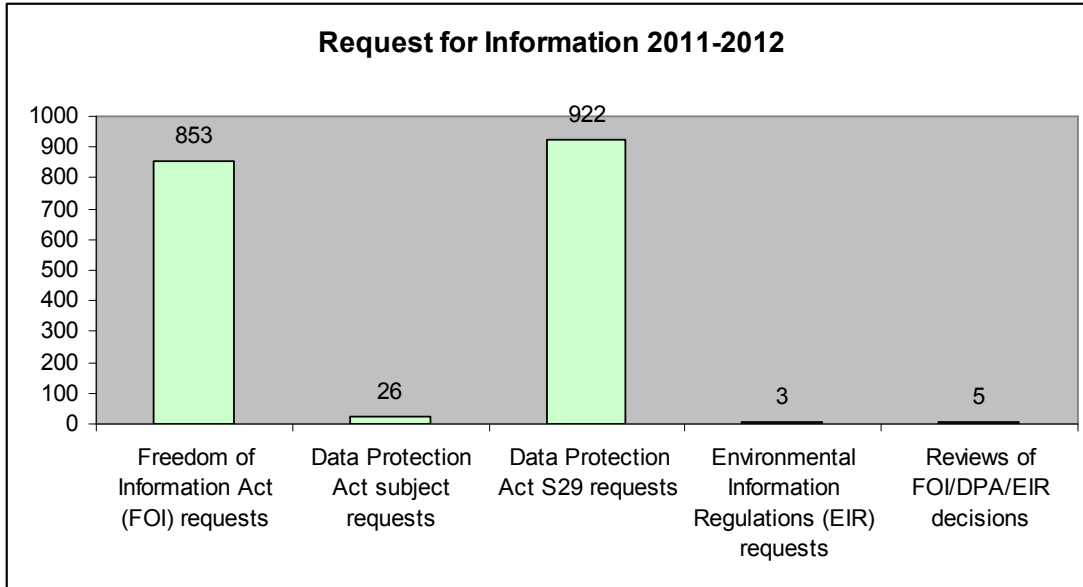
- Disciplinary Cases: 13 cases of alleged disciplinary breaches were investigated. The results of these include one dismissal, four final written warnings, three written warnings, one verbal warnings and one resignation.
- Stage III Complaint Investigations: 22 were undertaken which is a slight decrease on the 23 investigated by the team in 2010/2011.
- Standards Investigations: only one external standards case was investigated during 2011/2012 which as in previous years was on a fee-earning basis. The team continues to operate a service to other Councils and is generating a modest income from this work.

During 2011/2012 the Team has received a number of compliments on the high standard of their work from Directors, Chairs of Committees and Clients.

9. Information Management

The Council (through the Compliance Team) received the following requests for information during 2011/2012:

Compliance Team Annual Report 2011-2012



This illustrates another increase in Freedom of Information Act requests with a slight decrease in Data Protection Act subject access requests and EIR requests. There has also been a decrease in the number of reviews of decisions required. The Compliance Team has also taken on all requests for information under Section 29 of the Data Protection Act to ensure that any information provided is done so following a request made in the correct manner.

8 Conclusion

Counter fraud activity remains a priority for the Council and there continues to be a successful approach to dealing with this risk. The Compliance Team has established itself as a centre of professionalism and is recognised as such by external authorities. Frequent commissions to undertake external investigations for both standards and disciplinary matters are testament to the success and professionalism of the team.

Compliance Team Annual Report 2011-2012

Benefit fraud continues to be a significant fraud issue facing the Council in terms of both financial value and workload. The team continues to build upon its excellent status and also to expand its expertise into other areas of fraud such as housing applications and Blue Badges. We continue to review all working practices regularly to ensure optimum efficiency.

The Information Management function has continued to see an increase in the number of FOI requests and the appointment of a new Information Specialist in 2011-2012 as well as a review of working practices should ensure that the team continues to meet demand.

AUDIT COMMITTEE	AGENDA ITEM No. 5
25 JUNE 2012	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT – 2011 / 2012

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/a
Committee is asked to:	
1. Note the content and approve the annual review of the effectiveness of Internal Audit 2011 / 2012.	

1. ORIGIN OF REPORT

This report is submitted as part of the annual Audit Committee work programme for 2012 / 2013.

2. PURPOSE AND REASON FOR REPORT

The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following “2.2.4 *To consider reports dealing with the management and performance of the providers of internal audit services*”.

In accordance with the requirements of the Accounts and Audit Regulations 2011 the Council conducts an annual review of the system of internal audit to be considered as part of its governance assurance processes, including the production of the Annual Governance Statement.

3. INTERNAL AUDIT EFFECTIVENESS

3.1 The Accounts and Audit Regulations require all Councils to annually review their systems of internal control and to provide an adequate and effective Internal Audit function.

3.2 These regulations were amended in 2011. This revision required that the council undertake an annual review of the effectiveness of its internal audit and to present the results of that review to the appropriate committee. Internal Audit is defined as the means by which the Council addresses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance processes are evaluated and reported in the Annual Governance Statement.

3.3 To address the Accounts and Audit Regulations 2011 requirement, an assessment of Internal Audit has been carried out which is presented for consideration by the Audit Committee. It contains an opinion on the effectiveness of the Internal Audit Service including a self-assessment against a number of publications produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). These include “*Code of Practice for Internal Audit in Local Government in the UK*” and the “*Statement on the Role of Head of Internal Audit*”.

3.4 The review was undertaken by the Chief Internal Auditor and the report (Appendix 1) is presented for Members’ consideration and comment.

4. CONCLUSION

Consideration of a range of views on the effectiveness of Internal Audit operating within the Council during 2011 / 2012 indicates that this has been both appropriate and effective. The report demonstrates that the Council has an effective system of internal audit including a policy framework, internal audit function, audit committee and effective management engagement.

5. CONSULTATION

This report has been issued to the Executive Director (Strategic Resources) and Head of Corporate Services for consideration.

6. ANTICIPATED OUTCOMES

It is reasonable from all the assurances now available to the Council to conclude that a sound system of internal audit operated throughout 2011 / 2012.

7. REASONS FOR RECOMMENDATIONS

To seek endorsement from members that internal audit within the authority is being delivered and provide effective challenge to the organisation.

8. ALTERNATIVE OPTIONS CONSIDERED

None required at this stage.

9. IMPLICATIONS

This report contains no specific financial implications.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- Internal Audit Plans;
- Internal Audit reports issued;
- Internal Audit Terms of Reference;
- Accounts and Audit Regulations 2011;
- Code of Practice for Internal Audit in Local Government in the UK, CIPFA; and
- Statement on the Role of the Head of Internal Audit, CIPFA.

11. APPENDICES

- Appendix 1 - Annual Review of the Effectiveness of Internal Audit



HEAD OF INTERNAL AUDIT

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

2011 / 2012

ANNUAL REVIEW

1. Background
 2. Current Arrangements For Internal Audit
 3. Basis for Opinion
 - Staff Resources
 - Training and Experience
 - Compliance with Code of Practice for Internal Audit
 - External Audit Opinion
 - Comparison with Statement of Role of Head of Audit
 - Integrated Audit Work With Risk Management and Governance Arrangements
 - Performance Indicators
 - Audit Committee
 4. Conclusion
- Background Documents

APPENDICES

- A CIPFA¹: Compliance with Code of Practice for Internal Audit
- B CIPFA: Code of Practice – Characteristics of Effectiveness That An Effective Internal Audit Should Aspire To
- C CIPFA: Statement on the Role of the Head of Internal Audit: Compliance Checklist

¹ CIPFA: Chartered Institute of Public Finance and Accountancy

1 BACKGROUND

- 1.1 The Accounts and Audit Regulations require all Councils to annually review their systems of internal control and to provide an adequate and effective Internal Audit function.
- 1.2 These regulations were amended in 2011. This revision required that the council undertake an annual review of the effectiveness of its internal audit and to present the results of that review to the appropriate committee. Internal Audit is defined as the means by which the Council addresses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance processes are evaluated and reported in the Annual Governance Statement.
- 1.3 To address the Accounts and Audit Regulations 2011 requirement, an assessment of Internal Audit has been carried out which is presented for consideration by the Audit Committee. It contains an opinion on the effectiveness of the Internal Audit Service including a self-assessment against a number of publications produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). These include “Code of Practice for Internal Audit in Local Government in the UK” and the “Statement on the Role of Head of Internal Audit”.
- 1.4 The review was undertaken by the Chief Internal Auditor and the report is presented for Members’ consideration and comment.

2 CURRENT ARRANGEMENTS FOR INTERNAL AUDIT

- 2.1 Internal Audit at Peterborough is provided through an in-house team which is part of Strategic Resources, headed up by the Chief Internal Auditor. It works closely with others in the Council tasked with assurance, governance and risk management but retains a separate identity in relation to the performance of Internal Audit and investigation functions for the Council.
- 2.2 The Chief Internal Auditor reports directly to the Head of Corporate Services and the Director of Strategic Resources but also has direct access, if required to the Chief Executive, Solicitor to the Council, Council Leader, Executive Members and the Chair of the Audit Committee.
- 2.3 At the start of 2011 / 2012 the in-house team comprised 7.78 FTE approved posts including the Chief Internal Auditor. This diminished during the year as a result of a number of known events – the ongoing shared service arrangements with Cambridge City Council, a voluntary redundancy and maternity leave – and also as a result of a resignation due to an officer being offered a job with another organisation. Where events were known, reductions to the audit plan had been factored in. However, with services such as Adult Social Care transferring into the business and the increased call on Internal Audit time to be spent on grant activity, it is of paramount importance to increase the size of the team and vacancies will be addressed in accordance with Council policy. Shortfalls in resources will be managed by ensuring that audit work is prioritised to ensure that at least a statutory minimum service is provided.
- 2.4 Due to the size of the section, it is not structured around client / service based teams nor the Council’s directorates. This approach has allowed the opportunity for auditors to develop a depth of knowledge and relationships with customers in relation to the work of a number of services rather than specific areas. However, a number of officers do have specific technical attributes that provide the organisation with a

“first point of contact”. As a result, this provides some continuity to the customer who can regularly deal with the same auditor over a period of time.

- 2.5 The Section’s strategy for the delivery of Internal Audit is set out in the Annual Audit Plan. The Internal Audit Service Terms of Reference (TOR) outline the status of the Section and define the principles of how it operates within the Council. It provides appropriate arrangements to ensure that the Internal Audit Section is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. This has been agreed with the Audit Committee. Arrangements for investigation work are defined in the Council’s policies and procedures for Anti-Fraud and Whistleblowing and these are reported on in the Investigation Team Annual Report.
- 2.6 Internal Audit undertakes its work in accordance with the CIPFA Code of Practice for Internal Audit in Local Government (2006). This is best practice guidance for the discharge of an internal audit function covering expectations and the standards required. External Audit carries out its review of the internal audit function against these standards.
- 2.7 To examine the system of internal audit, this review considered several key elements and assessed their contribution to enabling the section to fulfil its responsibilities. These were:
- The structure and resourcing level, including qualifications and experience of the audit team;
 - The extent of compliance with the CIPFA Code of Practice in producing quality work;
 - Comparison with the Statement on the Role of the Head of Internal Audit;
 - Ensuring that the Section successfully audits the most appropriate areas on a prioritised (risk) basis; and
 - The performance of the audit team (details of which are reported in the Head of Internal Audit Opinion report).

3 BASIS FOR OPINION

3.1 Staff Resources

During 2011 / 2012 there were major reductions in staffing and these are documented in the table below. A number of factors were known in advance, for example maternity leave, and so appropriate amendments could be built into the audit plan. Nevertheless, unplanned work from investigation referrals received and in-year requests for support from directorates did together with a resignation did alter the overall plan coverage, although that covered could still formulate an opinion. There were some audits carried forward from 2011 / 2012 to be completed in Quarter 1.

Post	FTE	Changes	Reason For Change	At Year End
Chief Internal Auditor	1.00	-0.50	Continuation of shared service with Cambridge City Council	0.50
Group Auditor	1.30	-		1.30
Principal Auditor	1.00	-1.00	Temporary reduction for whole year due to maternity leave. Officer due to return in June 2012, albeit on reduced hours.	0.00
Senior Auditor	2.48	-1.48	Voluntary redundancy(June 2011) 0.80 Resignation (Feb 2012) 0.68	1.00
Auditor	2.00	-1.00	One post vacant throughout year, to provide savings to the council. However this will be filled.	1.00
	7.78	-3.98		3.80

Various options are being explored to fill vacancies to increase available resources including the use of temporary auditors.

3.2 Training and Experience

3.2.1 Training and development plans are in place to encourage development through both the career progression and continuing professional development. The following information about qualifications and experience of staff available for audit work demonstrates the significant experience and rich qualification mix in the Section.

Audit experience:

- Peterborough City Council service ranges from a minimum of 4 years service within Internal Audit to over 20 years; and
- Previous work experience is with banks, accountancy firms, other local authorities and other public sector organisations.

Qualifications:

- Qualified Accountants (CIPFA x1);
- Institute of Internal Auditors – Member (CFIIA x2);
- Institute of Internal Auditors – Practitioner Level (PIIA x1);
- Institute of Internal Auditors – Certificate Level (CIA x1);
- Association of Accounting Technicians (MAAT x1).

3.2.2 The level of experience of audit staff remained static during the year, benefiting initially from stability within the audit team and increased time spent on audit work. There was some rotation of staff to enable a breadth of experience and for continuing professional development and this will continue based on operational need and the priority and timing of work. This approach provides increased flexibility to meet audit and investigation needs, particularly in time specific and statutory audits.

3.3 Compliance with the Code of Practice for Internal Audit in Local Government

3.3.1 The code defines Internal Audit as:

“Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”.

The control environment is defined as comprising the systems of governance, risk management and internal control.

3.3.2 The code sets out 11 standards for Internal Audit. Of the 11 standards one relates to Performance and Effectiveness. The rest cover audit management, audit process and audit relationships within the organisation.

Audit Management	Audit Process	Audit Relationships
Independence Ethics Staffing, Training and Continuing Professional Development	Scope Audit Strategy and Planning Undertaking Audit Work Due Professional Care Reporting	Audit Committees Relationships

3.3.3 There are 192 questions against the standards. There was a full review in 2011 against these and this demonstrated that the Section was meeting 188 out of 192 applicable Code requirements. 4 areas identified formed an Action Plan and progress against this is detailed in **Appendix A**. A separate survey is being developed to establish future requirements.

- 3.3.4 The code also tries to define an effective internal audit, as being one which should “aspire to” the following:
- Understand the whole organisation, its needs and objectives;
 - Understand its position in respect to the organisations other sources of assurance and plan its work accordingly;
 - Be seen as a catalyst for change at the heart of the organisation;
 - Add value and assist the organisation in achieving its objectives;
 - Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact;
 - Be innovative and challenging;
 - Help to shape the ethics and standards of the organisation;
 - Ensure the right resources are available – recognising that the skills mix, capacity, specialism and qualifications / experience requirements all change constantly;
 - Share best practice with other auditors; and
 - Seek opportunities for joint working with other organisations auditors
- 3.3.5 An assessment of the position of Internal Audit in respect of these aspirations is set out in **Appendix B**. A number of areas have been identified and these are:
- Develop and extend the shared service arrangements;
 - Continue to maintain an understanding of the business; and
 - Look to market the services (internally)
- 3.4 External Audit Opinion
- 3.4.1 PricewaterhouseCoopers comment in the Annual Audit Letter on the adequacy, or otherwise of Internal Audit as well as other governance arrangements. The latest report, taken to Audit Committee in February 2012 concluded that they could place reliance on the work of Internal Audit. As a result the auditors have confirmed that they will be able to take assurance over the quality and extent of audit work done in 2011 / 2012 including assurance over the core financial systems activity.
- 3.4.2 Liaison with the external auditor continues to be productive and offers the opportunity to co-ordinate audit plans and to share information and to inform risk assessments. The Section agreed the scope and approach to auditing the core financial systems enabling Internal Audit to deliver work of increased value to the Council whilst ensuring that the needs of the external auditor are addressed.

3.5 Comparison with Statement on Role of Head of Internal Audit

3.5.1 CIPFA published its Statement on the role of the Head of Internal Audit (HIA) in public service organisations in December 2010 following widespread consultation. The statement sets out best practice for HIAs to aspire to and for Audit Committees and others to measure internal audit against. The original document was brought to Audit Committee in September 2010.

3.5.2 The statement sets out an overarching principles-based framework which is intended to apply to all HIAs in the UK. The Statement draws on the best practice and regulatory requirements in public services, as well as the requirements of CIPFA, other professional accountability bodies' and the Institute of Internal Auditors' codes of ethics and professional standards. As well as articulating the core responsibilities of the HIA, the statement also identifies the personal and professional skills needed.

3.5.3 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA and the organisational arrangements needed to support them. For each principle the Statement sets out the governance arrangements required to ensure that HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA.

3.5.4 The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the "Leadership Team" of a public service organisation to benchmark its existing arrangements against a defined framework. CIPFA recommends that organisations should report publicly on compliance to demonstrate their commitment to good practice.

The statement recognises that the Head of Internal Audit will play a critical role in delivering the organisation's strategic objectives by:

- *Championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and*
- *Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.*

To perform this role the Head of Internal Audit:

- *Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;*
- *Must lead and direct an internal audit service that is resourced to be fit for purpose; and*
- *Must be professionally qualified and suitably experienced.*

3.5.5 There are a series of attributes and personal qualities which sit below these principles, some subjective. However, an initial assessment would indicate that the role of the Head of Internal Audit at Peterborough City Council already meets the underlying aims of the five principles set out above (**Appendix C**). The self assessment has highlighted two specific areas where there could be improvement. This related to the preparation of the Annual Governance Statement (2.1.12) and line management reporting lines (3.1.2).

3.6 Integrated Audit Work With Risk Management and Governance Arrangements

3.6.1 Prioritisation of the work of the Audit Section is achieved by the development and delivery of an annual risk based Audit Plan. This describes the assurance plans for the Section and includes some capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and risk based work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources as illustrated below.

3.6.2 The Section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council's overall objectives. The Section reviews corporate and departmental risk registers, business plans and discusses Council objectives and priorities with Directors and Heads of Service to assess assurance needs. The Audit Plan is discussed and approved by Audit Committee in March each year.

3.6.3 It is considered that the 2011 / 2012 Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with senior management and Audit Committee. Some changes were reported in mid-year following additional requests from senior managers; nevertheless, the plan was largely delivered as planned.

3.6.4 During the year some audit work was deferred or cancelled due to the timing of the audits and the changes to organisation objectives. The impact of budget cuts and organisational change was reflected in the reassessment of the work and alternative means of gaining assurance where appropriate.

3.6.5 For 2012 / 2013, the agreed Audit Plan again show links to the corporate aims / objectives in order to clearly demonstrate how audit work relates to the achievement of Council objectives.

3.7 Performance Measures

3.7.1 Internal Audit has a number of performance indicators that it monitors throughout the year. To avoid duplication, these are reported separately within the Head of Internal Audit Opinion. However the key issues are:

Better Than Target	Area for Improvement
Positive feedback on Post Audit Questionnaires (PAQ) 100% of critical / high recommendations made were agreed Continued reduction in sickness levels (below authority average)	Implementation of recommendations by management

3.8 Audit Committee

- 3.8.1 The system of Internal Audit includes the role of the “Audit Committee” and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for Committee remained the same during 2011 / 2012 with continuity of membership assisting in maintaining an effective committee. Membership has altered for 2012 / 2013 with 4 new Members. During 2011 / 2012 regular briefings took place with the Chair of the Audit Committee. This covered the future agenda items together with discussions around the works undertaken by Internal Audit.
- 3.8.2 As part of the audit protocol, all finalised audit reports are issued to the appropriate officers within the Council as well as the Executive Member and Chair of Audit Committee. These reports are discussed at the above briefings.
- 3.8.3 It is proposed that ongoing development and training for the Committee will continue in 2012 / 2013 with a programme of refresher and new Member training to be agreed. A separate handbook will be regularly reviewed on the roles and responsibilities for an effective audit committee.

4 **CONCLUSION**

Consideration of a range of views on the effectiveness of Internal Audit operating within the Council during 2011 / 2012 indicates that this has been both appropriate and effective.

The report demonstrates that the Council has an effective system of internal audit including a policy framework, internal audit function, audit committee and effective management engagement.

BACKGROUND DOCUMENTS

Internal Audit Plans
Internal Audit reports issued
Internal Audit Terms of Reference
Accounts and Audit Regulations 2011
Code of Practice for Internal Audit in Local Government in the UK, CIPFA
Statement on the Role of the Head of Internal Audit, CIPFA

COMPLIANCE WITH CODE OF PRACTICE FOR INTERNAL AUDIT

Ref	Standard	Recommendations	Progress
1 - 4	SCOPE OF INTERNAL AUDIT; INDEPENDENCE; ETHICS FOR INTERNAL AUDITORS; AUDIT COMMITTEES <ul style="list-style-type: none"> No recommendations 		
5	RELATIONSHIPS		
5.1.1 d	Is there a protocol that defines the working relationship for IA with other regulators and inspectors?	Establish a protocol for effective liaison with external inspectors	Regular liaison in place between internal and external audit. Protocols have been established to cover specific testing requirements etc.
5.5.1	Has the HoIA sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	As above	Meetings have been held as and when appropriate, although the number of inspections has diminished following the change of government.
6	STAFFING TRAINING AND CONTINUAL PROFESSIONAL DEVELOPMENT		
6.1.2	Does the HoIA have access to appropriate resources where the necessary skills and expertise are not available within IA?	Develop an overall strategy to take forward specialist auditing areas in conjunction with Cambridge City Council (and others as appropriate).	These are progressed as the shared arrangements are further formalised.
7 – 10	AUDIT STRATEGY AND PLANNING; UNDERTAKING AUDIT WORK; DUE PROFESSIONAL CARE; REPORTING <ul style="list-style-type: none"> No recommendations 		
11	PERFORMANCE, QUALITY AND EFFECTIVENESS		
11.3.4	Do the results of the performance management and quality assurance programme evidence that the internal audit service is adding value and assisting the organisation in achieving its objectives?	Internal Audit to issue a survey to senior management to establish the extent to which audit is adding value to their services.	Quality surveys are issued at the end of each audit which provides a good barometer throughout the year on quality. A separate questionnaire is being developed which will be issued in due course following the transfer of a number of services into and out of the authority.

Based on the assessment against 192 questions, the evidence collected demonstrates the Council operates in compliance with professional standards, and initiates change where improvements to the internal control environment is required. The review has identified a number of areas where ongoing improvements could be made (within internal audit and also corporately).

In conclusion, there are no material weaknesses which impact on the overall effectiveness of the internal control environment.

CIPFA CODE OF PRACTICE: CHARACTERISTICS OF EFFECTIVENESS THAT AN EFFECTIVE INTERNAL AUDIT SHOULD ASPIRE TO

CHARACTERISTIC OF EFFECTIVENESS	EVIDENCE OF ACHIEVEMENT	AREAS FOR DEVELOPMENT
Understand the whole organisation, its needs and objectives	The Audit Plan is mapped against the strategic objectives of the Council when it is compiled.	
Understand its position in respect to the organisations other sources of assurance and plan its work accordingly	Internal Audit identifies other sources of assurance and takes this into account when preparing the Internal Audit Plan	Monitor and improve the IA governance and assurance arrangements when there are joint service delivery arrangements / outsourced activities
Be seen as a catalyst for change at the heart of the organisation	Supportive role of audit for corporate developments such as risk management and ethics. Supportive role of audit for individual projects may be catalyst for change.	Selling the message of the benefits of IA involvement to line management. Reallocate role for Annual Governance Statement. Identified need to extend the role of IA in new and developing projects.
Add value and assist the organisation in achieving its objectives	Demonstrated through individual audit assignments and also corporate work	Identified need to extend the role of IA in new and developing projects.
Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact	When identifying risks and in formulating the plan changes on the national agenda are considered	Maintain awareness of new developments in the services it audits
Be innovative and challenging	Internal Audit has taken a positive approach to its reporting arrangements by focusing on risks The report format has been reviewed and the format and audit opinion descriptions revisited and reaffirmed.	

CHARACTERISTIC OF EFFECTIVENESS	EVIDENCE OF ACHIEVEMENT	AREAS FOR DEVELOPMENT
Help to shape the ethics and standards of the organisation	Involvement in the development of shared services	Involvement by IA in review of policies
Ensure the right resources are available – recognising that the skills mix, capacity, specialism and qualifications / experience requirements all change constantly	Regular review of skills through performance reviews to ensure can match organisation.	Awareness of ideal and cost driven resources.
Share best practice with other auditors	<p>Team briefings</p> <p>Joint training seminars</p> <p>Intranet site within Cambridgeshire authorities (hosted by Huntingdonshire)</p> <p>Personal links with other auditors elsewhere</p>	
Seek opportunities for joint working with other organisations auditors	<p>Always a consideration.</p> <p>Shared service arrangement with Cambridge City Council</p>	Look to bring other districts into the shared service

CIPFA: STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT: COMPLIANCE CHECKLIST MAY 2012

REF	ISSUE	YES	NO	N/A	COMMENT
PRINCIPLE 1					
The HIA in a local authority plays a critical role in delivering the authorities strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments					
1.1 GOVERNANCE REQUIREMENTS					
1.1.1	Set out the HIA's role in good governance and how this fits with the role of others, in particular the Chief Finance Officer, Monitoring Officer and the Head of Paid Service.	✓			Summarised within the Annual Governance Statement
1.1.2	Ensure that the importance of good governance is stresses to all in the authority, through policies, procedures and training.	✓			
1.1.3	Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.			✓	HIA, or an Internal Audit representative would only be involved if there were specific concerns relating to internal control or risk
1.1.4	Require staff to report suspected or detected fraud, corruption or impropriety to the HIA.			✓	Under the current arrangements, staff are expected to report irregularities to their manager, the Fraud hotline; or the Corporate Fraud team in addition to the potential reporting line into Internal Audit.
1.2 CORE HIA RESPONSIBILITIES					
1.2.1	Working with others (including the Chief Finance Officer, the Monitoring Officer and the Head of Paid Service) to promote the benefits of good governance throughout the organisation.	✓			HIA has produced the Annual Governance Statement. HIA also a member of the Strategic Governance Board.
1.2.2	Giving advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects.			✓	The Council does not have a formal Leadership Team of Members and Officers

REF	ISSUE	YES	NO	N/A	COMMENT
1.2.3	Promoting the highest standard of ethics and standards across the authority based on the principles of integrity, objectivity, competence and confidentiality.	✓			This is encompassed within Internal Audits Code of Ethics which is annually reviewed (last Audit Committee approval 26 March 2012)
1.2.4	Demonstrating the benefits of good governance for effective public sector delivery and how the HIA can help	✓			The Council promotes the benefits of good governance. The HIA assists via the production of the Annual Audit Opinion.
1.2.5	Offering consultancy advice where the HIA considers that it is appropriate, drawing up clear terms of reference for such assignments.	✓			Lead on production for Annual Governance Statement.
1.3	PERSONAL SKILLS AND PROFESSIONAL STANDARDS				
1.3.1	Provide leadership by giving practical examples of good governance that will inspire others.	✓			HIA uses knowledge of peer organisations to offer practical advice to encourage good practice.
1.3.2	Deploy effective facilitating and negotiating skills	✓			
1.3.3	Build and demonstrate commitment to continuous improvement	✓			
1.3.4	Demonstrate consultancy skills as appropriate – analytical, problem solving, influencing and communicating.	✓			These are available either as an element of regular audits or specific assignments.

REF	ISSUE	YES	NO	N/A	COMMENT
PRINCIPLE 2					
The HIA in a local authority plays a critical role in delivering the authorities strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.					
GOVERNANCE REQUIREMENTS					
2.1	Set out the responsibilities of the HIA, which should not include the management of operational areas.	✓			The HIA has clear responsibilities. There are no operational areas.
2.1.1	Ensure that internal audit is independent of external audit.	✓			Formal protocol adopted
2.1.2	Where the HIA does have operational responsibilities the HIA's line manager and the Audit Committee should specifically approve the IA Strategy for these and associated plans and reports and ensure the work is independently managed.			✓	
2.1.3	Establish clear lines of responsibility for those with an interest in governance (e.g. Head of Paid Service, Monitoring Officer, CFO, Audit Committee, Members). This covers responsibilities for drawing up and reviewing key corporate strategies, statements and policies.	✓			This is set out within the Audit Committee Handbook and the Annual Governance Statement
2.1.4	Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has significant concerns.	✓			The HIA has a direct line of access to the Audit Committee; appropriate Members; Chief Executive as well as normal reporting lines within the Strategic Resources Department.
2.1.5	Agree the terms of reference for Internal Audit with the HIA, the Audit Committee and the CFO, as well as the Leadership Team.	✓			There is an annual review of the terms of reference for Internal Audit. This "Audit Charter" accompanied the Plan for approval by Audit Committee on 26 March 2012.
2.1.6	Set out the basis on which the HIA can give assurances to other organizations and the basis on which the HIA can place reliance on assurances from others.	✓			Assurance arrangements are set out in the Audit Committee Handbook
2.1.7	Ensure that comprehensive governance arrangements are in place, with supporting documents covering e.g. risk management, corporate planning, anti fraud and corruption and whistleblowing.	✓			Reviewed as part of the Annual Governance Statement and documented in the Committee Handbook.
2.1.8					

REF	ISSUE	YES	NO	N/A	COMMENT
2.1.9	Ensure that the annual internal audit opinion and report are issued in the name of the HIA.	✓			Issued June committee cycle each year.
2.1.10	Include awareness of governance in the competencies required by members of the Leadership Team.	✓			Although there is no formal Leadership Team, senior Members and officers are involved in reviewing governance arrangements.
2.1.11	Set out the framework of assurance that supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for preparing the report.		✓		This has not been complied with – due to capacity issues.
2.1.12	Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team.	✓			Presented annually. Last approved 26 March 2012.
2.2	CORE HIA RESPONSIBILITIES				
2.2.1	Giving assurance on the control environment. This includes risk and information management and internal controls across all systems.	✓			
2.2.2	Reviewing the adequacy of key corporate arrangements including e.g. risk strategy, risks register, anti fraud and corruption strategy, corporate plan.	✓			
2.2.3	Produce evidence based annual internal audit opinion on the authority's control environment.	✓			
2.2.4	Working closely with others to ensure that sufficient and relevant evidence is used. Where relying on others, clarifying the degree and basis for the reliance.	✓			This principle is adopted in practice wherever relevant
2.2.5	Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect the authority's interests. Assessing whether lines of responsibility and assurance are clear.	✓			

REF	ISSUE	YES	NO	N/A	COMMENT
2.2.6	Liaising closely with the external auditor to share knowledge and to use audit resources most effectively.	✓			Governed by a separate protocol.
2.2.7	Producing an internal audit strategy that fits with and supports the authority's objectives.	✓			See 2.1.12. All audits are mapped to the overarching corporate objectives of the Council.
2.2.8	Reviewing the authority's risk maturity (including the authority's own assessment) and reflecting this in the strategy.	✓			
2.2.9	Consulting stakeholders, including senior managers and Members on the internal audit strategy.	✓			The Strategy is agreed by the S.151 Officer and the Audit Committee. External Audit is also consulted.
2.2.10	Setting out how the HIA plans to rely on others for assurance on the authority's controls and risks and taking account of any limitations in assurance given by others.	✓			See 2.1.7
2.2.11	Liaising with external inspectors and review agencies where appropriate when drawing up the internal audit strategy.	✓			In practice, liaison tends to be focused on the annual plan rather than the strategy
2.2.12	Liaising with the external auditor on the internal audit strategy, but not been driven by external audit's own priorities.	✓			In practice, liaison tends to be focused on the annual plan rather than the strategy
2.3	PERSONAL SKILLS AND PROFESSIONAL STANDARDS				
2.3.1	Give clear, professional and objective advice.	✓			
2.3.2	Report on what is found, without fear or favour.	✓			
2.3.3	Demonstrate integrity to staff and others in the authority.	✓			
2.3.4	Exercise sound judgment in identifying weaknesses in the authority's control environment and a balanced view on how significant these are.	✓			

REF	ISSUE	YES	NO	N/A	COMMENT
2.3.5	Work well with others with specific responsibilities for internal control, risk management and governance including Head of Paid Service, the Monitoring Officer, the CFO, Audit Committee and Members.	✓			HIA is a member of the Strategic Governance Board which oversees developing good governance across the organization.
2.3.6	Be concerned for action – influencing the Leadership Team, Audit Committee and others to ensure that the HIA's recommendations are implemented.	✓			Critical and High Recommendations are reported through to Audit Committee to ensure delivered
2.3.7	Be a role model, dynamic, determined, positive, robust and with resilient leadership, able to inspire confidence and respect and exemplify high standards of conduct.	✓			

REF	ISSUE	YES	NO	N/A	COMMENT
PRINCIPLE 3					
To perform this role the Head of Internal Audit must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee					
GOVERNANCE REQUIREMENTS					
3.1	Designate a named individual as HIA in line with the principles in this Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contact or agreement.	✓			
3.1.1	Ensure that where the HIA is an employee that they are sufficiently senior and independent within the authority's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team.	✓			
3.1.2	Ensure that where the HIA is an employee the HIA is line managed by a member of the Management Team. Where the HIA is not an employee then the reporting line must be clearly set out in the contract of agreement with the internal audit provider.		✓		Reports to Head of Corporate Services, although has direct access to senior officers on the Management Team.
3.1.3	Establish an Audit Committee in line with guidance and good practice.	✓			
3.1.4	Set out the HIA's relationship with the Audit Committee and its Chair.	✓			
3.1.5	Ensure that the authority's governance arrangements allow the HIA: <ul style="list-style-type: none"> To bring influence to bear on material decisions reflecting governance; Direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit To attend meetings of the Leadership Team and Management Team where the HIA considers this to be appropriate 	✓			
3.1.6					

REF	ISSUE	YES	NO	N/A	COMMENT
3.1.7	Set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in (significant) partner organisations.	✓			Set out in the Audit Charter – last approval 26 March 2012
3.1.8	Set out the HIA's responsibilities relating to partners including joint ventures and outsourced and shared services.	✓			
3.2	CORE HIA RESPONSIBILITIES				
3.2.1	Escalating any concerns through the line manager, CFO, Monitoring Officer, Head of Paid Service, Audit Committee, Leadership Team and external auditor as appropriate.	✓			
3.2.2	Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements.	✓			Reported to Committee 6 February 2012
3.2.3	Consulting stakeholders, including senior managers and Members on the internal audit strategy.	✓			See 2.2.9
3.3	PERSONAL SKILLS AND PROFESSIONAL STANDARDS				
3.3.1	Network effectively to raise the profile and status of internal audit.	✓			
3.3.2	Adopt a flexible style, being able to collaborate and advise but able to challenge as appropriate.	✓			
3.3.3	Build productive relationships both internally and externally.	✓			
3.3.4	Work effectively with the Leadership Team and Audit Committee with political awareness and sensitivity.	✓			Majority of member contact is through the Audit Committee
3.3.5	Be seen to be objective and independent but also pragmatic where appropriate.	✓			

REF	ISSUE	YES	NO	N/A	COMMENT
PRINCIPLE 4					
To perform this role the Head of Internal Audit must lead and direct an internal audit service that is resourced to be fit for purpose					
GOVERNANCE REQUIREMENTS					
4.1	Provide the HIA with the resources, expertise and systems necessary to perform their role effectively.	✓			
4.1.1	Ensure that the Audit Committee sets out a performance framework for the HIA and their team and assess performance and takes action as appropriate.	✓			
4.1.2	Ensure that there is a regular review of internal audit quality.	✓			Annual review by External Audit of a number of audits undertaken in the year, in order to establish whether or not can place reliance on the work undertaken.
4.1.3	Ensure that where the HIA is from another organisation that they do not also provide the external audit service.	✓			In addition, post audit questionnaires are issued to clients to complete following each audit conducted.
4.1.4					
CORE HIA RESPONSIBILITIES					
4.2	Leading and directing the internal audit service so that it makes a full contribution to and meets the needs of the authority and external stakeholders.	✓			
4.2.1	Determining the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit objectives; using a full range of resourcing options including consultancy, working with others and buying in where appropriate.	✓			
4.2.2	Informing the CFO, the Leadership Team and Audit Committee if there are sufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given.	✓			
4.2.3					

REF	ISSUE	YES	NO	N/A	COMMENT
4.2.4	Implementing robust processes for recruitment of internal audit staff and / or the procurement of internal audit services from external suppliers.	✓			Council procedures followed, including use of agency staff if required.
4.2.5	Ensuring that the professional and personal training needs for staff are assessed and seeing that these needs are met.	✓			Annual performance reviews undertaken
4.2.6	Developing succession plans and helping staff with their career progression.	✓			
4.2.7	Establishing a quality assurance and improvement programme that includes: <ul style="list-style-type: none"> • Ensuring that professional internal audit standards are complied with • Reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and needs of its stakeholders • Providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievements against targets; • Putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence based and of good quality • Ensuring that internal auditors declare any interests that they have • Seeking continuous improvement in the internal audit service 	✓			
4.2.8	Keeping up to date with developments in governance, risk management, control and internal auditing, including networking with other HIAs and learning from the, implementing improvements where appropriate.	✓			Includes networking through Cambridgeshire Audit Group; CIPFA Better Governance Forum and other peer groups
4.2.9	Demonstrating how internal audit adds value to the authority.	✓			Identified within the Audit Strategy

REF	ISSUE	YES	NO	N/A	COMMENT
4.3	PERSONAL SKILLS AND PROFESSIONAL STANDARDS				
4.3.1	Demonstrate leadership as an ambassador for internal audit	✓			
4.3.2	Create, communicate and implement a vision for the internal audit service	✓			Identified within the Strategy
4.3.3	Create a customer focused internal audit service	✓			
4.3.4	Establish an open culture, built on effective coaching and a constructive approach	✓			
4.3.5	Promote effective communication with internal audit, across the broader organisation and with external stakeholders	✓			
4.3.6	Set and monitor meaningful performance objectives for staff	✓			
4.3.7	Manage and coach staff effectively	✓			
4.3.8	Comply with professional standards and ethics	✓			
4.3.9	Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality. In particular, ensuring that internal auditors identify and report any conflicts of interest and act appropriately	✓			
4.3.10	Ensure where necessary that outside expertise is called upon for specialist advice not available within the internal audit service	✓			
4.3.11	Promote discussion on current governance and professional issues and their implications	✓			

REF	ISSUE	YES	NO	N/A	COMMENT
PRINCIPLE 5					
To perform this role the Head of Internal Audit must be professionally qualified and suitably experienced.					
GOVERNANCE REQUIREMENTS					
5.1	Appoint a professionally qualified HIA whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation	✓			Qualified HIA in accordance with Statement and set in the posts job description and post responsibilities.
5.1.1	Ensure that the HIA has the skills, knowledge, experience and resources to perform effectively in his or her role	✓			Skills, knowledge and experience built upon through previous / current role(s). Ongoing monitoring. Separate resources budget / staffing independent of Strategic Resources division. Regular review for appropriateness.
CORE HIA RESPONSIBILITIES					
5.2	No specific requirements			✓	
PERSONAL SKILLS AND PROFESSIONAL STANDARDS					
5.3	Be a full member of an appropriate professional body and have an active programme for personal professional development.	✓			CIPFA qualified (1993). Continuing personal development undertaken since qualification in accountancy and audit environment within local government.
5.3.1	Adhere to professional internal auditing (and where appropriate accounting and auditing) standards	✓			
5.3.2	Demonstrate a range of skills including communicating, managing an influencing, as well as an understanding of IT and consultancy.	✓			
5.3.3	Have prior experience of working in internal audit	✓			Internal Audit environment since 1995.
5.3.4					

REF	ISSUE	YES	NO	N/A	COMMENT
5.3.5	Understand and have experience of strategic objective setting and management	✓			
5.3.6	Understand the internal audit and regulatory environment applicable to local government	✓			
5.3.7	Demonstrate a comprehensive understanding of governance, risk management and internal control	✓			
5.3.8	Undertake appropriate development or obtain relevant experience as appropriate in order to demonstrate an understanding of the full range of the authority's activities and processes	✓			

AUDIT COMMITTEE	AGENDA ITEM No. 6
25 JUNE 2012	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

INTERNAL AUDIT: ANNUAL AUDIT OPINION 2011 / 2012

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/A
Audit Committee is asked to	
<ol style="list-style-type: none"> 1. Receive, consider and endorse the attached Chief Internal Auditor's annual report for the year ended 31 March 2012; and 2. Note the report of Internal Audit's performance. 	

1. ORIGIN OF REPORT

This report provides details of the performance of Internal Audit during 2011 / 2012 and the areas of work undertaken, together with an opinion on the soundness of the control environment in place to minimise risk to the Council.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following "2.2.2 *To consider the Director of Strategic Resources annual audit report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements*".
- 2.2 The report provides an overall opinion on the soundness of the control environment in place to minimise risk to the Council. It is based on the findings of completed internal audits.

3. INTERNAL AUDIT OPINION

- 3.1 The Internal Audit Opinion is based on review work undertaken during the period April 2011 to March 2012 and is set out in the attached Appendix.
- 3.2 Summaries of work carried out by Internal Audit are documented within the opinion, and, overall it is considered that Internal Audit can place **REASONABLE ASSURANCE** on the controls environment. As a result an unqualified opinion is provided. Where systems have fallen below expected standards, details of these have

been identified within the report as well as through out the year to audit committee. Furthermore, ongoing internal performance indicators are monitored and their level of achievement, or otherwise, are included for information purposes.

4. **CONSULTATION**

Summary committee reports are produced and discussed periodically through Audit Committee for information and challenge. All audit reports are issued on a monthly basis to the appropriate Head(s) of Service for action, Executive Directors, Chief Executive, Leader of the Council and the Chair of Audit Committee in accordance with the agreed Audit Charter.

5. **ANTICIPATED OUTCOMES**

That the Audit Committee is informed of the Internal Audit Opinion and the work carried out by Internal Audit to support this.

6. **REASONS FOR RECOMMENDATIONS**

In accordance with the Accounts and Audit Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government 2006, this report summarises the work of the Internal Audit section and its outcomes in their review of internal control for the last financial year. This should be incorporated with the results of other reviews to produce the required Annual Governance Statement, which should be signed by the Chief Executive and Leader of the Council and published with the annual Statement of Accounts.

7. **ALTERNATIVE OPTIONS CONSIDERED**

No other options appropriate.

8. **IMPLICATIONS**

None.

9. **BACKGROUND DOCUMENTS**

(Used to prepare this report in accordance with the Local Government (Access to Information) Act 1985)

Internal Audit Plan 2011 / 2012

Internal Audit reports

Accounts and Audit Regulations 2011

CIPFA Code of Practice for Internal Audit in Local Government 2006

10. **APPENDICES**

Appendix 1 – Annual Audit Opinion 2011 / 2012

APPENDIX 1



**HEAD OF INTERNAL AUDIT
ANNUAL AUDIT OPINION
2011 / 2012**

ANNUAL REPORT

1. Introduction
2. The Authority for Internal Audit
3. The Scope of Internal Audit
4. Review of Internal Control
5. Basis For Head of Internal Audit Opinion
6. Internal Audit Performance 2011 / 2012

APPENDICES

- A Assurance Levels and Recommendations 2011 / 2012
- B Audit Reports Issued: Opinion of Limited Assurance or No Assurance
- C Performance Indicators 2011 / 2012

1. INTRODUCTION

1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit Committee and the Director of Strategic Resources, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating the effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic efficient and effective use of resources. Internal Audit is part of the Strategic Resources Directorate. This report is the culmination of the work during the course of the year and seeks to provide an opinion on the adequacy of the control environment and report the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year.

1.2 The purpose of this report is to meet the Head of Internal Audit (HoIA) annual reporting requirements set out in the CIPFA¹ Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at Paragraph 10.4 that the report should:

- Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Summarise the audit work undertaken to formulate that opinion, including reliance placed on work by other assurance bodies;
- Draw attention to any issues the Head of Internal Audit (or equivalent) judges particularly relevant to the preparation of the Annual Governance Statement;
- Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
- Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

1.3 The Code of Practice also states at Paragraph 10.4.1 that:

“The Head of Internal Audit should provide a written report to those charged with governance timed to support the Annual Governance Statement”.

Therefore, in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Authority in meeting the requirement of Regulation 4 of the Accounts and Audit Regulations 2011.

¹ CIPFA – Chartered Institute of Public Finance and Accountancy

2. **THE AUTHORITY FOR INTERNAL AUDIT**

2.1 The requirement for Internal Audit is driven from a number of items of legislation, namely:

- Local Government Act 1972 Section 151; and
- Accounts and Audit Regulations 2011.

2.2 **Local Government Act 1972 Section 151**

“Every Local Authority shall make arrangements for the proper administration of its financial affairs and shall secure that one of its officers has responsibility for the administration of those affairs”

The Council’s Constitution formally nominates the Executive Director of Strategic Resources as the authority’s Section 151 Officer who will rely on the work of the Internal Audit Service for assurance that the authority’s financial systems are operating satisfactorily.

2.3 **Accounts and Audit Regulations 2011 Section 4 – Responsibility for Financial Management**

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

“The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control and shall include an Annual Governance Statement, prepared in accordance with proper practices with (a) any statement of accounts it is obliged to prepare in accordance with regulation 7, or any accounting statement it is obliged to prepare in accordance with regulation 12” .

2.4 **Accounts and Audit Regulations 2011 Section 6 – Internal Audit**

“The relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Any officer or member of the relevant body must, if the body requires (a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and (b) supply the body with such information and explanation as that body considers necessary for that purpose.

A large relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit. The findings of the review referred must be considered, as part of the consideration of the system of internal control referred to in regulation 4, by the committee or body referred to in that paragraph.

2.5 This is supported by the Council’s Financial Regulations, which reflects Internal Audit’s statutory authority to review and investigate all areas of the Council’s activities in order to ensure that the Council’s interests are protected. The Terms of Reference for the Audit Committee adequately meets the requirements of the Accounts and Audit Regulations in relation to the Annual Governance Statement. The review of Internal Audit referred to in paragraph 2.3 has been conducted and included within this report.

3. **THE SCOPE OF INTERNAL AUDIT**

3.1 *“Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”.*

(Definition of Internal Audit: CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006).

3.2 The **control environment** comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- Establishing and monitoring the achievement of the organisations objectives;
- The facilitation of policy and decision making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage the risk in a way appropriate to their authority and duties;
- Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- The financial management of the organisation and the reporting of financial management; and
- The performance management of the organisation and the reporting of performance management.

(Source: Statement of Internal Control in Local Government – Meeting the Requirement of the Accounts and Audit Regulations 2003 (CIPFA 2004)

3.3 **Controls** ensure that the processing procedures operate in an orderly and efficient manner, statutory and management requirements are complied with, assets are safeguarded, completeness and accuracy of records are secured and identifies and corrects when something has gone wrong.

(Definition of Controls: CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006).

3.4 In order to ensure the ongoing effectiveness and accountability of the service, an annual report is provided to Members, which details Internal Audit activity in the previous financial year.

4. REVIEW OF INTERNAL CONTROL

4.1 Opinion 2011 / 2012

The Code of Practice for Internal Audit in Local Government in the UK 2006 states that the HoIA must provide a written report to those charged with governance timed to support the Statement on Internal Control (now the Annual Governance Statement). This report must include an opinion on the overall adequacy and effectiveness of the organisation's control environment, presenting a summary of how that opinion is derived including reliance placed on work by other assurance bodies.

The internal control environment is fundamentally well established and continuing to operate well in practice even though 2011 / 2012 has been a challenging year for the organisation. There have been instances where the control environment was not strong enough or complied with sufficiently to prevent significant risks to the organisation. The area of most concern in the year has been in relation to payment processes and Internal Audit has been working closely with management in both these areas to improve key controls. Audit reports relating to these issues have been reported to Audit Committee during the year.

The overall conclusion is that Peterborough City Council has a **sound governance framework** from which those charged with Governance can gain reasonable assurance. Internal Audit has made a number of recommendations to further improve the systems of control and the organisation is actively working to make improvements in these areas. Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that, in the main, these controls continue to work well in practice although there are some areas where improvements are necessary.

However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

The Assurance - Internal Control



Our overall opinion is that internal controls within financial systems operating throughout the year are **sound**, other than those reviews assigned "Limited or No Assurance". As a result, it is concluded that **reasonable assurance** can be provided.

4.2 How Internal Control is Reviewed

Internal Audit continues to embrace the risk assessment approach to audit. During the course of the year the risks of the Authority has been continually challenged and used to form the basis of Internal Audit's operational plan for the coming year. The review process draws on key indicators of risks to the organisation and attempts to ensure that suitable audit time and resources are devoted to review the more significant areas. The audit plan contains a contingency provision that is utilised during the year in response to unforeseen work demands that arise. This risk based approach to audit planning results in a detailed range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:

- Governance reviews, including a review of key assurance frameworks and the Annual Governance Statement;
- Risk based reviews of fundamental financial systems that could have a material impact on the accounts, and other departmental systems;
- Fraud strategy work, responsive fraud and irregularity investigations;
- Contract, procurement, performance and project audits; and
- Audits of Council establishments.

There are three elements to each internal audit review.

- Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to establish an opinion on the control environment.
- However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to form a view on the extent to which the control environment, designed to mitigate risk, is being complied with.
- Finally, where there are significant control environment weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

To improve consistency in audit reporting, the following definitions of audit assurance are used for all systems and governance audits completed.

AUDIT ASSURANCE	
Assurance	Definitions
Full	The system is designed to meet objectives/controls are consistently applied that protect the Authority from foreseeable risks.
Significant	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.
Limited	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
No	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.

RECOMMENDATIONS MADE TO IMPROVE ASSURANCE LEVELS		
Status	Definitions	Implementation
Critical	Extreme control weakness that jeopardises the complete operation of the service.	Immediately
High	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	As a matter of priority
Medium	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	At the first opportunity
Low	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	As soon as reasonably practical

5. BASIS OF HEAD OF INTERNAL ANNUAL OPINION

5.1 Background

The opinion is derived from work carried out by Internal Audit during the year, as part of the agreed Internal Audit Plan for 2011 / 2012. The Internal Audit Plan was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control. We have conducted our audits both in accordance with the mandatory standards and good practice within the Code of Practice and additionally from our own internal quality assurance systems. Our opinion is limited to the work carried out by Internal Audit based upon the strategic Internal Audit Plan. Where possible we have considered the work of other assurance providers, such as External Audit.

5.2 The audit work that was completed for the year to 31 March 2012 is listed in **Appendix A**, which lists all the audits and their results in terms of the audit assurance levels provided and the number of recommendations made. The level of assurance achieved on the systems audited is detailed below. This shows that **53%** of the systems audited achieved an assurance level of significant or higher, compared to **68%** last year (and **52%** in 2009 / 2010).

Assurance Levels	AUDIT ASSURANCE			
	Issued		%	
	2011 / 2012	2010 / 2011	2011 / 2012	2010 / 2011
Full	0	2	0	4
Significant	9	32	53	64
Limited	8	13	47	26
No	0	3	0	6
	17	50	100	100

	RECOMMENDATIONS MADE	
	Numbers	
	2011 / 2012	2010 / 2011
Low	53	87
Medium	88	157
High	41	78
Critical	0	5
	182	327

5.3 A complete list of the audits and assurance ratings can be found in **Appendix A**. In addition to the audits detailed in the above table, further audit work was carried out, including 23 follow-ups and 13 memos giving advice and comment.

5.4 Corporate Governance and the Annual Governance Statement

In June 2007 CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), published Delivering Good Governance in Local Government: Framework. The Department for Communities and Local Government has determined that this guidance represents proper practice. Consequently, the Audit Committee should seek assurance that this guidance has been followed to compile the Annual Governance Statement (AGS). To help the Committee gain that assurance and to give some independent assurance that the AGS is free from material misstatement Internal Audit undertakes reviews of the key corporate governance systems.

Using the proper practice guidance issued by CIPFA as the basis, Internal Audit reviews the corporate governance evidence framework to confirm that there is evidence to indicate that policies, procedures and systems are in place for corporate governance to be effective within the Council. The Council

has demonstrated a firm foundation for this and Internal Audit remains of the opinion that the policies, procedures and systems are generally in place for good corporate governance.

The AGS contains a number of assurances and opinions on the actual operation of the internal controls from Directors / Heads of Service and Internal Audit has placed reliance on these assurances in arriving at the opinion that policies, procedures and systems are in place for corporate governance to be effective within the Council. Directorate assurances on the adoption of, and compliance with, the corporate governance framework and their system of internal control would significantly enhance the assurance framework and provide further evidence to the Committee when challenging the AGS. In order to provide the Head of Audit with evidence, and the Committee with some additional independent assurance, that corporate governance controls are working in practice Internal Audit reviews the adequacy of central controls in key areas. Although Internal Audit has made a number of recommendations to further improve the systems of control the overall conclusion is that Peterborough City Council has a sound Governance Framework that those charged with Governance can gain assurance from, although there are some areas where improvements are urgently needed.

5.5 Risk Management

Risk management arrangements have been reviewed during 2011/ 2012. Whilst there is a risk framework and processes in place, and pockets of good practice, it is clear that there has been a loss of impetus over recent years. Responsibility for this area has recently changed within the Operations Directorate, and a review of the Risk Management Strategy and Policy is planned. Internal Audit will appraise plans and monitor progress as part of the 2012 / 2013 plan of audit work.

5.6 Key Financial Systems

An annual review of the authority's key financial systems is undertaken to provide evidence supporting the internal audit opinion on the adequacy of the organisation's control environment. As in previous years, the key financial systems subject to audit were agreed in advance with the authority's external auditors – PricewaterhouseCoopers - as they review this work and use this as a key source of assurance on the organisation. PricewaterhouseCoopers have reviewed our work on key financial systems and confirm that it meets their requirements in terms of timeliness, quality and supporting evidence.

Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that, in the main, these controls continue to work well in practice although there are some areas, where improvements are necessary. In all cases an action plan has been agreed with the appropriate officers that, if implemented, will give substantial control environment assurance.

5.7 Other Reviews

Appendix A provides a summary of other reports issued during the year. Areas of concern that have been raised during the year where limited assurance has been given relate to 8 audits. These cover the following areas:

- Payroll (Travel and Subsistence)
- Payroll (Travel and Subsistence follow up)
- Hampton Vale CC Processes
- S106 Developer Contributions
- Elective Home Education
- Registrar Office – Income Procedures
- Delivering Through Localities – Invoice Procedures
- Orton Wistow FMSIS

Throughout the year Internal Audit provide executive summaries of audit reports where assurance ratings are either No or Limited Assurance. Reports that fall into this category for the final quarter of 2011/ 2012 are detailed within **Appendix B** of this report. At the year end a number of reviews were in various stages of completion. Audit opinions relating to these will be reported during 2012 / 2013 as part of the agreed performance reporting timetable to the Audit committee.

5.8 **External Activities**

Internal Audit have undertaken reviews on behalf of Vivacity Leisure Trust. This has generated additional funds for the Council through the Service Level Agreement. The nature of the works undertaken are confidential between us and the client and are not included within the details below. The work has been well received by the client, and the agreement has been extended for another year.

5.9 **Allegations of Fraud and Irregularity**

The team has continued to work with the Governance Team on cases of suspected fraud where appropriate. There is a separate report to this committee covering fraud.

5.10 **Significant Control Weaknesses**

Internal Audit is required to form an opinion on the quality of the internal control environment which includes consideration of any significant risk or governance issues and control failures which arise.

No critical recommendations were made in audit reports (compared to 5 in the previous year) which required immediate attention.

5.11 **Key Issues**

There is a range of key issues that are likely to be of significance for 2012 / 2013 and beyond, which Internal Audit needs to be aware of. These include:

- the current economic climate which adds to the financial pressures already on the council. This is impacting on income and expenditure as well as the public's needs for council services;
- the impact of new legislation, for example the Localism Act, which devolves greater powers to local communities;
- information governance and the need to ensure that there are robust arrangements in place for the security of data;
- the return of Adult Social Care, and the need to ensure that policies and processes meet the Council's governance framework; and,
- the need to reassess the appropriateness and effectiveness of the Risk Management Strategy.

6. INTERNAL AUDIT PERFORMANCE 2011 / 2012

6.1 Achievements During 2011 / 2012

The major achievements of Internal Audit for 2011 / 2012 are as follows:

- 100% of high and critical audit recommendations made in 2011 / 2012 have been accepted
- Customer feedback remains very positive with continued high levels of satisfaction demonstrated from our customer questionnaires in excess of our target;
- Annual reports, audit plans and regular progress reports presented to Members via the Audit Committee;
- The Annual Governance Statement was produced in accordance with agreed timescales and reviewed by External Audit without any adverse comments;
- Internal Audit services have been provided to external customers and positive comments received regarding the reviews undertaken;
- Successful conclusion of a number of irregularity and unplanned investigations;
- The continued shared service arrangement with Cambridge City Council which was look to deliver efficiency savings, improved performance and ultimately look to expand the business.

6.2 Ensuring Quality

Internal Audit is committed to delivering a quality product to the highest professional standards that adds value to our customers. We actively monitor our performance in a number of areas and encourage feedback from customers. All our work is undertaken in accordance with our quality management system. A customer satisfaction questionnaire is issued with every audit report. The questionnaires ask for the auditees opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The results are based on the percentage of those assessments that are 3 (satisfactory) or above. The results of the questionnaires are reported to the Audit Management Team and used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff. Analysis of the returned surveys highlights consistently high 4 and 5 scoring for the 'overall conclusion of the audit undertaken' which demonstrates value is being gained by the organisation.

These results are again extremely encouraging, particularly as the nature and complexity of work undertaken by Internal Audit continues to change. The Council is continually developing more robust systems for identifying and evaluating the significant risks to their objectives. Internal Audit is expected to give a number of assurances on the internal control environment to both internal and external clients not just on financial but operational, service and reputational risks. The staffing skills and resources within Internal Audit are continually adapting to these changes.

Internal Audit is a professional discipline and as such it is desirable that all staff should have an appropriate qualification or be undertaking training to gain such a professional qualification. All of our staff are either professionally qualified or have qualifications appropriate to the roles undertaken. This professional training approach is being actively enhanced by both in-house training and individual officers undertaking Continuing Professional Development in their own time. This investment in staff will continue to result in even better audit performance in future years, ensuring that the Section will be able to react positively to the changing demands being placed on the audit profession.

6.3 Continuing Professional Development

In a rapidly changing environment it is important that all Internal Auditors are kept abreast of the latest audit and accounting methodologies, changes in legislation and best practice as well as changes to the public sector arena so they have the necessary skills and knowledge to perform their role to a high standard. This is done via Continuing Professional Development (CPD) which the Section continues to support and promote. During the period a number of in-house training courses have been provided covering key developments in the profession and within the sector. In addition, external CPD events such as CIPFA seminars and IIA events continue to be well attended by Internal Audit staff. The Code of Practice for Internal Audit in local Government in the UK 2006 states that Internal Audit staff have a personal responsibility to undertake a programme of CPD to maintain and develop their competence. At Peterborough, evidence of professional training and development activities must be retained and individual / group training needs identified. Much of this CPD is done in officers own time showing a personal commitment to continual improvement of the Team.

6.4 Performance Indicators

All our performance indicators are documented within **Appendix C**. Key areas to note are:

Better than target

- Feedback for each audit is collected via Post Audit Questionnaires (PAQ). Our average score was 4.43 against a target of 3.75 (the highest score being 5), reflecting the high opinion our audit clients have of auditor conduct and the quality and usefulness of reports. This score is consistent with 2010 / 2011 results.
- An average of 5.3 days training has been provided to each auditor, compared to a target of not less than 5 days. This includes 'on the job' training, training for professional qualifications, audit technical update seminars and internal training such as the Leadership Programme. In addition, Chief Internal Auditors from each local authority in Cambridgeshire staged an 'Away Day' for all auditors in November. This was to share ideas and best practice across the county. Similarly a group training session was arranged with Cambridge City Council as a result of the shared service arrangement to look at working processes.
- 100% of critical and high recommendations made were agreed, reflecting the high quality of audit reports.
- An average of 4.7 days sickness per person was lost during the year, compared to a target of 5 days, despite a period of long term sickness. Excluding this gives an average for the team of 2 days per person. There has been an improving trend in sickness levels over the past two years (the average was 6 last year and 22 in the previous year) Due to the small size of the team, any sickness has a big impact on the ability to deliver the plan.

On Target

- Internal Audit continues to deliver reviews professionally. No adverse feedback during the year relating to complaints.

Areas for improvement

- 85% of critical and high recommendations were implemented (target 100%). This is slightly lower than 91% last year. The lack of 100% implementation is primarily due to differing priorities of staff during a time of change, especially where service delivery methods are being altered, or where staff restructuring has occurred.

APPENDIX A

ASSURANCE LEVELS AND RECOMMENDATIONS 2011 / 2012

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Total	Commentary	
		Full	Significant	Limited	No	Low	Medium	High	Critical				
SYSTEMS ACTIVITY FINANCIAL SYSTEMS: Planned Reviews 2011/12		To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed over a three year cycle; others will be reviewed periodically dependent on risk.											
Accounts Payable	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued
Accounts Receivable	Strategic Res												In progress
Housing and Council Tax Benefits	Strategic Res												In progress
Council Tax	Strategic Res		x			5	5	1	0			11	Draft issued
Business Rates	Strategic Res		X			4	2	1	0			7	Draft issued
Payroll	Strategic Res												In progress
Payroll – Travel and Subsistence	Strategic Res			x		0	3	3	0			6	Draft Issued
SYSTEMS ACTIVITY FINANCIAL SYSTEMS: Unplanned reviews 2011/12													
Business Support – Imprest Accounts	Strategic Res		x			6	2	4	0			12	Final issued
Register Office – income procedures	Strategic Res			x		0	8	4	0			12	Draft issued
Routewise Invoicing Procedures	Operations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary	
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total		
SYSTEMS ACTIVITY												
FINANCIAL SYSTEMS: Unplanned reviews 2011/12												
Orton Wistow School credit card procedures	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo Issued
Accounts Payable – management of the supplier database	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Various memos issued
SYSTEMS ACTIVITY												
FINANCIAL SYSTEMS:- Rolled forward from 2010/11												
Council Tax	Strategic Res		x			2	1	1	0	4	4	Final issued
Business Rates	Strategic Res		x			2	3	1	0	6	6	Final issued
Payroll	Strategic Res		x			6	5	0	0	11	11	Final issued
Payroll – Travel/Subsistence	Strategic Res			x		0	0	4	0	4	4	Final issued
Delivering Through Localities – invoice procedures	Chi Services			x		0	4	1	0	5	5	Two memos issued
School Credit Card Procedures:	Chi Services											
<ul style="list-style-type: none"> Hampton Vale - combined with Financial Management Standards in Schools (FMSIS) follow up Schools Finance (Children's Services) 			x			1	5	6	0	12	12	Final issued
		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL					RECOMMENDATIONS MADE					Commentary	
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total			
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK: Planned Reviews 2011/12	Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement.												
Annual Governance Statement 2010/11	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Audit Committee:27 June 2011
Annual Audit Opinion 2010/11	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Audit Committee:27 June 2011
Annual Audit Plan 2011/12	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Audit Committee:26 March 2012
Internal Audit Effectiveness	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Audit Committee:27 June 2011
Anti Fraud Culture	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Liaison with Fraud team to identify control gaps highlighted by frauds I regular activity. Has resulted in a number of joint investigations which are reported separately.
National Fraud Initiative	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Coordinated through Investigations Team. Internal Audit reviewed outputs in relation to supplier payments. Completed.
Partnership Governance	Chief Execs												In progress
Information Governance	Chief Execs												Rolled forward to 2012 / 2013 – separate group to be set up to oversee
Project Governance	All												Rolled forward to 2012 / 2013
Risk Management	Operations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued to assist in progress / repositioning of risk strategy, and further work planned for 2012 / 2013.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Total	Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical			
STRATEGIC AND OPERATIONAL RISKS: Planned Reviews 2011/12												
Carbon Reduction Commitment	Operations		x			5	13	3	0	21		Final issued
Localism Bill	All											Rolled forward to 2012 / 2013 due to approval of Act through Parliament later in the year
Opportunity Peterborough / Peterborough Development Partnership	Chi Services											In progress
SERCO – partnership management	Strategic Res											Rolled forward to 2012 / 2013. Number of formal meetings already in place to establish current arrangements
Project Delivery – Manor Drive Initiative	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Chief Internal Auditor involvement in project review from the validation of bids leading up to the eventual SERCO partnership. Complete.
Section 106 Developer Contributions	Operations			x		2	8	2	0	12		Final issued
Elective Home Education	Chi Services			x		6	8	5	0	19		Final issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL					RECOMMENDATIONS MADE					Commentary	
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total			
STRATEGIC AND OPERATIONAL RISKS: Unplanned Reviews / Advice 2011/12	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.												
Marshfields School	Chi Services												At review stage
Tendering Procedures - selection and rotation of contractors	Strategic Res												In progress
Contract Standing Order Review	Chief Execs	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Contract regulations under review by Legal Services. On-going challenge role.
STRATEGIC AND OPERATIONAL RISKS: Rolled Forward from 2010 / 2011													
Bishop Creighton Governor Complaint	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued
Orton Wistow FMSIS	Chi Services			x		2	7	3	0	12	0	0	Final issued
Duke of Bedford FMSIS	Chi Services		x			3	5	1	0	9	0	0	Final issued
Other FMSIS follow-ups:	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Finals issued
<ul style="list-style-type: none"> • Winyates • St Augustine's • Woodston • Welbourne • Hampton College • The Beeches • Dogsthorpe Infants 													

AUDIT ACTIVITY	Department	ASSURANCE LEVEL					RECOMMENDATIONS MADE					Total	Commentary / Revised Audit Plan		
		Full	Significant	Limited	No	Low	Medium	High	Critical						
STRATEGIC AND OPERATIONAL RISKS: Follow-ups 2011/12	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.														
Agile Working (Benefits team)	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued	
Right to Work	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued	
Health and Safety	Operations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued	
Youth Offending Service	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued	
Future Jobs Fund	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued	
Purchasing Cards	Strategic Res													In progress	
Energy Billing	Strategic Res													In progress	
Schools - FMSiS	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Finals issued	
<ul style="list-style-type: none"> • Hampton Hargate • Southfields • Braybrook • Queens Drive Infants • Eye • Heritage • Thorpe • Marshfields • Dogsthorpe Juniors • Duke of Bedford • Welland 															

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Total	Commentary / Revised Audit Plan	
		Full	Significant	Limited	No	Low	Medium	High	Critical				
GRANT CLAIM CERTIFICATION													
Teachers Pensions (TPA)	Strategic Res / Chi Services												
• The Beeches			x			2	2	1	0	0	5	Final issued	
• Paston Ridings			x			1	2	0	0	0	3	Final issued	
• St John Fisher			x			1	3	0	0	0	4	Final issued	
• Ken Stimpson			x			1	1	0	0	0	2	Final issued	
• City College			x			4	1	0	0	0	5	Final issued	
Growth Area Fund GAF Grant 2010/11	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued. Monies spent in accordance with grant	
Growth Area Fund GAF Grant 2010/11 - Opportunity Peterborough	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued. Monies spent in accordance with grant	
Interreg - ZECOS Grant Claim	Operations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued. Monies spent in accordance with grant	
Economic Participation Programme	Chief Exec		x			0	0	0	0	0	0	Final issued	
EXTERNAL WORK													
Work resulting in income.													
Leisure Trust	SLA in place between Internal Audit and Vivacity (income generating)												
	Outcomes are commercially sensitive.												

APPENDIX B

AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE

NO ASSURANCE		Date To Audit Committee
	None	

LIMITED ASSURANCE		Date To Audit Committee
1.	Delivering through Localities – Invoice Procedures	7 November 2011
2.	Section 106: Developer Contributions	25 June 2012
3.	Payroll (Travel and Subsistence)	25 June 2012
4.	Payroll (Travel and Subsistence follow-up)	25 June 2012
5.	Hampton Vale Credit Card Processes	25 June 2012
6.	Elective Home Education	25 June 2012
7.	Register Office – Income Procedures	25 June 2012
8.	Orton Wistow FMSiS	25 June 2012

To ensure transparency of our activities, the Audit Committee is provided with a précis of Executive Summaries where the audit opinion is considered to be No or Limited Assurance. These are detailed below.

Audit Title	1. Delivering through Localities – Invoice Procedures Memo and Action Plan
Scope	The purpose of the Internal Audit review was to review the internal controls within the purchasing process as a result of the delay in payment of two invoices at the request of the Assistant Director, Education and Resources. This delay in payment to the supplier was as a result of the invoices remaining unprocessed due to a breakdown in procedures with regards to the Oracle system.
Findings	<ul style="list-style-type: none"> • Oracle procedures are not always followed with regards to receipting of goods and use of delivery notes resulting in timing issues; • A general housekeeping exercise regarding requisitions needs to be undertaken to ensure accurate information is recorded within the system; • There is a requirement to address any training needs to ensure a consistent approach across teams
Conclusions	The control environment has been assessed as having LIMITED Assurance.

Audit Title	2. Section 106 Developer Contributions
Scope	The purpose of the audit was to give assurance that the council is complying with legal requirements in its request for funding from developers and in how the money is spent on community projects.
Findings	<ul style="list-style-type: none"> • The provision of information on income received and outstanding debts is not provided efficiently, and there is uncertainty in the debt collection process, thus reducing the effectiveness of income collection. • There is a no process to ensure that monies are spent in accordance with S106 agreements, as required by statute. In the event of a legal challenge, a lack of evidence to demonstrate that S106 monies have been spent in accordance with the agreement; could result in a requirement to refund the monies. • There is a lack of written guidance available to staff detailing the criteria for spending S106 monies to ensure that legal requirements are met. • Procedural guidelines have not been updated since 2009.
Conclusions	There are processes and controls in place for determining contributions. However, there is a weakness in the procedures for collecting outstanding debts. More importantly, there is also a weakness in providing evidence to show how the money has been spent which could be an issue if the authority was challenged on this point.

<p>Audit Title</p>	<p>3. Payroll (Travel and Subsistence)</p>
<p>Scope</p>	<p>The purpose of the audit was to ensure that our Peterborough City Council procedures are robust. We looked at the accuracy/validity/completeness/timeliness of the payment of travel and subsistence expenses.</p>
<p>Findings</p>	<ul style="list-style-type: none"> • Travel and subsistence guidance notes had not been updated since 2006 • Staff do not always complete forms properly, or provide receipts, and managers continue to authorise such forms and Payroll to process them for payment. • There were some errors found in the payment of incorrect mileage rates.
<p>Conclusions</p>	<p>The review of the sample of travel and subsistence claims showed that employees are not always completing and submitting their claims in accordance with the council's Travel and Subsistence Guidance. Claims appear to have been authorised by managers who have not performed checks to ensure they have been completed accurately or in accordance with the policy. There are also instances whereby previous years' mileage rates have been paid to staff.</p>

Audit Title	4. Payroll (Travel and Subsistence follow-up)
Scope	A Travel and Subsistence audit report was issued in July 2011. There were 4 High graded recommendations and agreed actions. It is our normal practice to follow up final reports after six months of issue but a three monthly follow up was requested in this instance by Cllr. Seaton. This review has been undertaken in order to gain assurance that agreed actions in the report have been implemented satisfactorily.
Findings	<p>Corporate Compliance Employees continue to complete their claims incorrectly and that these claims are then authorised by managers who have not undertaken the required checks.</p> <p>Systems Administration Both the original audit and this follow-up revealed errors made by payroll staff when processing claims. Human error is to be expected in any system, but it is important that the controls already in place to mitigate against such risks are operated effectively.</p>
Conclusions	<p>Overall there has been little change in the payroll control framework between the original report in July 2011 and this follow-up carried out in November 2011.</p> <p>Corporate Compliance It was disappointing to note that, even following a reminder being published on Insite in July 2011, some employees continue to complete their claims incorrectly and that these claims are then authorised by managers who have not undertaken the required checks. It was evident from the testing that a key area for non-compliance with the Travel and Subsistence Policy is within Children's Services, and this will be raised by the Executive Director of Strategic Resources with the Corporate Management Team.</p> <p>Systems Administration Both the original audit and this follow-up revealed errors made by payroll staff when processing claims. Human error is to be expected in any system, but it is important that the controls already in place to mitigate against such risks are operated effectively. The forthcoming Payroll 2011/12 audit will review the operation of this control and report the outcome in due course.</p> <p>New developments since the inception of the Peterborough Serco Strategic Partnership will ensure that a more robust stance on non-compliance is taken. This and implementation of the recommendations within this report will improve the control framework to a satisfactory standard. New developments since the inception of the Peterborough Serco Strategic Partnership will ensure that a more robust stance on non-compliance is taken. This and implementation of the recommendations within this report will improve the control framework to a satisfactory standard.</p>

Audit Title	5. Hampton Vale Credit Card Processes
Scope	The follow up was conducted to assess progress made against recommendations from the previous FMSiS review, and to evaluate credit card procedures.
Findings	<ul style="list-style-type: none"> • Previous recommendations not yet fully implemented include: profiling of budgets, the need to delegate authority for budget approval; completion of an inventory and completion of a contract register. • Issues relating to the use of procurement cards include: security of the cards, the lack of a procedural document and the need for segregation of duties and approvals of expenditure under £50.
Conclusions	As a result of the major staffing changes at the school over the past year there had been little or no progress made against the original recommendations made. It is hoped that a period of stability will allow the school to implement the new or restated recommendations in order to strengthen its controls over the financial environment. This is particularly important in relation to the GPC since this is relatively new to the school, and there are significant weaknesses in current processes.
Audit Title	6. Elective Home Education
Scope	The purpose of the audit was to ensure the EHE service is compliant with government guidance and in particular covers their responsibilities for safeguarding home educated children and that this is reflected in PCC's EHE Policy.
Findings	<ul style="list-style-type: none"> • Visits to home educated children were not conducted in a timely manner • A new policy has been written, but requires further work to make it as robust as possible. • The Local Authority Guidelines suggest that deadlines should be set for each part of the process, but the PCC policy does not include deadlines for all aspects. • Staff should be suitably trained, but a lack of training logs meant that we could not give assurance in this area.
Conclusions	This is a difficult area, as there is no statutory provision which gives council officers the right to meet and monitor those children whose parents have decided to educate them at home. The EHE service for PCC has been through a period of uncertainty. Now that new processes are in place and a draft policy has been written, the service is improving and will continue to do so if the changes made become embedded in EHE process.

Audit Title	7. Register Office – Income Procedures
Scope	<ul style="list-style-type: none"> • To identify the current income procedures • To test compliance with these procedures and, if necessary, recommend ways to make the collection and banking system more robust
Findings	<p>Non-compliance with Financial Regulations, such as:</p> <ul style="list-style-type: none"> • Cashing up is not completed every day • Non-council receipt books are used • Not all income is accounted for on day of receipt • There is no evidence of transfer of monies from one person to another
Conclusions	The non-compliance with Financial Regulations was unintentional and results from the historic way in which the General Register Office used to instruct register offices to account for their activities. However, as a result of this audit review, it has been made clear that register offices are now accountable to local authorities. As such, the income procedures can be streamlined to comply with the Council's requirements and simplify the current practices.

Audit Title	8. Orton Wistow FMSiS
Scope	Orton Wistow Primary School previously met the requirements of the Financial Management Standard in Schools during 2007-08. The purpose of the reassessment was to obtain reasonable assurance that adequate controls and procedures are in place to ensure the school's compliance with the standard has been maintained and to make observations and recommendations for improvement.
Findings	<ul style="list-style-type: none"> • Actions have been taken outside of the documented scheme of delegation in the area of budget approval and purchasing. • Version control for the 2010-13 budget submission was poor.
Conclusions	The Office Manager worked hard to complete the self-assessment and provided plenty of supporting documents for review prior to and during the External Assessment visit. Implementation of the recommendations in this report will strengthen financial controls at the school.

APPENDIX C**PERFORMANCE INDICATORS 2011 / 2012**

Performance Indicator	Annual Target	Actual	Comments
Customers Opinion			
Average rating Post Audit Questionnaire rating	> 3.75	4.4	A series of questions are asked (refer to 6.2). lowest overall score was 4.00, highest 4.86.
Does external audit place reliance on the work of Internal Audit?	Yes	Yes	
Number of complaints received in relation to the service	Nil	Nil	
Process Related			
Does IA comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006?	Yes	Yes	
%age of critical / high priority recommendations agreed	97 %	100%	
%age of critical / high priority recommendations implemented	100 %	85%	This area will be further explored. Some implementations were not possible due to structural changes. However, due to this being identified in previous years, has resulted in increased follow up work.
Organisational Development			
Number of audit training days per auditor	> 5 days	5.3	
Working days lost to sickness per FTE	5 days	4.7	This "target" is for monitoring purposes only. It is not seen as a benchmarking for Peterborough.
Proportion of staff qualified (CIPFA / IIA)	25%	49%	

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 7
25 JUNE 2012	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

DRAFT ANNUAL GOVERNANCE STATEMENT 2011 / 2012

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/a
Committee is asked to:	
<ol style="list-style-type: none"> 1. Note the arrangements for compiling, reporting on and signing the Annual Governance Statement; 2. Review and comment on the Annual Governance Statement (Appendix 4) including any areas which should be amended; and 3. Subject to changes identified above, agree and approve the draft statement for inclusion in the audited statement of accounts, published by 30 September 2012. 	

1. ORIGIN OF REPORT

This report is submitted as part of the annual closure of accounts process and is included in the Audit Committee work programme for 2012 / 2013.

2. PURPOSE AND REASON FOR REPORT

The production of the Annual Governance Statement forms part of the annual closure of accounts process. It is not a financial exercise, but represents a corporate overview of the processes and procedures adopted by Peterborough to manage its affairs.

The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following "2.2.16 *To oversee the production of the authority's Annual Governance Statement and to recommend its adoption*".

3. BACKGROUND

3.1 The preparation of an Annual Governance Statement is necessary to meet the statutory requirements as set out in Regulation 4(3) of the Accounts and Audit (England) Regulations 2011. The Annual Governance Statement covers the Council's governance arrangements for the 2011 / 2012 reporting year.

3.2 Historically, the Annual Governance Statement has been published as *part of* the annual Statement of Accounts; however one of the key changes to Regulation 4 (4) in the recently

revised Accounts and Audit Regulations 2011 is that the Annual Governance Statement should *accompany* the published accounts. This is to '*make clear that the Annual Governance Statement is not part of the statement on which the auditor's opinion is given.*' The regulations state that it is up to the organisation concerned to decide whether the Annual Governance Statement should be included as part of the Statement of Accounts or be issued as a separate document. As in previous years, the Council has agreed to continue to publish the Annual Governance Statement as part of the Statement of Accounts.

- 3.3 This report includes the draft Annual Governance Statement for Audit Committee to review, challenge and advise the Leader and Chief Executive upon accordingly. The report also identifies progress with the 2010 / 2011 Annual Governance Statement and presents the necessary recommendations for Member approval that will allow the Council as a whole to ensure that the Annual Governance Statement is produced in accordance with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and therefore meet External Audit requirements.

4. SCOPE OF THE ANNUAL GOVERNANCE STATEMENT

- 4.1 Internal control and risk management are recognised as important elements of good corporate governance. The scope of governance, as covered in the Annual Governance Statement, spans the whole range of the Council's activities and includes those designed to ensure that:

- The Council's policies are implemented in practice;
- High quality services are delivered efficiently and effectively;
- The Council's values and ethical standards are met;
- Laws and regulations are complied with;
- Required processes are adhered to;
- Its financial statements and published information are accurate and reliable; and
- Human, financial and other resources are managed efficiently and effectively.

5. ARRANGEMENTS FOR COMPILING THE ANNUAL GOVERNANCE STATEMENT

- 5.1 CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), have produced a framework for delivering good governance in local government and the Council's Annual Governance Statement for 2011 / 2012 has been drafted in accordance with this framework to ensure the requirements of the regulations referred to above are met. Since 2003 / 2004, responsibility for carrying out these processes has rested with Internal Audit. In December 2010, CIPFA issued a statement on "*The Role of the Head of Internal Audit in Local Government*", which states that the Head of Internal Audit should "*set out the framework of assurance that supports the Annual Governance Statement and identify Internal Audit's role within it*", **but** "*should not be responsible for preparing the report*". Due to capacity issues, the decision was made for this to remain with the Chief Internal Auditor.
- 5.2 The assurance gathering process followed to support the Annual Governance Statement has is set out in Appendix 1.

6 SUPPORTING EVIDENCE

- 6.1 As part of this process, evidence has been compiled to confirm the governance arrangements in operation across the Council for the period concerned. This sets out how the City Council demonstrates compliance with the principles of good governance and highlights where action is needed to address any weaknesses in the Council's governance arrangements.

6.2 Internal Audit

There are two separate reports on the Audit Committee agenda which are the Annual Head of Internal Audit Opinion 2011 / 2012 together with the Review of Effectiveness of Internal Audit. The key issues are:

- Regular Internal Audit progress reports are included as part of the Committees' Work Programme and any significant control and governance issues or material to the overall control environment of the Council are highlighted;
- The Annual Audit Opinion highlighted key gaps which needed to be addressed;
- Despite some weaknesses, there remains a sound internal control environment. Reasonable assurance is provided and an unqualified opinion put in place;
- There is compliance with the CIPFA publications on the Code of Practice and the Statement on the Role of the Head of Internal Audit; and
- Overall, positive assurance can be provided that the Council has an effective Internal Audit service.

6.3 External Audit – PricewaterhouseCoopers

Throughout the year, PwC have been commissioned to undertake various reviews which have been circulated and discussed / approved at Audit Committee. PwC provides an Annual Audit Letter giving an overall evaluation of the Council. The content of the letter was reported to Audit Committee (6 February 2012) and Cabinet (10 February 2012) and overall is positive and states that the Council is performing well. Improvements have been made in a number of areas and further areas of change / improvement identified.

6.4 Executive Directors: Internal Control and Governance Self Assessment

Each Directorate were asked to complete an Internal Control and Governance Self-Assessment (Appendix 2) and then sign a supporting Statement (Appendix 3) having reviewed its key control checklists to come to an opinion on the governance arrangements and internal control environment within their service. The areas covered within the assessment were:

- Management Arrangements;
- Health and Safety;
- Business Continuity and Emergency Resilience;
- Equality and Diversity;
- Financial Management;
- Procurement Arrangements;
- Risk Management (including Project Management);
- Performance Management and Data Quality;
- Information Governance;
- Management of People;
- Governance Arrangements, Laws, Regulations, Policies and Procedures;
- Anti-Fraud and Corruption;
- Partnership Governance; and
- Communications and Customer Services.

Sample testing was undertaken to ensure the robustness of the data supplied. While no adverse comments were received in relation to the controls in place, a number of areas have been identified as requiring attention and these have been reflected in the Action Plan within the Annual Governance Statement.

6.5 Performance Management and Data Quality

As well as the testing identified in 6.4 above, regular reporting of performance is in evidence across the Council. Monthly reports range from financial to non-financial data;

covering budgets, performance levels, service delivery, programmes and projects. Regular discussions are held at Corporate Management Team; scrutiny panels and boards and areas of concern identified are addressed to reduce or prevent any deterioration in service.

6.6 Risk Management

Risk management encompasses a number of areas such as projects, performance and partnerships. In addition, there is a corporate risk register which incorporates significant issues which could have a major impact on the strategic delivery of the Council's objectives. While these operate reasonably in isolation, there is a need to further refresh this activity and this is also reflected in the Action Plan within the Annual Governance Statement.

6.7 Corporate Governance

Regular updates on governance arrangements are reported through Corporate Management Team, Cabinet, Scrutiny Commissions, Standards, Audit Committee and ultimately to Full Council. This covers all aspects of governance – from constitutional changes, operational procedures, standards issues and audit and fraud related matters. Significant governance issues established in the Annual Governance Statement are reported to Audit Committee, together with the progress made to address them.

Adult Social Care returned to the Council in March 2012. In essence they will adopt Peterborough City Council processes, procedures and governance arrangements; however during the interim period there will be a number of areas which may fall short of required standards. This is also reflected in the overarching Action Plan.

7 CONSULTATION

7.1 One of the key messages coming out of the CIPFA / SOLACE guidance is that good governance relates to the whole organisation and there should be corporate ownership of the Annual Governance Statement and governance arrangements. Following drafting, the Annual Governance Statement (Appendix 4) has been issued to:

- Corporate Management Team; and
- PricewaterhouseCoopers.

8. ANTICIPATED OUTCOMES

The draft Annual Governance Statement is being presented to the Members of this Committee for review and advise the Leader and Chief Executive upon, prior to it being signed off by the Leader and the Chief Executive.

9. REASONS FOR RECOMMENDATIONS

The draft Annual Governance Statement sets out the framework for the Council and identifies some issues where action is planned to improve the level of governance.

10. IMPLICATIONS

This report contains no specific financial implications. The agreement of the Annual Governance Statement does not have any direct financial implications, however, in order to maintain financial control and address risks as identified within the Statement, Directorates may need to allocate resources from within their existing budgets.

11. BACKGROUND DOCUMENTS:

Used to prepare this report in accordance with the Local Government (Access to Information) Act 1985

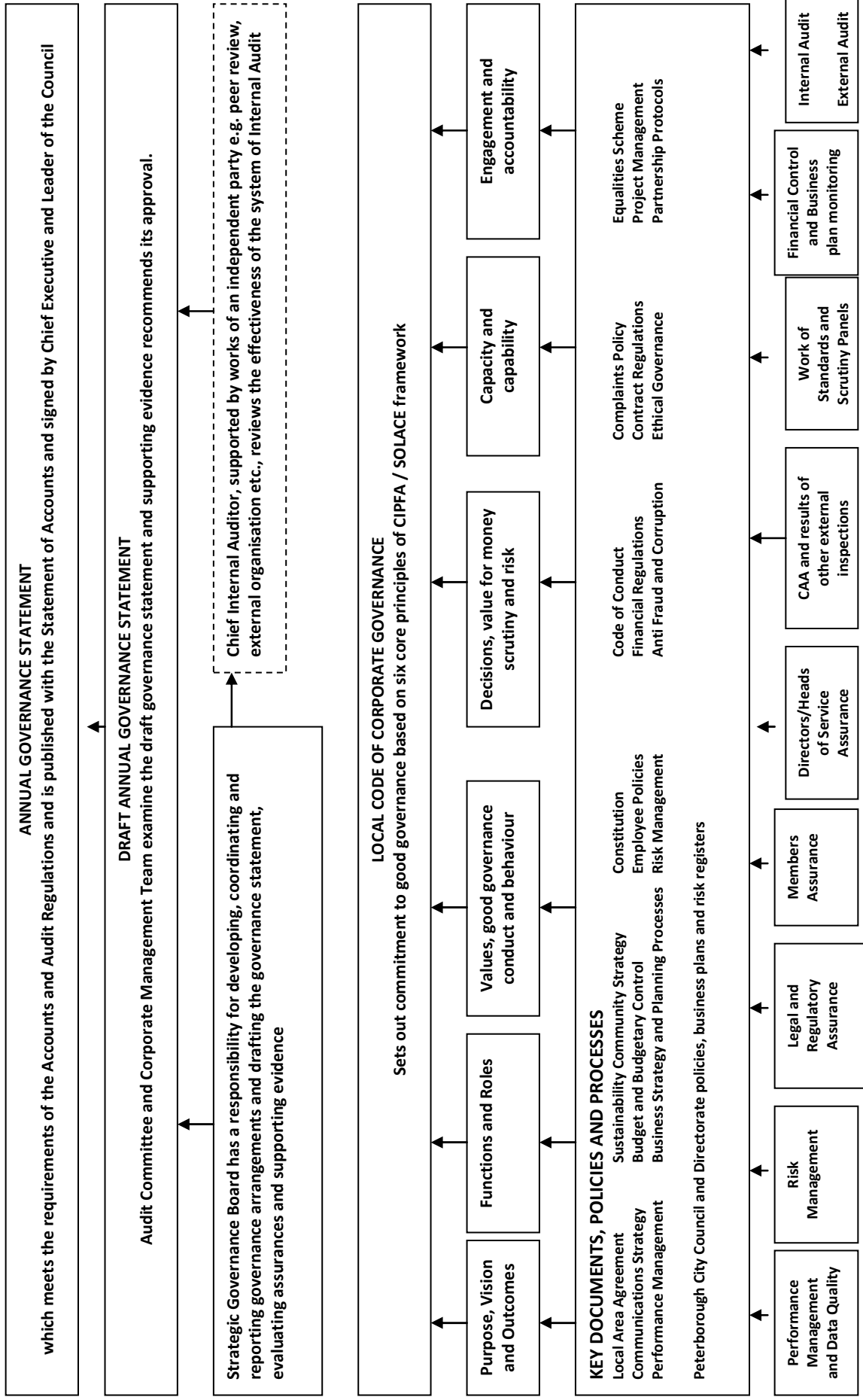
- Delivering Good Governance in Local Government – The Framework and Guidance Note for English Authorities – CIPFA / SOLACE.
- The CIPFA Finance Advisory Network – A Rough Guide for Practitioners 2007 / 2008.
- Application Note to Delivering Good Governance in Local Government (A Framework) – CIPFA / SOLACE – March 2010
- Accounts and Audit (England) Regulations 2011

12. APPENDICES

- Appendix 1 – Framework for the Annual Governance Statement
- Appendix 2 – Internal Control and Governance Self Assessment
- Appendix 3 – Assurance Statement
- Appendix 4 – Draft Annual Governance Statement

This page is intentionally left blank

PETERBOROUGH CITY COUNCIL FRAMEWORK FOR THE ANNUAL GOVERNANCE STATEMENT



This page is intentionally left blank

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT

Introduction and Guidance

Controls and Governance Assurance statements from the officers directly accountable to Cabinet are a key element of the recommended process to assess and report on the Peterborough's internal control and governance arrangements.

The following questions have been designed to prompt those officers to consider the existence, adequacy and effectiveness of their and therefore the Council's internal control and governance arrangements. This self assessment questionnaire will ensure there is a formal and annual review of internal control and governance to meet the requirements to prepare and publish a statutory Annual Governance Statement (AGS).

In order for each Directorate to provide a full and broad commentary it is recommended that this is discussed and agreed at Departmental Management Teams. The self assessment questionnaire has been developed to prompt consideration of how well various aspects of the internal control and governance framework are working.

To assist in the assessment, examples of controls / arrangements have been provided which could be used to demonstrate that the control is in place – this is not an exhaustive list and there may be other examples. The evidence signposted must be tangible and capable of being provided as it may be subject to audit review as part of the AGS process. It is important to remember that there is no need to produce a portfolio of evidence. This self assessment should be a review of the systems, processes and arrangements already operating and in place. A key to the assessment is shown below.

At the end of the self assessment, you are asked to detail any control or governance weaknesses that you have identified and record them on the action plan.

Based on the responses to these questions, Executive Directors should be able to complete the control and governance assurance statement for their Department, highlighting any areas requiring improvement.

Assessment Key			
Score	Assessment	Findings / Conclusion	Action Required
1	Disagree strongly	Significant gaps / weaknesses exist or controls non-effective (generally non-compliant)	Actions are identified to secure improvements, improved effectiveness and compliance / improved compliance
2	Disagree slightly	Some gaps / weaknesses exist or controls only partly effective (partial compliant)	Actions are identified to secure improvements, better effectiveness and full compliance and evidence is signposted in support of areas of compliance
3	Agree slightly	Some minor gaps / weaknesses exist but generally strengths outweigh weaknesses and controls are generally effective (generally compliant)	Evidence is signposted in support of areas of compliance and effectiveness and actions are identified to secure improvements in effectiveness and full compliance
4	Agree strongly	Very few or no gaps / weaknesses exist and controls are effective (fully compliant)	Evidence is signposted in support of areas of excellent effectiveness and full compliance

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment

	Expected Control	Examples of Control	Assessment
--	------------------	---------------------	------------

IC01	MANAGEMENT ARRANGEMENTS		
	<ul style="list-style-type: none"> • The Council and its services are constantly changing. It is therefore important that management arrangements are reviewed on a regular basis to ensure that they are still relevant to the needs of the service and its method of delivery • The Council has a service planning process in place which requires that service performance and resources are aligned to the objectives of the Council • The Council has in place a service of Scrutiny Committees that aim to examine policy for and performance of service delivery. 		
1.01	The Council can demonstrate that roles and responsibilities of senior management are clearly defined	Job descriptions in place and reviewed as part of the PDR process	
		Structure chart in place	
		Clear line of delegation	
1.02	The Council can demonstrate that there is a clearly defined reporting structure within the service	Structure chart in place	
		Management Team terms of reference / agenda / minutes	
1.03	The Council can demonstrate that its structures and methods of working are reviewed to ensure that it is demonstrating value for money	Inclusion in service planning process	
1.04	The Council can demonstrate that it has objectives in place to aligned to the Councils vision	Included in service planning process	
1.05	The Council can demonstrate that it reviews its management structures and processes as and when vacancies arise	Notes of service planning meetings and requirements for recruitment exercises	
1.06	The Council can demonstrate that the appraisals of managerial staff include relevant management competencies	PDR process in place for ALL managerial staff	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment

IC02	HEALTH AND SAFETY		
	<ul style="list-style-type: none"> Health and Safety within the Council is the responsibility of all and this is included within the overarching corporate policy. Managers are responsible for ensuring that risks are assessed, control measures identified, responsibilities for control allocated, procedures are in place and followed and that staff are adequately trained. Due to the diverse number of tasks undertaken by the Council, the impact of Health and Safety legislation on individual work practices will vary significantly, but all service areas will have some risks that require management The Council has in place a Health and Safety Team which acts as a "competent person" with officers dedicated to give technical help and support on health and safety issues. Policies are drafted and issued and best practice advice given on all new legislation affecting health and safety issues. Policies and procedures are prepared for risks that face all / most services and in Directorates for specific local risks. <p>(NB: In some areas involved with complex risks / or where staff deal with hazardous substances, processes, situations or provide services to children or vulnerable adults, Health and Safety procedures will be more prescribed)</p>		
2.01	The Council can demonstrate that it has completed regular Health and Safety reviews	Evidence of completion of Health and Safety reviews	
2.02	The Council can demonstrate that any issues raised as part of reviews / audits have been included in action plans and that any outstanding issues are being monitored	Health and Safety Action Plan	
		Evidence of management meetings where this has been addressed	

IC03	BUSINESS CONTINUITY AND EMERGENCY RESILIENCE		
	<ul style="list-style-type: none"> The Council has a corporate Business Continuity Plan Each service has their own BCP and ER Plans There is a coordinatory role to ensure compliance and standardisation across all services 		
3.01	The Council (and its services) has produced a Business Continuity Plan (in line with the corporate template issued) and all key staff have been briefed on their roles and responsibilities as detailed within the Plan	Evidence of staff training	
		Inclusion in induction training	
3.02	The Council (and its services) has produced a Resilience Plan (in line with the corporate template issued) and all key staff have been briefed on their roles and responsibilities as detailed within the Plan	Evidence of staff training	
		Inclusion in induction training	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment
IC04	EQUALITY AND DIVERSITY		
	<ul style="list-style-type: none"> • The Equality Scheme outlines the Council's key equality priorities and includes action plans for embedding equality and diversity in all areas of our work • Services undertake Equality Impact Assessments and embed their outcomes within their service delivery planning process and publish the results • Services are improving their equality performance monitoring and engagement with equality target groups 		
4.01	The Council has arrangements in place to undertake Equality Impact Assessments (EIA) and embeds these within its Service Delivery Plans	A programme of EIA's outlined in SDP	
		Outcomes of EIA's published on the intranet	
		Equality and diversity actions arising from EIA processes are outlined in the SDP	
4.02	Equalities Performance Monitoring is implemented as an integral part of the performance management arrangements and used to inform service planning and delivery	Local Equality Performance Indicators are reported in the SDP	
		Equality performance monitoring data used in the EIA process	
		SDP's include actions to improve the equality performance monitoring undertaken by the Council	
4.03	The Council is working towards specific equality objectives	Equality objectives are detailed in the SDP	
		Action plan for achieving these objectives is referred to or include within the SDP	
		Equality objectives are communicated to employees and customers	
4.04	Equality learning and development needs of all employees are identified and met	PDR process includes discussion about equality objectives of the service and the equality learning and development needs of employees	
		Employees have been training in the Councils Equality and Diversity policy and objectives and diversity awareness	
4.05	The Council understands the diverse needs of its diverse customers and knows how best to meet these	Engagement activity with equality target groups	
		Outcomes of engagement are used in EIA and SDP process	
		Outcomes are fed back to customers and community groups	

GOVERNANCE ASSURANCE SELF ASSESSMENT

	Expected Control	Examples of Control	Assessment
--	------------------	---------------------	------------

IC05	FINANCIAL MANAGEMENT		
	<ul style="list-style-type: none"> The Council has financial regulations that highlights the key controls and responsibilities of officers in relation to the management of the Councils financial performance The statutory Responsible Finance Officer (Executive Director of Strategic Resources) has overall responsibility for ensuring that there are adequate financial management controls in place 		
5.01	The Council can demonstrate that it complies with all aspects of the Council's Financial Regulations in relation to the main financial systems: <ul style="list-style-type: none"> Purchase to Pay Payroll Income / write offs / waiving of charges Banking / Cash Property / Land / Buildings Stores / Stock / Equipment Taxation 	Up to date financial procedure manuals	
		Financial training for budget holders	
		Regular reporting of financial activity at service level	
5.02	The Council can demonstrate that senior management accept responsibly for financial management	Job descriptions include financial management responsibilities	
		Roles and responsibilities clearly defined / included in procedures	
		Owner identified for all budgets allocated	
		Scheme of Delegation	
5.03	The Council can demonstrate that the budget is set to meet service objectives and complies with the Councils Financial Regulations in relation to budgetary control, staffing and resource allocation	Evidence of review and update of SDP with regards to any budget variations	
		Budget set in line with allocated resources	
		Fees and Charges set within corporate policy	
		Evidence of budget review	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment

	Expected Control	Examples of Control	Assessment
--	------------------	---------------------	------------

IC06	PROCUREMENT ARRANGEMENTS		
	<ul style="list-style-type: none"> Ordering and purchasing arrangements comply with current legislation, EU directives, Health and Safety Regulations and Environmental Policy. The Council has a Procurement Team which undertakes the major supply contracts for the Council, and also provides advice to managers on procurement arrangements Council procurement processes are laid down in Council Standing Orders and Corporate Procurement Strategy guidance. 		
6.01	The Council is aware of how to access the Councils Corporate Procurement Guidance (via intranet)	Staff induction includes reference to / demo of procurement and project management	
6.02	The Council can demonstrate that relevant staff are aware of the range of procurement training and development opportunities or have received appropriate on the job training	Staff training requirements are noted on PDRs	
		PDRs contain appropriate evidence of courses attended	
6.03	The Council can demonstrate that there are management processes in place to ensure that all procurement is undertaken in line with the guidance and Standing Orders and Best Value Principles: <ul style="list-style-type: none"> Appropriate documentation is retained to substantiate decisions There is a requirement within all orders and contracts for suppliers used to conform to the Councils policies 	Documentation is maintained for all tenders and quotations and there is evidence of the evaluation process being performed	
		Tendering processes are noted	
		Copies of contracts contain the Councils Terms and Conditions of contracting	
6.04	The Council can demonstrate full and mandatory use of corporate contracts where applicable	Referrals to the Procurement Team	
		Project Plans	
6.05	The Council can demonstrate a good understanding and compliance with Contract Standing Orders and EU Regulations	No breaches identified	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment
IC07	RISK MANAGEMENT (INCLUDING PROJECT MANAGEMENT)		
	<ul style="list-style-type: none"> • The Council has in place an agreed Risk Management Strategy • The Council has in place a clearly defined Risk Management process • The Council has in place a senior officer group to coordinate the risk management process • Briefings have been given to staff at various levels within the Council • The Council has adopted Prince2 methodology as the framework for the implementation of all projects 		
7.01	Managers and key officers have the skills and knowledge to manage risks effectively and roles and responsibilities are clearly defined	Details of training provided / PDRs	
		Team meetings include risk management issues	
		Risks discussions at DMTs	
		Included in JD and Pspec for appropriate employees	
7.02	The Council risk register(s) identifies the significant risks to the achievement of its objectives and is accurate, complete and up to date	Link to SDP	
		Completed in accordance with the corporate risk management process	
		Register reviews are undertaken in accordance with corporate guidance and completed on time	
		New and emerging risks are considered and added to the register	
		Cross cutting / mutual risks are included	
		Partnership risks are included	
7.03	The Council has successfully implemented clear risk management structures and processes in accordance with the risk management framework	The results of risk reviews are reported to Executive Directors	
		Red risks are reported and acted upon in accordance with process	
		Good quality risk information is included in Cabinet reports in accordance with guidance	
		Linked to SDPs	
7.04	The Council can demonstrate that projects (ICT and non ICT related) are managed adopting best practice project management techniques incorporating: <ul style="list-style-type: none"> • Effective governance arrangements • Risk management • Benefits realisation • Change management 	Project managers are trained in Prince2 methodology	
		All projects are lodged on Verto	
		Post implementation reviews are undertaken for all projects and are available for inspection	
		Risk register maintained	
		Risk registers are subject to regular review and reporting to the Change Board	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment

	Expected Control	Examples of Control	Assessment
--	------------------	---------------------	------------

IC08	PERFORMANCE MANAGEMENT AND DATA QUALITY		
	<ul style="list-style-type: none"> • The Council monitors performance against priorities and targets, and addresses underperformance • The Council understands the needs of its decision makers and provides them with information that is fit for purpose and is used to support decision making • The Council produces relevant and reliable data and works with partners to ensure the quality of partnership data 		
8.01	The Council can demonstrate an integrated and inclusive approach to managing and challenging performance at all levels within their services	Service Delivery Plan	
		SDP Action Plan up to date	
		DMT minutes / reports	
8.02	The Council can demonstrate due regard and compliance with the Councils data quality standards and arrangements	Evidence files for performance indicators reported	
8.03	Directors / Heads of Service review and challenge performance information to ensure that all data is accurate, timely and accessible to support decision making	Evidence of sign off, challenge, changes and integration within service performance management arrangements	
8.04	Data quality and the use of performance information forms an integral part of the Councils approach to performance management, using performance information and action planning to address risks and tackle areas of underperformance	Evidence of sign off, challenge, changes and integration within service performance management arrangements	
		Actions within SDPs and PDRs to demonstrate action taken re: data quality and service improvement and any resulting evidence of changes as a result	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment
IC09	INFORMATION GOVERNANCE		
	<ul style="list-style-type: none"> • The Council has an ICT Strategy and Information Strategy in place • The Council has in place an Acceptable Usage Policy • The IT services and infrastructure is managed on a daily basis by SERCO as the Councils main contractor • The Council has a Data Protection procedure as well as procedures for the Freedom of Information Act 		
9.01	<u>IT Policy</u> All staff have read, understood and implemented the Computer Usage Policy (which covers both electronic and manual information governance) as it relates to their role within the Council	All new staff have received initial and refresher training on the Information Security and Computer Usage Policy	
		All new staff are provided with the policy and training as part of their induction checklist	
9.02	<u>IT Systems</u> The Council can demonstrate that access to all systems is set to allow officers to perform their duties	The level of access is reviewed at system change and officer / post changes in a manner consistent with the information within the system and this review is documented	
		The access requirements for individual employees, for all systems, is maintained by service managers	
		The procedure exists for all staff changes of role / leavers to be reported to ICT service desk to remove access rights for centrally managed systems (e.g. email, CRM, shared data drives etc,) Training and development plans are included as part of PDRs	
9.03	The service can demonstrate that information which is the responsibility of the Council but provided to other organisations is managed appropriately	The service has documented arrangements for the electronic or physical transmission of information, outside of the Councils secure facilities (networks and buildings)	
		The Council has reviewed with contractors managing information on behalf of the Council; their compliance with the data handling arrangements for Local Government	
9.04	The Council can demonstrate that arrangements are in place the security of information when it is taken out of the workplace, either on portable devices or where systems are accessed remotely via mobile or home based working or manual information	Information Risk Assessments have been completed for all systems access enabled through mobile / flexible / homeworking arrangements	
		Documented arrangements to protect information both manual and electronic when it is removed from the workplace	
		Staff who work remotely or take information out of the workplace are aware of the additional information security risks remote / mobile working entails	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment
IC09	INFORMATION GOVERNANCE (continued)		
9.05	<p>The Council can demonstrate that for locally managed systems the following have been included:</p> <ul style="list-style-type: none"> - management actively review performance information and management reports to verify that the system is operating in a controlled manner; for example, exception reports, audit logs etc. - There are systems administrators in place and ownership for the systems has been accepted i.e. ownership included in job descriptions etc. - There is a defined process in place for carrying out backups and recovery arrangements are followed 	Procedures and timetables of the reports to be produced, and how these are to be checked and followed up	
		Evidence that the checking of exceptions has taken place	
		Job descriptions reflect roles	
		A procedure to identify, monitor and control who system administrators are within each service	
		Systems administrators know which systems they are required to back up and provide recovery arrangements for	
		Back up procedures are fully documented, are timetabled and maintained in a register	
		Evidence that periodic system restores have been made from back ups to test the arrangements	
		Data archiving arrangements are in place, data is reviewed annually for readability and procedures are documented	
9.06	<p><u>Data Protection and Confidentiality Relating to Personal Information</u></p> <p>The Council can demonstrate that it properly evaluates the impact of the 8 Principles of Data Protection and the Common Law Duty of Confidentiality relating to personal information on proposed new systems.</p>	Information value assessment made as part of Statement of Requirements	
		Privacy Impact Assessments made as part of Statement of Requirements	
		Clear evidenced of project documentation to mitigate risks both initial and ongoing	
9.07	The Council can demonstrate that staff understand their personal liability in relation to unlawful disclosure of personal data	A clear process for raising staff awareness in this area	
9.08	The Council can demonstrate that it meets duties under the 8 Principles of Data Protection and the Common Law Duty of Confidentiality relating to personal information	A clear monitoring and reporting system against the corporate security policy and protocols	
9.09	<p><u>Freedom of Information and the Environmental Information Regulations</u></p> <p>The Council can demonstrate that it meets duties under FOI and EIR (e.g. access to information requests within 20 days)</p>	A clear process for raising staff awareness in this area	
		A clear monitoring and reporting system for FOI and EIR requests	
9.10	The Council can demonstrate that it properly evaluates the impact of FOI and EIR on proposed new systems	Clear evidence of project documentation to mitigate risks both initial and ongoing	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment
IC10	MANAGEMENT PEOPLE		
	<ul style="list-style-type: none"> The Council has a Human Resources Team that is responsible for developing Council wide processes to comply with legislation and for giving help and advice to managers on their implementation The Council has HR policies and processes accessible to all employees Guidance and advice is readily available from Human Resources to management in relation to key policies and processes with which managers need to comply 		
10.01	<u>Recruitment and Selection</u> The Council can demonstrate that it is ensuring compliance with the Council's policy and procedures for recruitment and selection	Induction checklist followed	
		Service managers regularly review the appointments process to ensure adherence to the code	
		There is always an accredited interviewer on all selection panels	
		JDs and Pspecs in place and up to date	
		Appropriate references are maintained on file	
		Health declarations are reviewed by Occupational Health and their comments are retained on file Where this is required, there is evidence that the CRB check has been completed	
		All other pre-employment checks i.e. qualifications, right to work in UK, national insurance number, identity checks etc. are recorded and maintained on the personal file	
10.02	The agreements with agency staffing companies require for individuals to be fully vetted prior to being commissioned for work	Copies of agency agreements are available	
		A neutral vendor contract to manage agency arrangements including quality compliance is in place	
10.03	<u>Employee PDRs and Training</u> The Council can demonstrate that it is ensuring compliance with the Council's PDR process	Induction checklist followed	
		There is an annual process for managers or confirm that PDRs have been taken	
		There is evidence that the Head of Service reviews a sample of PDRs to ensure consistency	
		Staff development plan is used	
		There is evidence of training undertaken	
10.04	<u>Managing and Supporting Attendance at Work</u> The Council can demonstrate that it is ensuring compliance with the Council's Attendance Policy	Trigger reports are received and acted upon	
		There is a record of staff return to work discussions on personal files	
		DMTs consider absence reports	
		The corporate process is utilised and no local systems are maintained	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment

IC10	MANAGEMENT PEOPLE (continued)		
10.05	<u>Employee Conduct and Disciplinary Procedures</u> The Council can demonstrate that all its employees are aware of the existence of the Councils Code of Conduct	Code issued at staff induction	
10.06	The Council can demonstrate that it is ensuring compliance with the Councils disciplinary procedures: <ul style="list-style-type: none"> • Training and support is made available to managers involved in the process • Managers review the outcome of disciplinary procedures to ensure that there is a consistency of approach and that any corrective action needed within processes has been undertaken 	PDR records as appropriate	
		Code issued at induction	
10.07	<u>Dignity and Respect at Work</u> The Council can demonstrate that it is ensuring compliance with policy	Policy issued at induction	
		Review of employee complaints	
		Tribunal cases	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment
IC11	GOVERNANCE ARRANGEMENTS, LAWS, REGULATIONS, POLICIES AND PROCEDURES		
	<ul style="list-style-type: none"> • The Council has an agreed Constitution and Code of Conduct in place that highlights the key requirements for Corporate Governance • The Councils Constitution details the extent of delegated powers and includes procedural and contract standing orders and financial regulations • The Council has adopted a Code of Corporate Governance • The Council and its individual services / Directorates are subject to external inspection regimes • The Council has a legal service who are available to give advice to managers on legal issues and who are responsible for cascading details of relevant legislation to services • The responsibilities of statutory officers such as the Monitoring Officer are clearly defined 		
11.01	The Council can demonstrate that all relevant employees of the service are aware of their responsibilities to ensure satisfactory levels of internal control are in place	Core corporate responsibilities are included within JDs of relevant managers	
11.02	The Council can demonstrate that it has in place systems and procedures to verify that employees are complying with all relevant aspects of the Councils Constitution	Inclusion within the induction process for relevant employees	
11.03	The Council can demonstrate that the Councils Monitoring Officer has been made aware of any potential relevant issues of legality	Correspondence within Legal Services	
11.04	The Council can demonstrate all relevant employees are aware of their statutory responsibilities in relation to their area of service	Detailed in JDs	
		Members of professional bodies	
		Trade publications	
		Updates from Legal Services	
11.05	<p>The Council can demonstrate that individuals are appropriately qualified to undertake the statutory duties:</p> <ul style="list-style-type: none"> • individuals are given adequate job training to allow them to fulfil their duties • advice is given to relevant employees on the Councils Constitution where this is appropriate • JDs include detailed requirements of the statutory obligations relating to the post 	There is a management process in place to check that required qualifications and competencies of staff undertaking duties. This is clearly noted in the PDR process	
		Documentation of delegated decisions	
		Detailed and current JDs	
		Where decisions relating to statutory obligations are made, a clear audit trail is in place	
11.06	There is a clear process in place to ensure that non-compliance is reported to management at the appropriate level and documented action is taken	There are adequate performance indicators and exception reports to highlight where systems are failing	
		These are reported to management on a regular basis	
		Documentation is maintained of decisions made and actions required	
		Internal Audit reports are received and recommendations implemented	
		Requirements of Financial Regulations are understood	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment
IC12	ANTI FRAUD AND CORRUPTION		
	<ul style="list-style-type: none"> The Council has an agreed Policy Statement on Fraud and Corruption and Fraud Response guidance There are several policies in place within the Council that underpin the fraud culture of the Council. These include Code of Conduct for Employees, Whistleblowing Policy etc. Other policies and systems and internal control mechanisms within the Council, in particular in relation to financial regulations and practices, have been designed to minimise the potential of fraud and loss 		
12.01	All employees are made aware of the Councils approach to anti-fraud and corruption	Awareness of policies and procedures: - Anti fraud and corruption policy - Whistleblowing Policy - Prosecution Policy - Bulletins circulated Staff required to undertake e-learning package	
12.02	The Council has undertaken an assessment of fraud and corruption risk within the last 12 months	Completion of Fraud and Corruption risk checklist Fraud risks included in risk register Assessment of risks presented by organisational changes Assessment of risks presented by the introduction of new systems	
12.03	The Council can demonstrate that declarations of interests, gifts and hospitality are completed by all employees in accordance with relevant guidance	Register of gifts and hospitality maintained, reviewed and reported	
IC13	PARTNERSHIP GOVERNANCE		
	<ul style="list-style-type: none"> Partnership guidance established 		
13.01	The Council can demonstrate that the governance arrangements for all significant partnerships have been considered Significant partnerships are where: <ul style="list-style-type: none"> It is a statutory relationship It is critical to the provision of a service and the achievement of objectives It provides a significant proportion of the service income It costs a significant proportion of the service budget It takes decisions on behalf of or which are binding to the Council 	All significant partnerships have been identified The governance arrangements have been evaluated and all significant deficiencies have been reported Annual reports on significant partnerships are presented to Cabinet	
13.02	The Council can demonstrate that the governance arrangements for all other external partners have been considered in accordance with guidance	The governance arrangements have been evaluated and all significant deficiencies have been reported	

GOVERNANCE ASSURANCE SELF ASSESSMENT			
	Expected Control	Examples of Control	Assessment

	Expected Control	Examples of Control	Assessment
--	------------------	---------------------	------------

IC14	COMMUNICATIONS / CUSTOMER SERVICES		
	<ul style="list-style-type: none"> The Council has a corporate Communications Team who work with / support Directorates with the aim of ensuring that the activities of the Council are understood by its various stakeholders and, as a result, its image and reputation are improved The Council / services regularly asks for feedback from its customers / clients The Council has a corporate complaints procedure <p>(NB: In some areas (e.g. Children's Services) additional complaints processes are in place to comply with legislation)</p>		
14.01	The Council can demonstrate that there is a process in place to ensure that staff are aware of all the relevant communications procedures - electronic, dealing with the media, advertising etc.	Staff induction checklists	
		Staff briefing sessions	
14.02	The Council can demonstrate that relevant managers and staff have received training in promoting effective communication; both internal and externally.	Included in PDRs	
14.03	The Council can demonstrate that there are appropriate processes in place to ensure that staff receive regular formal updates on corporate / Directorate / Service issues.	Arrangements for briefings	
14.04	The Council can demonstrate that all relevant staff are aware of the Councils feedback process	Briefings	
14.05	<p>The Council can demonstrate that it has a clear process for the recording feedback</p> <p>The Council has a standard for investigating complaints</p> <p>There is a clear record to show what action has been implemented as a result of the investigation</p>	Corporate complaints acknowledged, resolved and annually reported	

This Action Plan identifies the areas within the Governance Framework that require improvement						
	Area of Non-Compliance	Reason For Non-Compliance	Corrective Action Proposed	Timescale	Who By	Agreed
1						
2						
3						
4						
5						
6						

INTERNAL CONTROL AND GOVERNANCE SELF ASSESSMENT

CHIEF OFFICER INTERNAL CONTROLS AND GOVERNANCE ASSURANCE STATEMENT

(To be completed in relation to the Directorate based on the self assessment completed)

ANNUAL ACCOUNTS 2011 / 2012: EXECUTIVE DIRECTOR STATEMENT

I am aware that, being responsible for the Department, I am required to provide an assurance statement on the standard of internal control and governance within my area of responsibility to enable the authority to sign the Annual Governance Statement for the annual accounts for 2011 / 2012 in compliance with Regulation 4 of the Accounts and Audit Regulations 2011.

To assist in this process, I can confirm that I have considered the standard of internal control and governance in my area of overall management and responsibility using the completed self assessment questionnaire completed by my Departmental Management Team. Having done that {either of}

I can confirm that the control and governance arrangements in my area of responsibility have been, and are, working well. There are, in my opinion, no significant matters arising which would require to be raised specifically in the annual assurance statement.

Or

I wish to draw your attention to the following matters that you may wish to consider in preparing the annual governance statement (and attach list / details). Apart from the above, I can confirm that the control and governance arrangements in my area have been, and are, working well. There are, in my opinion, no other significant matters arising which would require to be raised specifically in the annual assurance statement.

Signed		Date	
---------------	--	-------------	--

This page is intentionally left blank

PETERBOROUGH CITY COUNCIL
DRAFT ANNUAL GOVERNANCE STATEMENT 2011 / 2012

1. SCOPE OF RESPONSIBILITY

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

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

Peterborough City Council has approved and adopted a Local Code of Governance, which is consistent with the principles of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how Peterborough City Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of 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 Peterborough City Council's policies, aims and objectives, to evaluate the likelihood of these risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. THE GOVERNANCE FRAMEWORK

The Council is a complex organisation with an appropriately comprehensive governance framework. The Council works in a dynamic environment and keeps its processes under constant review. Our governance framework derives from six core principles identified in the Independent Commission on Good Governance in Public Services 2004 publication entitled *The Good Governance Standard for Public Services*. These principles were adapted for application to local authorities and published in 2007. The six core principles state that good governance means:

- Focusing on the purpose of the Authority and on outcomes for the community including citizens and service users 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 the values of the Authority and demonstrating the values of good governance through behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members to be effective and ensuring that officers (including the statutory officers) also have the capability and capacity to deliver effectively; and
- Engaging with local people and other stakeholders to ensure robust local public accountability

The following paragraphs summarise the City Council's Governance Framework which has been in place for the year ended 31st March 2012 and up to the date of approval of this Statement and the Statement of Accounts.

The key elements of each of these core principles are as follows:

3.1: Creating and Implementing a Vision

Good governance means focusing on the purpose of the City Council, on outcomes for the community and creating and implementing a vision for the local area. The following describe how the City Council achieves this:

- The Council, and its partners, have a clear statement of its purpose and vision as set out in the Peterborough Sustainable Community Strategy 2008 – 2021 (SCS). This sets out the overarching strategy for the Council including its priorities and the outcomes that it is seeking to achieve. This Single Delivery Plan, together with Departmental Business Plans provides a clear basis for corporate and service planning which is carried out in accordance with the Corporate Planning Cycle.
- The SCS vision is to create:
 - *A bigger and better Peterborough that grows the right way, and through truly sustainable development and growth;*
 - *Improves the quality of life of all its people and communities, and ensure that all communities benefit from growth and the opportunities it brings;*
 - *Creates a truly sustainable Peterborough, the urban centre of a thriving sub-regional community of villages and market towns, a healthy, safe and exciting place to live, work and visit, famous as the environment capital of the UK.*
- There are four priorities for areas of work which are needed in order to achieve the vision. The four priorities are:
 - Creating Opportunities - Tackling Inequalities
 - Creating Strong and Supportive Communities
 - Creating the UK's Environment Capital
 - Delivering Substantial and Truly Sustainable Growth
- The SCS is a shared view across partners and the community about what needs to be done to improve the economic, social and environmental wellbeing of the local area. Partner organisations are expected to take account of the SCS when they prepare their own organisation's business plan. The Vision is reviewed through a variety of means including ongoing analysis of performance information; a review of national and local drivers for change; and consultation with stakeholders, including residents, businesses and partner organisations. Any changes made are cascading through the organisation to inform and amend departmental delivery contracts, service plans and business plans.

- The SCS contains a statement of objectives within each corporate priority. This document also records information about the Council's services and finances, and lists targets for the next three years together with planned improvements. Performance is normally reported to Cabinet on a quarterly basis and is monitored through various Scrutiny Committees. Performance information is available across the council through the council's corporate project management system, Verto.
- The Council and neighbouring authorities, and their business, higher / further education and VCS partners have been successful in a bid to government to develop a Local Enterprise Partnership (LEP). The introduction of LEPs is, in part, to replace the Regional Development Agencies which have been abolished. The LEP will bring together local authorities, businesses, voluntary sector, universities and further education colleges to provide strategic leadership and joint working in areas such as housing, transport infrastructure, employment and enterprise.
- Regular revisions are made to the Constitution to ensure continuing improvement and simplification, whilst maintaining appropriate governance checks. The Council continues to develop and refine systems for identifying and evaluating all significant risks, via its Corporate Management Team (CMT). Council approved a Risk Management Strategy in October 2004 and this has been regularly refreshed via Audit Committee. Changes to the overall strategic risk profile are reported through to members on the Audit Committee on a periodic basis, the most recent being in the February 2012 committee cycle.
- When the Council works in partnerships, it has a methodology which ensures that there is a common vision underpinning the work of the partnership that is understood and agreed by all partners. These partnerships range from strategic to operational. The overarching vision for partnership working is set out in the SCS supported by the Local Area Agreement which articulates it.
- A Medium Term Financial Plan (MTFP) and capital programme has been established to ensure that resources are aligned to priorities. The budget process incorporates consideration of the allocation of resources against corporate aims and plans for any financial risks. The MTFP allows annual strategic review in the context of performance against aims and sets targets of efficiency improvement to release resources for use elsewhere. Monitoring reports are submitted to CMT and Cabinet and issues are referred to other Scrutiny Commissions / Committees as appropriate.
- Value for money underpins the strategic priorities. Through reviews by External Audit, external agencies, Internal Audit, and internal review teams, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which functions are exercised.
- The Council has a comprehensive comments, compliments and complaints scheme. This is used to identify areas where service quality is not satisfactory and to take action to improve. As an organisation, the Council is committed to meeting the service needs of a very diverse community and meet the "Equality Framework for Local Government".

3.2: Roles and Responsibilities of Members and Officers

Good governance means members and officers working together to achieve a common purpose with clearly defined functions and roles. The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions are clear.

- The Council is governed by a Constitution which sets out the main control mechanisms and uses the Cabinet model for decisions. This is made up of the Leader, Deputy Leader and 8 other members, who are responsible for proposing budgets and policies and taking key decisions in relation to their various portfolios. During 2011 / 2012 there was also an additional Cabinet Advisor for Business Engagement, Tourism and International Links. Cabinet business is

governed by written procedures and principles contained in the Executive Decisions within the Constitution. Individual Cabinet members receive regular feedback from senior officers within their portfolios on the progress of objectives. Issues of strategic and corporate importance are referred to Cabinet.

- As well as Cabinet, other Committees are in place to cover the functions of Scrutiny, Regulatory and Neighbourhood Committees.
 - Scrutiny Committees can hold the Cabinet to account by reviewing decisions, undertaking reviews of the Council's functions, and consider any relevant matters affecting the city or its residents. Although they have no decision making powers, the Commissions / Committees are able to "Call In" and review certain decisions of Cabinet. Until the call-in process is completed the decision cannot be implemented.
 - Regulatory Committees consider a variety of non-executive functions which Cabinet, by law, cannot undertake or has been agreed should not be considered by Cabinet. The committees are all cross-party and with the exception of Audit Committee, can include cabinet members.
 - Neighbourhood Committees have been set upon across the city. These deliver improvements for the local area by identifying, overseeing, monitoring and driving actions to support all issues relevant to the area, including service delivery, service improvements and area developments.
- All Committees have clear terms of reference and work programmes to set out their roles and responsibilities.
- An Audit Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.
- The Council's Constitution contains a Code of Conduct for Councillors, protocols advising on the Code of Conduct of Officers and a specific protocol on Member / Officer Relations.
- Information bulletins are circulated to councillors on current local government issues and publications and regular briefings are provided on their role. Notices of all key decisions to be taken are published in the Council's Forward Plan in which the community is advised firstly that the decision is to be taken and secondly to whom representations can be made. In this was the public interest in major decisions to be taken by the Council is stimulated. Agendas, reports and published decisions are available to councillors and the general public via the Council's web pages.
- The Council ensures that effective management arrangements are in place at the top of the organisation.
 - The Councils Chief Executive (and Head of Paid Service) leads the Council's officers and Chairs GMT;
 - The Executive Director (Strategic Resources) as the s.151 Officer appointed under the 1972 Local Government Act carries overall responsibility for the financial administration of the City Council. They are also responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting records and of its systems of internal control; and
 - The Solicitor to the Council, as Monitoring Officer, carries overall responsibility for legal compliance and the maintenance of high standards of conduct by providing advice and support to Members and Officers.
- Regular CMT meetings are held. In addition, Executive Directors meet their respective Cabinet Members on a regular basis. A Heads of Service Forum supports the work of CMT on a number of issues. In addition, there are a series of officer working groups who meet to deal with a range of specific service as well as cross cutting issues.
- All staff, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities. Terms and conditions of employment are in line with the harmonisation agreement implemented in 2008, and are regularly refreshed and amended following consultation with Unions. The terms and conditions of members are set out in the Members' Allowances Scheme within the Council's Constitution. The Scheme is approved by Council following preparation and review by an independent Panel at least annually.

- The council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

3.3: Standards of Conduct and Behaviour

Good governance means promoting appropriate values for the Council and demonstrating the values of good governance by upholding high standards of conduct and behaviour. The following describes how the Council achieves this:

- The Solicitor to the Council, after consultation with the Chief Executive and Executive Director (Strategic Resources) can report to Full Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.
- The Council has adopted a number of codes and protocols that govern both Member and officer activities defining the standards of behaviour – such as Members Code of Conduct; Officers' Code of Conduct; Member / Officer Protocol; Planning Code of Conduct; Member declarations of interest; Gifts and Hospitality and Grievance procedures.
- The Council takes fraud, corruption and maladministration very seriously. Policies which aim to prevent or deal with such occurrences include the Anti Fraud and Corruption Policy and Fraud Response Plan; Confidential Reporting Code (Whistleblowing Policy); and Human Resources policies regarding disciplinary of staff involved in such incidents.
- Member conduct is monitored by Standards Committee, independently chaired, which also investigates any allegations of misconduct. The Standards Committee has a defined work programme which it reviews at each meeting which includes planned reviews of relevant codes and protocols within the Constitution. Amendments are being made to incorporate the work of the Standards Committee with the Audit Committee in light of changes as a result of the Localism Act.
- Corporate Complaints procedures enables the Council to receive and investigate any complaint made against it, a Member or a member of staff.
- The Council's financial management is conducted in accordance with the financial rules set out in the Constitution, the Budget Framework, Financial Regulations, Contract Regulations and Procurement Strategy. These rules set out the framework within which the Council conducts its financial affairs and ensures proper financial arrangements are in place. Furthermore, the arrangements conform to governance requirements set out in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). Executive salaries and £500 spending transactions are disclosed in order to maintain transparency.
- Full Council approves a balanced budget before the start of each financial year. This includes the Medium Term Financial Plan, annual reviewed, under which it plans its finances, target efficiency savings required and potential council tax implications over a three year rolling period. During the year, budget monitoring reports are taken to Management Teams and Members on a regular basis.

3.4: Decision Making, Scrutiny and Risk

Good governance means taking informed and transparent decisions that are effectively scrutinised and managing risk. The following describes how the Council achieves this:

- The Leader and Cabinet are responsible for all Executive Decisions. Operational matters requiring decision are delegated to Council Officers under the Scheme of Delegations.
- Forthcoming key decisions by Cabinet (including decisions by individual Cabinet Members), are published in the Cabinet's Forward Plan in so far as they can be anticipated. This is reviewed at each Cabinet Meeting.
- Cabinet has power to make decisions that are in accordance with the Council's policy framework and approved budget. Decisions that fall outside the policy framework or approved budget must be referred to the Full Council.
- Council has several committees which carry out regulatory or scrutiny functions which encourages constructive challenge and enhances the Authority's performance overall. Scrutiny Committees have power to review the decisions of Cabinet and Cabinet Members, through the "call-in" process, to determine whether decisions have followed the agreed process and are in accordance with the Council's policy framework and approved budget.
- The Council's Internal Audit service complies with the Accounts and Audit Regulations 2011 and operates in accordance with the "CIPFA Code of Practice for Internal Audit in Local Government in UK 2006". Responsibility for Internal Audit rests with the Chief Internal Auditor. Reporting lines are within the Strategic Resources Directorate, with reporting lines to the Head of Corporate Services, Executive Director (Strategic Resources) as well as access to the Chief Executive, Monitoring Officer and members as required. The Internal Audit division plans and priorities its work around a risk based auditing approach and seeks to programme in work based on risk, strength of control and materiality. Internal Audit makes recommendations for improving the internal control environment and part of their work includes monitoring agreed action plans. This ensures compliance with established policies and procedures, particularly financial and contract procedures. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to Members (through the Audit Committee), the Chief Executive, Executive Directors and management as appropriate.
- The Council maintains both Strategic and Operational Risk Registers. The Council undertook a fundamental review of its risk management approach, culminating in a revised strategy in September 2009.

3.5: Developing Capacity and Capability of Members and Officers

Good governance means developing the capacity and capability of members and officers to be effective. The following describes how the Council achieves this:

- The Councils structure gives clear accountability for the performance management of services, both within departments and corporately.
- The Council aims to ensure that Members and managers of the Council have the skills, knowledge and capacity they need to discharge their responsibilities and recognises value of well trained and competent people in effective service delivery. The council has been recognised for strong commitment to professional

development and training of staff and has been awarded the IP Bronze award as well as the CIPFA Platinum Accredited Employer mark. In developing Members' skills, the Council has an overall development strategy in place.

- Members of the Audit Committee are provided with training specific to its responsibilities prior to each meeting. The focus is on key governance issues such as risk management and internal control, together with scrutiny arrangements for the accounts. Individual briefings are enhanced by an Audit Committee Handbook.
- The council also provides induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis. All new and transferring employees will receive an induction. In addition, key messages are given to all: such as freedom of information and data security, procurement and financial regulations.
- Senior Managers have been through the Vision 2010: Building Managers for the Future programme, the purpose being to provide the necessary tools to support managers in delivering improved services linked explicitly to business outcomes and to enable them to display the expected leadership behaviours.
- All officers have comprehensive job descriptions and person specifications and the Council has a process in place to review performance for all staff. Where capability issues are identified, appropriate processes are in place to try to resolve these.
- As the needs of Councils become more and more stretched by finite resources, alternative service delivery methods have been explored. This has led to the development of shared service arrangements with other councils, with Peterborough being the lead authority. These include opportunities with Rutland (for Legal and Trading Standards) and Cambridge City (for Internal Audit).

3.6: Engaging with Local People and Stakeholders

Good governance means engaging with local people and other stakeholders to ensure robust public accountability. The following describes how the Council achieves this:

- The Council's planning and decision making processes are designed to include consultation with stakeholders and the submission of their views.
- Every year we carry out many consultation exercises. Arrangements are in place to enable engagement with all sections of the community. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands. These have included Citizens Panel; Focus groups (face to face and on-line) - with, for example, refugees and asylum seekers, disabled people, young people, older people; Employee forums / Joint consultative forum; Voluntary and community sector network; One-off consultation events; and Public meetings. Varied channels of communication are used to reach all sections of the community and other stakeholders. Communication channels include: newspapers, surveys, press releases, internet, public question time at committee meetings, public speaking on planning applications, open forums, member surgeries etc.
- Our commitment to partnership working is demonstrated in our approach to community leadership. To give local citizens a greater say in local decision making, the Council established Neighbourhood Committees to cover the city and its surrounds. Neighbourhood Committees are open public meetings that are held at a local venue every two or three months. The meetings are an opportunity for residents to find out what is happening in their area and to discuss the big issues

and priorities. Residents meet with local ward Members and representatives from the Police, Health and Council. In addition, ongoing work in the community is also facilitated through the Parish Council Liaison Committee.

- The Council has a number of significant partnerships and outsourced contracts. These are:
 - Greater Peterborough Partnership – our local strategic partner;
 - Peterborough Culture and Leisure Trust (Vivacity);
 - Opportunity Peterborough;
 - Enterprise - An outsourced partnership for the provision of street scene activities previously undertaken by City Services;
 - SERCO – Provision of Council back office facilities, including revenues and benefits and ICT services; and
 - Health and Well Being Board - Overseeing expectations and service deliverables following the transfer of various activities from the PCT back to the Council.

4. REVIEW OF EFFECTIVENESS

The Council reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the internal auditors, and also by comments made by the external auditors and other inspection agencies.

Both in year and year end review processes have taken place. In year review mechanisms include:

- Cabinet is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. It is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.
- There is a scrutiny function which holds the Cabinet to account, which include an overview of service and financial performance, efficiency and effectiveness.
- Standards Committee meet throughout the year to consider and review issues relating to the conduct of Members. This will change as the City Council implements the Localism Act.
- Audit Committee meet throughout the year to provide independent assurance to the Council in relation to the effectiveness of the risk management framework, internal control environment and the annual statement of accounts. Annually, the Internal and External Audit Plans are approved through the committee.
- Internal Audit is an independent and objective assurance service to the management of the Council who complete a programme of reviews throughout the year to provide an opinion of the internal control, risk management and governance arrangements. The work of Internal Audit is planned using risk assessments, assurance from other inspectorates, and discussions with Directors and Heads of Service; and annual plans are formulated and approved by Audit Committee. The work includes not only reviews of financial control, but also of risk management, control over the achievement of organisational policies and objectives, and compliance with laws and regulations. The outcome of all audit reviews are reported to the appropriate Director, and matters of concern are raised with the Chief Executive, Executive Director (Resources), Leader of the Council and the Chair of Audit Committee. Management of the Internal Audit function conforms to the principles contained in CIPFA's Statement on the Role of the Head of Internal Audit in Local Government.

- The Governance section within Legal and Democratic Services undertakes fraud investigations and detection work.
- Risk management is handled through a range of mechanisms. Risk owners are in place for all corporate risks. The risks cascade down to the services, who manage the risks via the service planning process and regular review. Corporate risks are revisited through CMT. Risks are accounted for in all project planning, the creation of the Medium Term Financial Plan and other Council operations as an inherent part of normal procedure.
- Work undertaken as part of the Strategic Governance Board. Made up of senior officers from across the Council and members, the Board has been established to consider, review and coordinate improvements in all aspects of the governance framework.
- The actions arising from the significant control issues detailed in last years Annual Governance Statement have been monitored throughout the year and reported through to Audit Committee.
- Assurance from the Audit Commission, other Inspection Agencies and External Audit. On completion of their work, a Joint Audit and Inspection Letter is issued to the Council. The last Joint Audit Letter was issued for the financial year 2010 / 2011, and was discussed and endorsed at meetings of the Cabinet and Audit Committee with an unqualified audit opinion on the financial statements.

The year end review of the governance arrangements and the control environment included:

- The Chief Internal Auditors' annual opinion on the status of the Council in terms of the governance and overall controls. For this year he has provided an unqualified opinion.
- Assurance from Executive Directors and their management teams on the key elements of the control framework were in place in their departments. The statement itself has been circulated to all Directors for consideration and is supported by them as an accurate reflection on the governance arrangements in place for the year.

5. SIGNIFICANT GOVERNANCE ISSUES

The review process has highlighted a number of new significant issues of the effectiveness of the governance and internal control environment. For each issue, detailed action plans have been determined, a responsible officer identified and a summary of the key elements are included in the table overleaf.

Conversely, items which were included in 2010 / 2011 which have been excluded as significant progress has been made in addressing the issues such that they are no longer considered a threat to the control environment. These items are:

GOVERNANCE ISSUES IDENTIFIED IN 2010 / 2011		PROGRESS
Use of Consultants	Following an independent review of the use of consultants, various actions were identified to put in place improved governance arrangements. (Lead Officer: Director of Strategic Resources)	Ongoing monitoring arrangements have been implemented. Regular reports have been produced and submitted to Council, Scrutiny and Audit Committee.
Development of Neighbourhood Committees	Following a corporate review of the operations of Neighbourhood Councils, a number of changes were agreed at Cabinet / Full Council in March / April 2011. Appropriate governance needs to be in place to ensure effective decision making and resource development. (Lead Officer: Head of Neighbourhood Services)	The seven committees are split between three distinct areas of the city. All community areas / activities are covered. Minutes are maintained for all meetings. Community funds are allocated for each to spend following agreement within each meeting.
Development of Medium Term Financial Strategy	Ongoing savings underpin the delivery of the MTFs. Regular monitoring needs to be in place to ensure successful delivery. (Lead Officer: Head of Corporate Services)	Regular reports are produced for Cabinet and Scrutiny and has been updated throughout to reflect changes in circumstances and new proposals.

GOVERNANCE ISSUES IDENTIFIED IN 2011 / 2012

ISSUE	AREA FOR IMPROVEMENT	LEAD OFFICER
Implementation requirements of new legislation with governance implications, for example, the Localism Act.	<p>Robust arrangements are required to ensure that the Council introduces appropriate policies and procedures to deliver new legislation. Recent examples include:</p> <ul style="list-style-type: none"> • The Bribery Act (from July 2011). Creating offences of offering or receiving bribes, bribery of foreign public officials and of failure to prevent a bribe being paid on an organisations behalf. • The Localism Act (from November 2011). Devolving greater powers to local communities over housing and planning decisions, including Right to Challenge and Right to Bid for assets. 	Solicitor to the Council
Establishment of a Local Scheme to administer welfare payments	Various changes are proposed through the Welfare Reform Bill which will impact on how the Council pays and delivers its services. The Council will have to establish a local scheme and evaluate the impact on claimants and council services.	Executive Director of Resources
Transfer of Adult Social Care	Adult Social Care Services reverted to the local authority environment from February 2012. While there has been an initial smooth transfer of activities / services there is a need to review the processes and procedures so that there is efficient integration	Director of Adult Social Care
Safeguarding	Process and delivery improvements are required following poor service inspections within Children's Services. Delivery against an agreed OFSTED Action Plan requires effective monitoring and immediate action to address any shortfalls.	Executive Director of Children's Services
Equalities and Diversity	The Council needs to improve on its arrangements to undertake Equality Impact Assessments (EIA) and embeds these within its Service Delivery Plans	Executive Director of Operations
Information Governance	The Council needs to demonstrate that arrangements are in place for the security of information when it is taken out of the workplace, either on portable devices or where systems are accessed remotely via mobile or home based working or manual information	Solicitor to the Council
Risk Management and Business Continuity	There has been a repositioning of risk management and business continuity within the Council. There is a need to reappraise the effectiveness of the risk management process and to refresh business continuity and emergency planning arrangements, including undertaking a mock exercise.	Executive Director of Operations

6. CERTIFICATION

As Leader and Chief Executive, we have been advised on the implications of the results of the review of effectiveness of the Council's governance framework, by the Audit Committee and Cabinet.

Our overall assessment is that the Annual Governance Statement is a balance reflection of the governance environment and that an adequate framework exists within Peterborough City Council to ensure effective internal control is maintained. We are also satisfied that there are appropriate plans in place to address any significant governance issues and will monitor their implementation and operations as part of our next annual review.

Leader of the Council	Marco Cereste	_____	Date	_____
Chief Executive	Gillian Beasley	_____	Date	_____

Audit Committee	AGENDA ITEM No. 8
25 June 2012	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton – Cabinet Member for Resources	
Contact Officer(s):	John Harrison, Executive Director Strategic Resources Steven Pilsworth, Head of Corporate Services	Tel. 452520 Tel. 384564

BUDGET MONITORING REPORT FINAL OUTTURN 2011/12

R E C O M M E N D A T I O N S	
FROM : Executive Director Strategic Resources	Deadline date : 1 June 2012
<p>Audit Committee:</p> <ol style="list-style-type: none"> 1. Note the final outturn position on the council's revenue budget 2011/12 of £678k overspend, including the improvement of £1,431k since the provisional outturn position. 2. That the final outturn position on the council's capital budget 2011/12 be noted. 3. That the reserves position for the council will be approved by Cabinet. 4. That the performance against the prudential indicators be noted. 5. That the performance on treasury management activities, payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments be noted. 	

1. ORIGIN OF REPORT

- 1.1 This report is submitted to Audit Committee on 25 June as a referral from the S151 Finance Officer as part of the Statement of Accounts.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to inform Audit Committee of the final financial position for revenue and capital at 31 March 2012 and approve the reserves position for the council as part of the council's Statement of Accounts.
- 4.1 This report also contains performance information on treasury management activities, the payment of creditors, collection performance for debtors and local taxation and benefit overpayments.
- 4.2 This report is for Audit Committee to consider under its Terms and Reference No 2.2.17 to consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	No	If Yes, date for relevant Cabinet Meeting	
---	----	---	--

4. FINAL OUTTURN 2011/12

4.1 Corporate Overview

- 4.1.1 When Full Council approved the Medium Term Financial Strategy (MTFS) 2011 in February 2011 it was on the basis that 2011/12 would have a surplus to offset against future deficit budgets arising from 2013/14. The MTFS also outlined that there were a number of financial risks that the council would need to monitor during the year.
- 4.1.2 As the financial year progressed, some risks materialised and further pressures emerged within Adult Social Care budgets requiring robust action and mitigations to reduce the impact this financial year and financial consequences in future financial years. The emergence of these risks and pressures were flagged in the budget report to Cabinet during September and within all budget reports during January and February.
- 4.1.3 Within Adult Social Care, unprecedented increases in the numbers of people requiring our support, or through having increased need during 2011/12 inevitably increased costs above the council's in year budget and future budgets. This issue and how it was intended to be tackled was highlighted in the budget consultation undertaken by the council earlier this year.
- 4.1.4 The actions undertaken by the Corporate Management Team and Cabinet to manage the budget across the whole Council included:
- Targeted actions on increased cost pressures;
 - Departmental measures to reduce spend in supplies and services and employee budgets without detriment to service provision in the current financial year. This includes where pressures have materialised and departments have contained these pressures with local actions;
 - Bringing forward savings earmarked for future financial years in the current MTFS;
 - Reviewing existing investment plans in the current MTFS, assessing the implications of deferring investment into future financial years such as growth investment;
 - A comprehensive in depth review of the capital programme, deferring projects into future financial years or removing projects that are no longer required. Any reduction in the amount that the council requires to borrow to fund the capital programme would reduce the costs of financing the borrowing; and
 - A review of reserves and provisions, particularly the commitments within the capacity fund.
- 4.1.5 Subsequently, the financial implications in future years were considered as part of setting the MTFS 2012 and in particular, detail was provided in the council's budget document on how the council will address these financial issues. Cabinet continues to protect as far as possible, front line services and its vision for the city through reducing bureaucracy and costs, and improving efficiency to ensure value for money.
- 4.1.6 At the time of setting the budget, the council was not able to close the budget gap forecast in 2011/12 of £2.4m and considered that further savings would have an unacceptable impact on services. As such, the council intended to use reserves to balance the 2011/12 financial position.
- 4.1.7 Cabinet were provided with an updated financial position during March, noting an improvement in the council's forecast revenue outturn position from £2.4m to £2.1m overspend, mainly due to the continued actions highlighted above in this report. In part, CMT actions to achieve savings resulted in re-profiling between financial years of the council's reserves.
- 4.1.8 The overall financial position 2011/12 for the Council is detailed within this report. In summary, the final revenue position is £678k overspent (a further improvement of £1.4m since March Cabinet) and the capital programme spend is £77.3m, compared to £83.7m reported to Full Council.

- 4.1.9 In conclusion, the council has managed the financial challenges during 2011/12 with positive actions balancing the need to meet challenges of the national economic climate and the demands of local circumstances without detriment to service delivery. The budget strategy for 2012/13 considered the financial pressures in detail and how savings should be achieved through efficiencies rather than service reductions. However, even with the improvement on the revenue financial position and reserves, the council cannot be complacent in managing financial resources given the deficits forecast in future years, the uncertainty of local government funding and the continued impact of the economic climate and recent confirmation that the UK is back in recession.
- 4.1.10 The council remains committed to its strategy in delivering service efficiencies and improvements using a proactive approach to managing council finances and through the continued delivery of a longer term financial plan covering a rolling ten year cycle.

4.2 Financial Report – Revenue

- 4.2.1 The council's overall revenue position is £678k overspent, against a budget of £150,033k, a variance of less than 0.5% of budget. As disclosed previously, the key issues that had arisen were increased cost pressures and demand within adult social care and children's social care budgets.
- 4.2.2 The increased demand for adult social care is a national issue with an overall increasing older population as people live longer and Peterborough is not immune to this issue. Increased demand is expected to continue within Peterborough on social care and these issues have been considered as part of the council's budget strategy. The council's budget strategy and consultation document covered the issues on Adult Social Care budgets extensively and plans to address the issues.
- 4.2.3 The adult social care budgets transferred back to the council with effect of 1 March 2012 and are subject to an extensive review and assessment of care packages, contracts and efficiencies that could be delivered through the council's transformation programme through a range of initiatives such as early intervention and prevention programme, re-enablement initiatives and personalised services.
- 4.2.4 An overview of the council's final revenue financial position for 2011/12 is shown in the next table including the updated position presented to March Cabinet. A detailed breakdown can be seen in appendix A.

Provisional Outturn £k	Department	Final Outturn £k
2,918	Use of Surplus Carry Forward as per MTFs 2011	2,918
-8,451	Adult Social Care	-8,388
1,287	Chief Executive	1,386
386	Legal and Governance Services	453
0	Children Services	-30
251	Operations	751
500	Strategic Resources	1,232
1,000	Corporate contingency	1,000
-2,109	OUTTURN – surplus (+) / deficit (-)	-678
2,109	Contribution from Capacity Building Reserve	678
0	Revised Total	0

- 4.2.5 The main changes since the provisional outturn was presented to March Cabinet were:

Adult Social Care – The outturn position presented to March Cabinet included a prudent estimate of current care packages and other costs as the service was only transferred back to the council from 1 March 2012. Actual costs to the end of March 2012 were slightly lower than expected.

Chief Executive – The further improvement to the department’s under spend was through the continued curtailing of supplies and services budgets and training budgets coupled with vacancy management. In particular, further savings arose from the Single Delivery Plan forum budgets and marketing budgets.

Legal and Governance Services – The further improvement to the department’s under spend was through the continued curtailing of supplies and services budgets and training budgets coupled with vacancy management.

Children Services – Increased costs in demand led budgets such as looked after children were being offset in full by a departmental action plan and monitored closely throughout the financial year. The small overspend relates to costs that did not materialise until closure of accounts and were unrelated to looked after children budgets and could not be fully absorbed by the department’s action plan.

Operations – The outturn position has improved through the continued actions taken within the departments action plan to manage vacancies and curtail spend on supplies and services budgets. In addition, a planning income fee was received earlier than predicted, and grant income was utilised instead of using the general fund.

Strategic Resources – The further improvement to the outturn position since March Cabinet included:

- the council continuing to achieve savings arising from continuing to use internal cash balances before borrowing from the market leading to interest savings;
- an improved financial position on finalising the councils housing benefit subsidy claim and other shared transactional costs;
- waste collection had better than anticipated recycling rates leading to a reduction in landfill cost; and
- an improvement to Westcombe’s trading position since previous forecast

4.2.6 The council has closely monitored and assessed the impact of decisions made in respect of any actions taken to improve the outturn position. Particular attention has been paid to those costs deemed to be one off and those continuing costs that would not be sustainable to manage through budget monitoring alone. Continuing costs have been considered as part of setting the MTFs. Furthermore, as disclosed to March Cabinet, risks and issues with possible further financial implications continued to be reviewed during the preparation of the council’s financial revenue position. The net impact arising from these identified risks and issues improved the council’s overall financial position.

4.2.7 Departments have undertaken an analytical review of the variances arising from the financial position and a preliminary assessment is underway following the closure of the accounts to assess the issues and comments to determine whether pressures or savings are one off or continuing. The outcome of the analytical review will be reviewed against 2012/13 budgets.

4.2.8 The Dedicated Schools Grant shows an under spend of £150.4k of general expenditure as well as an under spend of Exceptional Circumstances Grant of £509.4k against a total budget of £120.4m. Schools Forum is responsible for decisions related to the Dedicated Schools Grant and the Exceptional Circumstances Grant. This has been included for information purposes only. In accordance with accounting guidance, both under spends have been carried forward to next financial year.

4.3 Financial Report – Reserves

4.3.1 In setting the 2011/12 budget, the level of council reserves was considered sufficient in meeting the MTFs recognising the requirement to review the balances to ensure delivery of the council’s priorities. As part of setting the MTFs 2012/13 consideration was given to a ten year review of the budget in the context of uncertainty of future funding arrangements beyond 2013/14. Subsequently the following table has been updated to reflect the current position going forward over the next five years.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Final Balance at 31.03.12 £000	Estimated Balance at 31.03.13 £000	Estimated Balance at 31.03.14 £000	Estimated Balance at 31.03.15 £000	Estimated Balance at 31.03.16 £000	Estimated Balance at 31.03.17 £000
General Fund Balance	6,000	6,000	6,000	6,000	6,000	6,000
Capacity Building Reserve	7,773	2,389	5,010	5,010	5,010	5,010
Departmental Reserve	4,032	796	751	746	741	736
Subtotal	17,805	9,185	11,761	11,756	11,751	11,746
<i>Reserves held for a specific purpose</i> ^{*1}						
Insurance Reserve	2,980	2,277	2,177	2,077	1,977	1,877
Schools Capital Expenditure Reserve	1,832	1,832	1,832	1,832	1,832	1,832
Salix Carbon Reduction Reserve	186	0	0	0	0	0
Parish Council Burial Ground Reserve	37	40	40	40	40	40
Local Authority Mortgage Scheme Reserve	14	14	14	14	14	14
Building Control Reserve	75	0	30	70	0	0
Hackney Carriage Reserve	33	5	5	5	5	5
School Leases Reserve	18	18	17	19	23	0
Subtotal	5,175	4,186	4,115	4,057	3,891	3,768
TOTAL	22,980	13,371	15,876	15,813	15,642	15,514

*1 – Reserves that are held for a specific purpose such as trading accounts, third parties that have an interest in the balance before it can be used to support general fund expenditure or to support council policies.

4.3.2 The council's reserves position has been reported throughout 2011/12 to Cabinet and Full Council as part of continuing in year budget monitoring and in approving the budget going forward. At the time of setting the budget (Full Council February 2012), the council was forecasting use of £2.4m of the capacity building reserve to meet pressures in the current year and the final revenue outturn position now only requires a drawdown of £678k. This is factored into the reserves table.

4.3.3 Although the reserves position has improved overall, the majority of this balance will be required during 2012/13 and is therefore not additional monies, only a timing issue between financial years of when the commitments are likely to occur.

4.4 Financial Report – Capital

4.4.1 At the beginning of the financial year, the capital programme was £123.7m, the result of the agreed capital programme for 2011/12 of £108.8m and slippage from the previous financial year of £14.9m. Throughout 2011/12 the capital programme was refreshed and then subjected to extensive review during the MTFs budget process resulting in the capital programme being reduced to £83.7m.

4.4.2 The capital expenditure during 2011/12 totalled £77.3m as shown in the next summary table. The capital programme was reduced as a result of re-phasing of the budgets in preparation for the MTFs (2012/13 to 2021/22) and further slippage during March 2012 of £7.0m.

4.4.3 Significant projects that contributed to this decrease in the overall capital programme from £123.7m to £77.3m included:

- **Adult Social Care** - £3.8m slippage including the rephasing of the residential homes budgets into future years
- **Chief Executives** - £16.5m slippage including refurbishment of the Stadium, Public Realm, Cost of Disposals budgets and Corporate Growth Area budgets
- **Children Services** - £10.0m slippage including Primary Capital Programme and the Secondary Schools Phase 2
- **Operations** - £4.4m slippage due to the re-phasing of various projects being slipped into future years including affordable housing, repairs assistance and St Peters Arcade
- **Strategic Resources** - £12.3m slippage including the Waste Management Strategy, Business Transformation, Customer Services Transformation, Play Areas, Riverside – Risk Reduction Project, Bayard Place works and the Key Theatre

4.4.4 The capital programme is financed through borrowing, capital receipts, grants and contributions. Given that the capital programme has reduced through slippage and deferral of projects this has reduced the amount of borrowing originally anticipated since setting the MTFS and had a favourable impact on revenue expenditure in 2011/12. Where schemes are to continue in future years, it should be noted that borrowing would still be required and therefore the revenue requirement should be considered as part of refreshing the current MTFS.

4.4.5 The funding of the 2011/12 capital programme assumed £18.3m of capital receipts and £0.76m of Right to Buy receipts. The actual capital receipts received were £5.7m and 1.3m respectively. The capital receipts was revised during budget setting for 2012/13 and any resulting financial impact from the closure of accounts will be assessed in conjunction with the overall capital programme and revised accordingly. The assets identified for disposal are still intended to be disposed as approved in the MTFS.

Overall position of the Capital Programme 2011/12 as at 31 March 2012

Capital Programme by Department:	Original Budget	Revised Budget	Actual Expenditure	Total Budget Spent
	£000	£000		£000
Adult Social Care	3,965	399	390	98%
Chief Executives	12,115	3,211	3,002	93%
Children's Services	52,824	46,239	45,394	98%
Operations	19,048	16,178	16,091	99%
Strategic Resources	20,854	11,375	12,430	105%
Total Expenditure	108,806	77,402	77,307	99%
Financed by:				
Grants & Contributions	45,407	42,269	41,354	98%
Capital Receipts	18,277	5,714	5,714	100%
Right To Buy Receipts	757	1,335	1,336	100%
Borrowing	44,365	28,084	28,903	101%
Total Resources - required	108,806	77,402	77,307	99%

4.5 Financial Report – Treasury Management Activity for 2011/12

4.5.1 The Treasury Management Strategy was updated during the year as part of the Medium Term Financial Strategy. It contains the strategy for borrowing and investing for the next financial year and details the approved prudential indicators for the next five years. The main objectives of the Strategy are:

1. To invest available cash balances with a number of dependable institutions over a spread of maturity dates in accordance with the council's lending list;
2. To reduce the revenue cost of the council's debt in the medium term by obtaining financing at the cheapest possible rate; and
3. To seek to reschedule debt at the optimum time.

4.5.2 In summary, the following actions were taken during 2011/12:

- i. In order to mitigate the risk linked with the ensuing Eurozone financial crisis, investments were placed in accordance with the restricted lending list. The current lending list ensures investments are secure and liquid but interest returns are low due to the limited institutions used and the level of the bank base rate, which has remained at the record low of 0.50% since March 2009.
- ii. Investments were placed for short periods to cover cash flow deficits. Daily cash balances with Barclays were restricted to £5m (previously £15m) due to the downgrade of Barclays credit rating by Fitch in December 2011.
- iii. As borrowing rates continued to be higher than investment rates in 2011/12, the cash balances were used to finance the capital programme. As planned a small amount of temporary borrowing was taken out in February and March 2012 to cover cash flow deficit and these loans have been repaid in April 2012.

4.5.3 The 2011/12 treasury management activities are summarised as follows:

	Strategy	Action
1.	Consider repayment of external loans or avoid new borrowings when it is in the best financial interest to do so.	As investment returns remained below the cost of borrowing during the financial year, cash balances were used to finance the capital programme and short term temporary borrowing was necessary during February and March to cover cash flow deficits. A PWLB loan of £1.6m was repaid on maturity in November 2011 and not replaced.
2.	Invest with credit worthy organisations to limit exposure against loss.	Following review the council has continued with the restrictive lending list implemented in October 2008. Currently the Council only lends to the UK Government, Local Authorities and the council's own bank, Barclays.
3.	To achieve the optimum investment return commensurate with security, liquidity requirements (access to funds), debt management alternatives (avoidance of borrowings, premature repayments etc), if these would generate savings in the medium term.	Cash balances have been used to finance capital expenditure to minimise counterparty risk and as an alternative to diminishing investment returns. Allowing for the non-performing Icelandic deposits, the Council's investments have yielded 0.44% which is just below the one week LIBID (London Interbank Bid Rate) of 0.46%.

	Strategy	Action
4.	Consider rescheduling of fixed or variable rate loans to maximise interest rate savings and minimise the impact on council budgets.	Consideration has been made to rescheduling debt however there have been no suitable opportunities to do this. The difference between the repayment rate and the rate of a new loan has not resulted in a net discount to the council and no savings were to be made. The PWLB raised their interest rates by 1% in October 2010 following the Comprehensive Spending Review by the Government. The rise in rates has not only made short and long term borrowing more expensive but has limited further the opportunities for debt rescheduling.
5.	Exploit long-term funding opportunities at interest rate levels that are below short-term rates forecast / anticipated over the foreseeable future.	Long term borrowing has been avoided by using existing cash balances while borrowing costs remain higher than investment return.

4.5.4 The Capital Financing Requirement (CFR) measures the council's underlying need to borrow money in the long term for capital purposes. In accordance with the 2009 SoRP this now includes the liability for the Private Finance Initiative (PFI) agreement and the 2010 Code of Practice has revised the way the council accounts for some leases which also impacts on the CFR.

4.5.5 Further information on the council's capital financing arrangements can be found in the Prudential Indicators performance found in appendix B.

4.5.6 In 2011/12 the CFR was:

	£000
Opening Capital Financing Requirement 1 April 2011	230,611
New Capital Expenditure Financed by Borrowing	28,903
Minimum Revenue Provision for Debt Repayment	(6,786)
Minimum Revenue Provision for PFI	(1,442)
Minimum Revenue Provision for Leases	(1,102)
Closing Capital Financing Requirement 31 March 2012	250,184

4.6 Financial Report – Performance Monitoring

4.6.1 An outline of performance against key indicators can be seen in appendix C.

5. CONSULTATION

5.1 Detailed reports have been discussed in Departmental Management Teams.

6. ANTICIPATED OUTCOMES

6.1 To note the final outturn position for revenue and capital 2011/12 for the council.

6.2 To approve the reserves position for the council.

6.3 To note the performance figures and prudential indicators for the council.

6.4 To note the actions that has been taken during 2011/12 and into the Medium Term Financial Strategy.

7. REASONS FOR RECOMMENDATIONS

- 7.1 This monitoring report for the 2011/12 financial year is part of the process for producing the Statement of Accounts.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 Not to report the final budget position for the council to Audit Committee. However, this report is fundamental in supporting Committee's role and in aiding understanding of the Statement of Accounts.

9. IMPLICATIONS

- 9.1 This report does not have any implications effecting legal, human rights act or human resource issues.
- 9.2 Members must have regard to the advice of the Section 151 Officer. The Council may take decisions which are at variance with this advice, providing there are reasonable grounds to do so.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985.

Detailed monthly budgetary control reports prepared in Departments.

Appendix A

Probable Outturn £k		Budget £k	Final Outturn £k	Variance £k
	CHIEF EXECUTIVE'S DEPARTMENT			
67	Chief Execs Department	407	322	85
386	Legal and Governance Services	4,161	3,717	444
126	Chief Executive Dept & Business Support	590	429	161
760	Growth and Regeneration	2,173	1,420	753
130	Communications	598	424	174
204	Human Resources	1,423	1,201	222
1,673	CHIEF EXECUTIVE DEPARTMENT TOTAL	9,352	7,513	1,839
	DIRECTOR OF CHILDREN'S SERVICES			
4,027	Education and Resources	2,659	-1,217	3,876
98	Children's Community Health	9,415	8,806	609
-4,125	Safeguarding Family and Communities	17,182	21,697	-4,515
0	CHILDREN'S SERVICE TOTAL	29,256	29,286	-30
	DIRECTOR OF OPERATIONS SERVICES			
2	Business Support	405	400	5
-636	Commercial Operations	3,201	3,618	-417
242	Directors Office	791	376	415
0	Environment Capital	0	0	0
-199	Neighbourhoods	6,905	7,027	-122
842	Planning, Environment, Transport & Engineering	9,710	8,840	870
251	OPERATIONS SERVICES TOTAL	21,012	20,261	751
	DIRECTOR OF STRATEGIC RESOURCES			
-5	Director's Office	189	193	-4
157	Business Support	1,842	1,689	153
22	Corporate Services	27,081	26,458	623
46	Internal Audit	342	280	62
3	Insurance	37	26	11
-79	Shared Transactional Services	-642	-1,023	381
237	Customer Services	661	397	264
-312	Strategic Property	647	964	-317
-2	ICT	2,919	3,540	-621
18	Procurement	296	339	-43
282	Business Transformation	1,588	1,352	236
0	Waste & Operational Service Management	12,291	12,098	193
83	Service Improvement	277	177	100
-45	Westcombe Engineering	10	-59	69
95	Cultural Services	4,817	4,692	125
500	STRATEGIC RESOURCES TOTAL	52,355	51,123	1,232
-8,451	ADULT SOCIAL CARE TOTAL	38,058	46,446	-8,388
-6,027	GENERAL FUND TOTAL	150,033	154,629	-4,596
1,000	Corporate Contingency	0	-1,000	1,000
2,918	Surplus Carry forward as per MTFP 2011	0	-2,918	2,918
-2,109	GENERAL FUND TOTAL	150,033	150,711	-678
0	SCHOOL FUNDING	120,398	119,738	660

Appendix B – Treasury Management Strategy – Draft Prudential Indicators – 2011/12

The Prudential Code for Capital Finance in Local Authorities (the Code) provides a framework for local authority capital finance to ensure that:

- (a) capital expenditure plans are affordable;
- (b) all external borrowing and other long term liabilities are within prudent and sustainable levels; and
- (c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to the above points, the local authority is accountable by providing a clear and transparent framework.

The Code requires the council to set a range of Prudential Indicators for the next five financial years. During the financial year to date the council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy.

The 2011/12 Prudential Indicators below show the Council's performance for the financial year. The indicators were revised in September 2011 to reflect the impact of finance leases and were included in a report to the Audit Committee. The indicators used below are from this report.

1. **Indicator One: Adoption of the CIPFA Code of Treasury Management in the Public Services**

The Council adopted the CIPFA Code of Treasury Management in the Public Services in 2002, and the revised code in 2009. Treasury Management Practices (TMP's) have been established with advice from Sector Treasury Services and applied to the Council's treasury management activities.

2. **Indicator Two: Estimates and actual Capital Expenditure 2011/12**

	2011/12 Indicator £m	2011/12 Actual £m
Capital Expenditure	108.8	77.3

This indicator is the actual capital expenditure for the financial year.

3. **Indicator Three: Estimates of actual capital financing requirements and net borrowing**

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. It is calculated from various capital balances in the Council's Balance Sheet.

	2011/12 Indicator £m	2011/12 Actual £m
CFR	269.9	250.2

4. **Indicator Four: Affordability (1) Estimate of actual ratio of financing costs to net revenue stream**

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt. This ratio has been revised to reflect the impact of finance lease adjustments.

	2011/12 Indicator %	PFI & Finance Leases %	2011/12 Revised Indicator %	2011/12 Actual %
Financing costs to revenue stream	5.1	0.5	5.6	5.3

5. Indicator Five: Affordability (2) Estimate of the incremental impact of capital investment decisions on Council Tax

This indicator is intended to show the impact of the Council's decisions about capital investment on the level of Council Tax required to support those decisions over the medium term.

The calculation of this indicator has been done on the basis of the amount of the capital programme that was financed from borrowing. The calculation is based on the interest assumption for borrowing that was included in the capital financing budget. The revenue costs are divided by the estimated Council Taxbase for the year:

	2011/12 Indicator £	2011/12 Actual £
Incremental impact on Council Tax	1.09	(25.00)

6. Indicators Six: External Debt Prudential Indicators

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is "prudent".

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year.

The limits also incorporated margins to allow for exceptional short-term movements in the Council's cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

	2011/12 Indicator £m	2011/12 Actual £m
Authorised limit for external debt	382.3	186.5
Operational limit for external debt	282.5	186.5

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year.

"Other long term liabilities" include items that would appear on the balance sheet of the Council under that heading. For example, the capital cost of finance leases and the PFI agreement.

The Operational Boundary is a measure of the day to day likely borrowing for the Council, whereas the Authorised Limit is a maximum limit. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

The following indicators take into consideration the capital programme over the life of the MTFs and the ability to phase the borrowing over this period. The indicators provide flexibility for the Council to take advantage favourable interest rates in advance of the timing of the actual capital expenditure.

7. Indicator Seven: Variable interest rate exposure

This indicator places an upper limit on the total amount of net borrowing (borrowing less investment) which is at variable rates subject to interest rate movements. The intention is to keep the variable rate borrowing below 25% of the total gross borrowing (CFR).

The limit is expressed as the value of total borrowing less investments

	2011/12 Indicator £m	2011/12 Actual £m
Upper limit for variable rate exposure	56.6	0.0

8. Indicator Eight: Fixed Interest rate exposures

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit allows flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflects a position where the great majority of borrowing is at fixed rate which provides budget certainty with 100% of borrowing being at fixed rate. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the great majority of borrowing was at fixed rates to provide budget certainty.

	2011/12 Indicator £m	2011/12 Actual £m
Upper limit for fixed rate exposure	338.9	142.9

9. Indicator Nine: Prudential limits for the maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council's borrowing, and reflected the relatively beneficial long term rates that were expected to be available over the next few years. The limits were as follows:

Period	Upper Limit Estimate	Lower Limit Estimate	Actual Borrowing
Under 12 months	40%	0%	19%
1 - 2 years	40%	0%	0%
2 - 5 years	80%	0%	0%
5 - 10 years	80%	0%	1%
over 10 years	100%	10%	80%

10. Indicator Ten: Total Investments for periods longer than 364 days

Authorities are able to invest for longer than 364 days; this can be advantageous if higher rates are available. However it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs.

The Executive Director - Strategic Resources has therefore sought the advice of Sector Treasury Services Ltd, the Council's treasury advisors, who recommended that, given the structure of the Council's balance sheet and its day to day cash needs, it would be reasonable to maintain the limit for investments with life spans in excess of 1 year to £25 million. Consequently it is proposed to keep the limit for investments that may be deposited for more than 1 year at £25 million for 2011/12 and later years.

The Council currently has no investments of more than 364 days.

Appendix C – Performance Monitoring

Treasury Management Strategy Statement:

Annual Investment Strategy:

The Treasury Management Strategy Statement (TMSS) and Prudential Code for 2012/13 was approved by Council on 23 February 2012. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity

The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with Barclay's (the Council's current banking provider), the Debt Management Office and Local Authorities.

As at 31 March 2012 the Council's external investments totalled £3.5m and have yielded interest at an average rate of 0.44% in the financial year 2011/12. The total investment figure excludes the Icelandic investments. The performance of the investments is just below the target benchmark 7 day rate of 0.48%. The average investment balance for March has remained the same as February at £8m.

Borrowing:

It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Prudential Indicators (affordability limits) are outlined in the approved TMSS.

The Council's external long term debt as at 31 March 2012 is £132.9m which is at an average fixed rate of 4.52%. Also during March the Council took out further temporary borrowing of £10m. The actual total external debt is measured against the Council's Authorised Limit for borrowing of £382.3m, which must not be exceeded and the Operational Boundary (maximum working capital borrowing indicator) of £282.5m. Officers can confirm that the Prudential Indicators were not breached during the financial year to date.

Table 1: Average Investment Balance

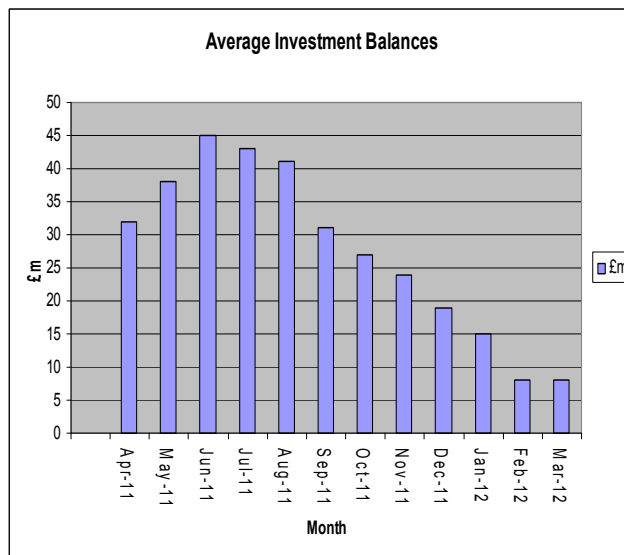


Table 2: PCC Average Interest Rate

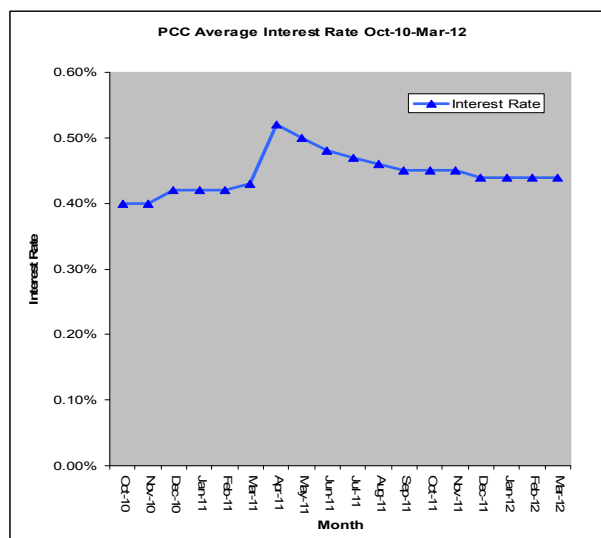


Table 3: Debt Portfolio

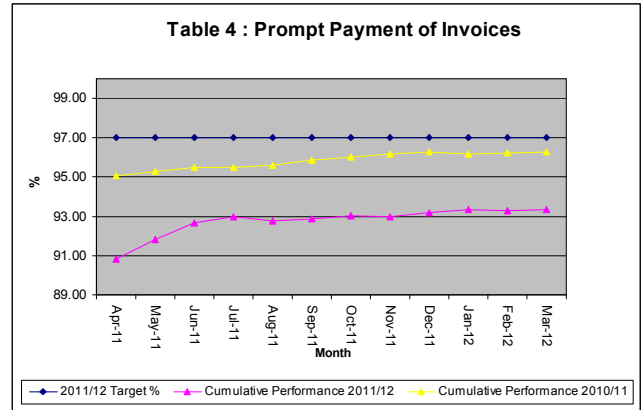
Debt Portfolio		
	Principal	Interest per annum
	£m	£m
PWLB	115.387	5.214
Market Loans	17.500	0.793
Temp Loan	10.000	0.004
TOTAL	142.887	6.011

Prompt Payment (Invoices paid within 30 Days)

The accumulative prompt payment of invoices at 31st March 2012 is 93.54% against a target of 97.00%. The current performance is shown in comparison to the cumulative performance for 2010/11 in table 4.

Reasons for the change in performance from 2010/11 include:

- A substantial number of residual invoices received for City Services dated prior to the outsourcing to Enterprise.
- A cleansing of the 'on hold' invoices generated a large number of outstanding invoices coming through into this financial year that were outside of the 30 day payment terms.

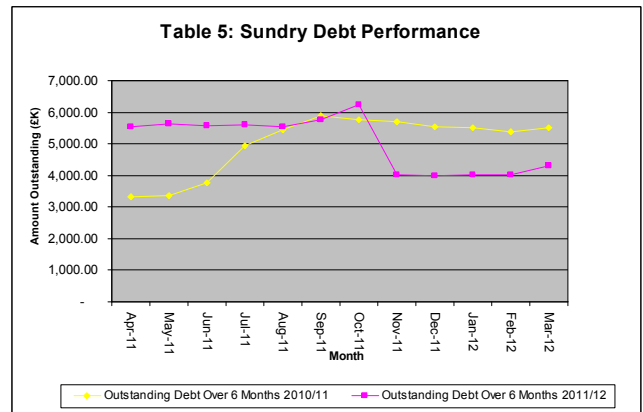


Sundry Debt Performance

The current outstanding sundry debt in excess of 6 months is shown in table 5 as at 31 March 2012

The top 20 debts total £3.2m of the total debt outstanding on the sundry debt and commercial rents portfolio. In order to progress action against these debts, bi-monthly review meetings have been set up with each Directorate Head of Business Support to discuss issues, disputes and move forward with actions to recover income.

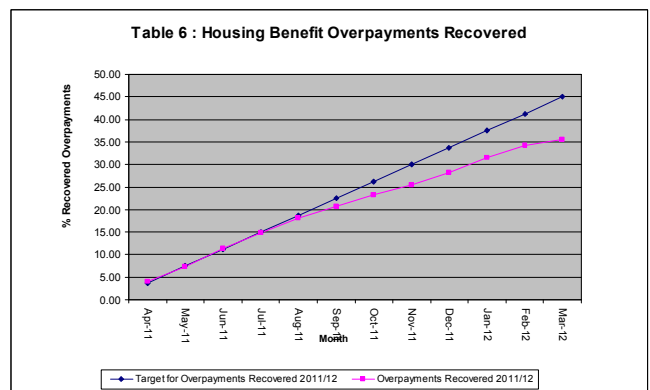
- The amount of debt written off for 2011/12 is Nil.



Housing Benefit Overpayments

Table 6 shows the total amount of housing benefit overpayments recovered against the cumulative target rate set for 2011/12.

Housing benefit overpayment collection for the end of 31st March 2012 was 35.60% which is 9.4% below the target of 45%. More proactive recovery work on benefit overpayments is planned during March to improve collections.



Council Tax and Business Rates Collection

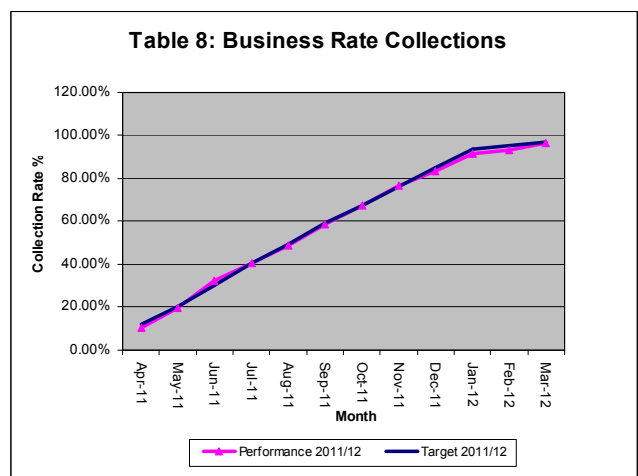
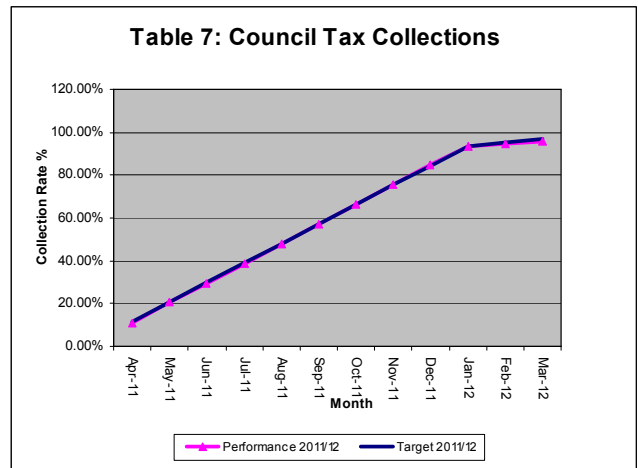
The following tables 7 and 8 show the performance for collection of Council Tax and Business Rates for the period to date.

Council Tax

Council Tax collection at 31 March 2012 was 95.73% (95.76% for 2010/11 at 31 March 2011) which is 1.02% below the target 96.75%

Business Rates

The collection of non Domestic Rates as of 31 March 2012 was 96.37% (96.31% for 2010/11 at 31 March 2011) which is .38% below the target 96.76%.



AUDIT COMMITTEE	Agenda Item No. 9
25th JUNE 2012	PUBLIC REPORT

Cabinet Member(s) responsible:	Resources portfolio holder, Cllr Seaton	
Contact Officer(s):	John Harrison, Executive Director Strategic Resources Steven Pilsworth, Head of Corporate Services	Tel. 452398 Tel. 384564

STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012

RECOMMENDATIONS	
FROM : Executive Director - Strategic Resources	Deadline date : 30 June 2012; <i>statutory deadline for approving Accounts</i>
1. For members to review and comment on the Statement of Accounts prior to the Chief Finance Officer's certification by the 30 June 2012.	

1. ORIGIN OF REPORT

This report forms part of the regular pattern of reporting on the Council's financial position.

2. PURPOSE AND REASON FOR REPORT

- 2.1. The Council must consider and approve its Accounts at a meeting of either the full Council or a Committee of the Council. This is a requirement of the Accounts & Audit Regulations 2011. The Council's Constitution delegates this matter to the Audit Committee.
- 2.2. This is in accordance with the Committees Terms of Reference – 2.2.19 to review the annual statement of accounts.
- 2.3. The Accounts must be signed and certified by 30 June 2012 by the Council's Section 151 officer (Executive Director – Strategic Resources), in accordance with the Accounts and Audit Regulations 2011.
- 2.4. The Council's Section 151 officer has responsibility for certifying that the Accounts present fairly the financial position of the Council at 31 March 2012.
- 2.5. The Audit Committee is required to approve the Accounts no later than 30 September 2012 following, and in the knowledge of, the audit findings.
- 2.6. Whilst under the new regulations the Council's Audit Committee is no longer required to approve the accounts prior to audit, the Council considers it is good practice for members to review and comment on the accounts prior to the Chief Financial Officer's certification. The Finance team will continue to review the accounts after Committee agenda despatch, working towards the CFO certification and the start of the audit. If any substantial changes are needed to the Accounts, then an update will be provided to Committee at the meeting.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	Not applicable
---	-----------	---	----------------

4. KEY POINTS

- 4.1. The 2011/12 Statement of Accounts is the second set of accounts the Council has produced under International Financial Reporting Standards (IFRS), and therefore compared to last years accounts there has been relatively few developments in accounting treatment for 2011/12.
- 4.2. However, this year, the Council is required to make technical accounting adjustments for Adult Social Care expenditure because of the amendment to the risk share agreement for the Pooled Partnership, that became effective from 1 April 2011, and the end of Partnership Agreement with NHS Peterborough. The Council has been in discussion with the external auditors with regards to these adjustments since February and whilst an approach for 2011/12 accounts has been agreed in principle, the auditors have reserved their final audit opinion on the Council's treatment until the completion of the audit, to be concluded in September.

Format of the Accounts 2011/12

- 4.3. The Accounts for 2011/12 conform with CIPFA's (Chartered Institute of Public Finance & Accountancy) Service Reporting Code of Practice for Local Authority Accounts and the Code of Practice on Local Authority Accounting (the Code). The individual financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of the Council.
- 4.4. The key contents of the various sections are as follows:
- *Explanatory Foreword* - provides an understandable guide to the most significant matters reported in the accounts.
 - *Statement of Responsibilities* – sets out the responsibilities of the Council and the chief financial officer in respect of the Statement of Accounts
 - *Comprehensive Income and Expenditure 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
 - *Movement in Reserves Statement* – this statement shows the movement in the year on the different reserves held by the Council
 - *Balance Sheet* – shows the value of the assets and liabilities recognised by the Council as at 31 March 2012
 - *Cash Flow Statement* – summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties for both revenue and capital purposes in 2011/12
 - *Notes to the Financial Statements* - the various statements are supported by technical Notes and by the *Statement of Accounting Policies*
 - *The Collection Fund & Notes* – shows the transactions of the Council in relation to Council Tax and National Non-Domestic Rates
 - *Statement of Accounting Policies* – outlines the accounting policies adopted by the Council
 - *Annual Governance Statement* – identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and

proper standards and that public money is safeguarded. This statement is an item on this meetings agenda and therefore subject to change, consequently it will be included in the audited accounts, published by 30 September, following its approval.

Schools

- 4.5. Details on Schools Balances are shown in Note 18 to the Core Financial Statements in the Accounts. This shows that there was a net increase in School Balances during 2011/12 of £0.1m from £6.7m to £6.8m. There was 1 school (from 4 at 31 March 2011) with a deficit balance at 31 March 2012. These Schools are required to submit plans to the Council demonstrating how these deficits will be overcome.

Collection Fund

- 4.6. During 2011/12, Council Tax collection rates had an in year final collection rate of 95.73%.
- 4.7. The 2009 SoRP brought a change of accounting policy with regards to the Collection Fund, such that any surplus or deficit incurred is shown in the Comprehensive Income and Expenditure Statement and the impact of this reversed out through the Movement in Reserves Statement.
- 4.8. For 2011/12 the Collection Fund had a small surplus of £134k (deficit of £1.2m in 2010/11) for the year of which the Council's share of £110k is shown in the Comprehensive Income and Expenditure Statement.

Balance Sheet at 31 March 2012

- 4.9. The Statement of Accounts includes a Balance Sheet that sets out the net worth of the Council at the balance sheet date. The following paragraphs give a high level indication of the reason for movements from last year restated Balance Sheet which total a net decrease of £20m.
- 4.10. The Revaluation Reserve represents the net movement in the value of fixed assets since 1 April 2007 and it increased by £22m during the year.
- 4.11. The Capital Adjustment Account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them. This account increased by £6.8m, as charges such as depreciation and impairment were lower than the capital receipts and grants income for the year.
- 4.12. The Pension Reserve, which balances the Pensions Liability, has increased by £42m. This is mainly because of the more unfavourable financial assumptions on 31 March 2012 compared to those at 31 March 2011 used by the actuaries in estimating the liabilities.

Reserves and Balances

- 4.13. As reported to Council in February 2012, the Executive Director - Strategic Resources is charged with considering the level of Reserves and Balances required by the Council and making recommendations as to the adequacy of the amounts held. The closing balance for the General Fund for 2011/12 was £6.0m which is consistent with MTFS.

Next Steps - approval, signing, inspection and audit

- 4.14. The revised Accounts and Audit Regulations 2011, include the following for the approval and publication of the annual accounts:

- the responsible financial officer must certify the presentation of the annual accounts no later than the 30 June
 - the annual accounts must be published with the audit opinion and certificate, and before that must have been approved by members no later than 30 September
 - the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given
- 4.15. The Council considers it is good practice for members to review and comment on the accounts prior to the Chief Finance Officer's certification. The Finance team will continue to review the accounts after Committee agenda despatch, working towards the CFO certification and the start of the audit. If any substantial changes are needed to the Accounts, then an update will be provided to Committee at the meeting.
- 4.16. Work will continue on reviewing the accounts following Committee, but prior to the start of the audit on 2nd July. Any further changes will be cleared by the Chief Finance Officer before certification on 30th June.
- 4.17. The Auditor will decide the date from which they will receive questions on and objections to the Accounts. The Accounts will be placed on deposit for public inspection for not less than 20 working days before the date set by the Auditor (Regulation 14).
- 4.18. At the conclusion of the Audit, the Auditor will issue a report on the Financial Statements and will issue the Audit Certificate for 2011/12. This will be considered at the Audit Committee meeting on 24 September 2012.

Appendices

Statement of Accounts 2011/12

5. CONSULTATION

No external consultation has been undertaken.

6. ANTICIPATED OUTCOMES

As set out in the report.

7. REASONS FOR RECOMMENDATIONS

The Accounts and Audit Regulations 2011 require that the Statements of Accounts be prepared to include the statements set out in Regulation 7 and that the signing and approval of the Accounts be undertaken as set out at Regulation 13 of those regulations. Approval of the Accounts is a non-executive function.

8. ALTERNATIVE OPTIONS CONSIDERED

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the Code) and hence alternative options are limited.

9. IMPLICATIONS

There are no Human Resource issues arising directly from the recommendations in this report.

10. BACKGROUND DOCUMENTS

Budgetary control reports through 2011/12
Council February 2012: Medium Term Financial Strategy

The Accounts and Audit Regulations (England) 2011, Statutory Instrument

This page is intentionally left blank

PETERBOROUGH



CITY COUNCIL

Statement of Accounts

2011/12



For further copies of this document or questions about it please contact:

The Head of Strategic Finance

Peterborough City Council

Town Hall

Bridge Street

Peterborough

PE1 1HG

email: FinanceManagementTeam@peterborough.gov.uk

Tel: 01733 384590

www.peterborough.gov.uk

Peterborough City Council

Statement of Accounts 2011/12

Contents	Page
Explanatory Foreword	1
Independent Auditor's Report to the Members of Peterborough City Council.....	6
Statement of Responsibilities.....	8
Comprehensive Income and Expenditure Statement.....	9
Movement in Reserves Statement	10
Balance Sheet.....	11
Cash Flow Statement.....	12
Notes to the Accounts	13
The Collection Fund and Notes.....	64
Statement of Accounting Policies.....	66
Glossary	83
Index of Notes to the Core Financial Statements.....	88
<u>Annex 1</u>	
Annual Governance Statement	

Explanatory Foreword

1 Background

The Statement of Accounts has been prepared in accordance with statutory requirements, detailed in the Local Government Act 2003, the Accounts and Audit Regulations 2011 and The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code).

2 The Accounts

The Statement of Accounts brings together the major financial statements for the Council for the financial year 2011/12. The financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of Peterborough City Council. The key contents of the various sections are as follows:

- *Explanatory Foreword*
- *Statement of Responsibilities* – sets out the responsibilities of the Council and the chief finance officer in respect of the Statement of Accounts
- *Comprehensive Income and Expenditure 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
- *Movement in Reserves Statement* – this statement shows the movement in the year on the different reserves held by the Council

- *Balance Sheet* – shows the value of the assets and liabilities recognised by the Council as at 31 March 2012
- *Cash Flow Statement* – summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties for both revenue and capital purposes in 2011/12
- *Notes to the Financial Statements* - the various statements are supported by technical *Notes* and by the *Statement of Accounting Policies*
- *The Collection Fund and Notes* – shows the transactions of the Council in relation to Council Tax and National Non-Domestic Rates
- *Statement of Accounting Policies* – outlines the accounting policies adopted by the Council

3 Revenue Expenditure

The Comprehensive Income and Expenditure Statement on page 9 shows the gross revenue expenditure and income together with net expenditure for 2011/12 compared with 2010/11 equivalents. The Comprehensive Income and Expenditure Statement is analysed by services as laid down in the Service Reporting Code of Practice (SeRCOP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Council's organisational structures, on which the estimates for the year and budget monitoring during the year are based,

do not correlate directly with SeRCOP. However, Note 16 page 25, demonstrates the presentational differences between these reporting requirements.

The Council monitors its spending against budget regularly throughout the financial year and reports projected variances to the Cabinet. These reports are based on the Council's organisational structure.

Budget managers receive detailed budgetary control information each month and most have access to online computerised systems. At departmental level, a monthly report on the budgetary control position for the relevant services is reviewed by each Departmental Management Team.

The following table compares the budget to the actual net expenditure based upon the Council's organisational structure. Figures in brackets indicate a favourable variance. Significant pressures in adult social care were mostly offset by savings elsewhere as a result of positive management action, but overall the Council over spent by £678k, a variance of less than 0.5% of budget. This was covered by reserves.

Revenue Expenditure	Budget £000	Actual £000	Variance £000
Chief Executive Office	9,352	7,513	(1,839)
Children's Services	29,256	29,286	30
Operations	21,012	20,261	(751)
Strategic Resources	52,355	51,123	(1,232)
Adult Social Care	38,058	46,446	8,388
Corporate Items	-	(3,918)	(3,918)
Total Council Expenditure	150,033	150,711	678
Transfer from earmarked reserve			(678)
Contribution to General Fund Balance			-
General Fund Balance Brought Forward			6,000
General Fund Balance Carried Forward			6,000

The financing of the budget was as follows:

Financed by	£000
Government Grant (Revenue Support Grant)	18,578
Distribution from National Non Domestic Rates	60,102
Demand on the Collection Fund	61,726
Capitalisation Direction	470
Reserves	9,157
Total Financing	150,033

Balances

At 31 March 2012, the General Fund working balance of the Council stood at £6m which is in line with the Medium Term Financial Strategy (MTFS).

In addition the Schools balances totalled £6.8m at 31 March 2012, compared to £6.7m at 31 March 2011.

4 Capital Expenditure

The main elements of capital expenditure, compared with the revised February 2012 budget after slippage, are shown below.

Capital Expenditure	Budget per MTF5 2011 Approved Budget £000	2011/12 Budget inc. slippage from 2010/11 £000	Revised Budget at February 2012 £000	Outturn £000
Chief Executives	12,115	19,519	3,895	3,002
Children's Services	52,824	56,277	46,345	45,394
Operations	19,048	20,457	16,397	16,091
Strategic Resources	20,854	23,303	15,816	12,430
Adult Social Care	3,965	4,189	1,293	390
Total	108,806	123,745	83,746	77,307
Financed by:				
External Sources	45,407	53,733	47,880	41,354
Capital Receipts	19,034	19,034	9,878	7,050
Borrowing	44,365	50,978	25,988	28,903
Total	108,806	123,745	83,746	77,307

The Capital Expenditure was funded by a mixture of grants, contributions, capital receipts and borrowing.

5 External Borrowings and Investments

At 31 March 2012 the Council had net borrowings including cash and outstanding interest of £140.5m (£117.1m in 2010/11).

2010/11 £m		2011/12 £m
1.7	Short Term Borrowing*	10.0
134.6	Long Term Borrowing*	134.6
(19.2)	Investments	(4.1)
117.1	Net Borrowing	140.5

*No new long term borrowing, or rescheduling of debt, was undertaken in 2011/12 (no new borrowing in 2010/11). However, £10m was borrowed in the short term in the latter months of the financial year for cash flow purposes. This reflects the Treasury Management policy per the MTF5, as it continues to be more cost effective to run down the Council's cash balances.

6 Change in Accounting Policies

For 2011/12 the Code has introduced a change in accounting policy relating to the treatment of heritage assets held by the Council. The Council now discloses separately a new class of asset, heritage assets in Note 19. These assets are classified as those principally held for their contribution to knowledge or culture. As the Code has amended the valuation requirements of heritage assets, the Council has been able to recognise such assets using insurance valuations, see Note 19 for further information.

7 Changes to Service Delivery and Other Developments

In November 2011 the Council entered into a 10 year partnership arrangement with Serco that is aimed at improving efficiency and effectiveness of a range of council services. These services include revenues and benefits service, payroll, collection of Council Tax, business transformation, procurement, strategic property and customer services.

From the 1 March 2012 the Council has also taken back the direct management and commissioning of Adult Social Care following the end of the Partnership Agreement with NHS Peterborough. This change includes a range of services such as community social work teams undertaking care assessments, services for older people, occupational health and learning disability services.

In the summer of 2011 the Council's Cabinet agreed for the Council to establish an Energy Services Company (ESCo). The aim of this ESCo is to pursue the provision of low and zero-carbon energy schemes with the energy produced available to the Peterborough area for both domestic and business users. Whilst still in its infancy for 2011/12, this company, Blue Sky Peterborough Ltd, will support Peterborough's status as Environment Capital and help the Council achieve the target reduction in carbon emissions.

8 Pensions

The main statements include entries to show the financial position of the Council's share of the Cambridgeshire Pension Fund. This information has been compiled by the Fund's

actuary in accordance with International Accounting Standard 19: Employee Benefits (IAS19).

Based on the information supplied by the actuary in compliance with IAS19, the calculated deficit on the Fund has increased during 2011/12, from £145.3m in 2010/11 to £187.3m. The change of £41.9m is largely a result of:

- falling bond yields
- poor asset returns

The projected pension expense for the next year has also fallen for the same reasons.

The future year's employers' contributions are factored in to Medium Term Financial Strategy (MTFS) and refreshed annually.

The Council's employer's contribution to the Fund was maintained at 17.6% in 2011/12 based on the advice from the independent Actuary. This percentage was reviewed as part of the triennial actuarial valuation during 2010. Future contributions will depend on demographic factors, investment returns, and changes in the legislation which governs the scheme. Further details can be found in Note 7, page 16.

9 Conclusion

The Statement of Accounts includes a great deal of information on the financial activities of the Council and provides a good insight into its workings.

The Council approved the revenue and capital budget requirement for 2011/12 in February 2011. At that time it was anticipated that saving plans that were in place would deliver an under spend for the year which would help offset future years grant reductions announced by the Coalition Government.

During the year however, the Council experienced increased demand for services in both adult and children's social care services.

As a result of the forecast overspend, the Council introduced a number of management actions throughout the year to address these financial challenges, including spend only on business critical activities, and the re-profiling of capital investments. The Council was also able to benefit from better waste recycling rates which reduced landfill costs, and experience a more favourable position of some traded service areas.

The Council has closely monitored and assessed the impact of these pressures, along with decisions made in respect of any actions taken to improve the year-end position, in setting its

budget for 2012/13. The costs which have been identified as continuing pressures have been considered as part of setting the MTFS.

The Council's approach remains founded on the basis of the Council being efficient, effective and accessible. The MTFS is based on the philosophy of:

"Minimising overheads, reducing bureaucracy and improving value for money to ensure that resources are available to improve front line service outcomes to the community whilst ensuring the impact on council tax levels is as low as possible".

I am extremely grateful to all the finance staff across the Council for the support and enthusiasm which they have brought to the many and challenging tasks they have faced.

I hope readers will find the following pages helpful and interesting in providing an insight into the finances of the Council.

John Harrison
Executive Director - Strategic Resources

Independent Auditor's Report to the Members of Peterborough City Council

Opinion on the financial statements

Page will be updated with audit report following completion of external audit – September 2012.

143

Date: _____

Julian Rickett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium, St Georges Street, Norwich, NR3 1AG

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

Page will be updated with audit report following completion of external audit – September 2012.

144

Date:

Julian Rickett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium, St Georges Street, Norwich, NR3 1AG

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has the responsibility for the administration of those affairs. In this Council, that officer is the Executive Director - Strategic Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

Chairman's Certificate

I certify that the Statement of Accounts for the year ended 31 March 2012 was approved at the meeting of the Audit Committee on 24 September 2012.

Signed on behalf of Peterborough City Council:

Chairman of meeting
approving the accounts:

*Note – not be signed until
September 2012*

Date:

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer 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 Chief Financial Officer has also:

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

Chief Financial Officer's Certificate

I certify that the accounts set out on pages 9 to 82 present a true and fair view of the financial position of the Council at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Executive Director -
Strategic Resources:

Date:

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.

Councils 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.

2010/11			Comprehensive Income and Expenditure Statement				2011/12		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Notes	Gross Expenditure £000	Gross Income £000	Net Expenditure £000		
3,875	(1,661)	2,214	Central Services to the Public		2,509	(662)	1,847		
300	-	300	Court Services		444	-	444		
11,329	(1,467)	9,862	Cultural and Related Services		11,692	(743)	10,949		
240,819	(193,060)	47,759	Education & Children's Services	1, 6	220,741	(175,598)	45,143		
16,094	(4,726)	11,368	Environmental and Regulatory Services		15,661	(6,095)	9,566		
21,829	(7,347)	14,482	Highways & Transport Services		24,713	(6,981)	17,732		
85,684	(78,557)	7,127	Other Housing Services		92,501	(84,433)	8,068		
20,240	(7,175)	13,065	Planning Services		11,805	(3,569)	8,236		
51,491	(9,697)	41,794	Adult Social Care	2, 6	57,862	(10,985)	46,877		
-	(53,405)	(53,405)	Exceptional Income – Pension Liability Reduction	7	-	-	-		
4,097	(1,471)	2,626	Corporate & Democratic Core	3, 4	3,292	(1,191)	2,101		
-	(4,438)	(4,438)	Non Distributed Costs		-	(3,117)	(3,117)		
455,758	(363,004)	92,754	Cost of Services	16	441,220	(293,374)	147,846		
23,699	(13,760)	9,939	Other Operating Expenditure	9,10	15,983	(11,927)	4,056		
21,613	(466)	21,147	Financing & Investment Income & Expenditure	11	20,119	(262)	19,857		
-	(174,788)	(174,788)	Taxation & Non-Specific Grant Income	12, 13	-	(176,239)	(176,239)		
501,070	(552,018)	(50,948)	(Surplus) / Deficit on Provision of Services	16	477,322	(481,802)	(4,480)		
		(50,333)	Surplus on Revaluation of Non-Current Assets				(25,890)		
		(31,527)	Actuarial (Gains) / Losses on Pension Assets / Liabilities	7			42,243		
		(81,860)	Other Comprehensive Income & Expenditure				16,353		
		(132,808)	Total Comprehensive Income & Expenditure				11,873		

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie 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 cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement, page 9.

These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase or Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council, for further, more detailed movements, see Note 17.

Movement in Reserves during 2010/11 and 2011/12	Notes	General Fund Balance	School's Balances	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	17	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2010		3,758	5,114	17,078	-	5,297	31,247	710	31,957
Deficit / (Surplus) on Provision of Services		50,059	889	-	-	-	50,948	-	50,948
Other Comprehensive Income & Expenditure		-	-	-	-	-	-	81,860	81,860
Total Comprehensive Income & Expenditure		50,059	889	-	-	-	50,948	81,860	132,808
Adjustments between accounting basis & funding basis under regulations		(47,110)	-	-	3,957	452	(42,701)	42,701	-
Net Increase / Decrease before Transfers to Earmarked Reserves		2,949	889	-	3,957	452	8,247	124,561	132,808
Transfers to / (from) Reserves		(707)	746	(40)	(3,957)	(785)	(4,743)	4,743	-
Increase / (Decrease) in 2010/11		2,242	1,635	(40)	-	(333)	3,504	129,304	132,808
Balance at 31 March 2011 Carried Forward		6,000	6,749	17,038	-	4,964	34,751	130,014	164,765
Balance at 1 April 2011		6,000	6,749	17,038	-	4,964	34,751	130,014	164,765
Deficit / (Surplus) on Provision of Services		4,380	100	-	-	-	4,480	-	4,480
Other Comprehensive Income & Expenditure		-	-	-	-	-	-	(16,353)	(16,353)
Total Comprehensive Income & Expenditure		4,380	100	-	-	-	4,480	(16,353)	(11,873)
Adjustments between accounting basis & funding basis under regulations		(4,438)	-	-	5,893	(2,173)	(718)	718	-
Net Increase before Transfers to Earmarked Reserves		(58)	100	-	5,893	(2,173)	3,762	(15,635)	(11,873)
Transfers to / (from) Reserves		58	-	(58)	(5,893)	(1,062)	(6,955)	6,955	-
Increase / (Decrease) in 2011/12		-	100	(58)	-	(3,235)	(3,193)	(8,680)	(11,873)
Balance at 31 March 2012 Carried Forward		6,000	6,849	16,980	-	1,729	31,558	121,334	152,892

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserve are usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes the 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, page 10, line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2011 £000	Balance Sheet	Notes	31 March 2012 £000
435,232	Property, Plant & Equipment	19	499,029
40,012	Investment Property	20	33,826
2,538	Intangible Assets	21	2,148
24,382	Surplus Assets	22	23,517
457	Long Term Investments	29	158
2,334	Long term Debtors	29, 31	2,353
504,955	Long Term Assets		561,031
449	Short Term Investments	29	438
484	Inventories	32	385
48,636	Short Term Debtors	33	47,431
15,634	Cash & Cash Equivalents	40	3,270
6,146	Assets Held for Sale	22	2,300
71,349	Current Assets		53,824
(20,883)	Short Term Borrowing	29	(29,213)
(53,001)	Short Term Creditors	34	(61,196)
(6,011)	Provisions	36	(6,540)
(79,895)	Current Liabilities		(96,949)
(145,349)	Long Term Creditors	7	(187,284)
(1,611)	Provisions	36	(1,478)
(115,387)	Long Term Borrowing	29	(115,387)
(43,688)	Other Long Term Liabilities	27, 28, 29, 31	(43,445)
(25,609)	Capital Grants Receipts in Advance	35	(17,420)
(331,644)	Long Term Liabilities		(365,014)
164,765	Net Assets		152,892
(34,751)	Usable Reserves	17	(31,558)
(130,014)	Unusable Reserves	17	(121,334)
(164,765)	Total Reserves		(152,892)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant

income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2010/11 £000	Cash Flow Statement	Notes	2011/12 £000
(50,948)	Net Deficit / (Surplus) on the Provision of Services		(4,480)
16,594	Adjust net (Surplus) / Deficit on the Provision of Services for Non Cash Movements		(31,767)
(24,028)	Adjust for Items Included in the Net (Surplus) / Deficit on the Provision of Services that are Investing & Financing Activities		(20,787)
<u>(58,382)</u>	Net Cash Flows from Operating Activities		(57,034)
41,049	Investing Activities	38	69,301
11,750	Financing Activities	39	97
<u>(5,583)</u>	Net Decrease / (Increase) in Cash & Cash Equivalents		12,364
10,051	Cash & Cash Equivalents at the Beginning of the Reporting Period		15,634
5,583	(Decrease) / Increase in Cash and Cash Equivalents		(12,364)
<u>15,634</u>	Cash & Cash Equivalents at the end of the Reporting Period	40	3,270

Notes to the Accounts

1 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2011/12 and for the previous financial year, 2010/11 follows:

Schools Budget Funded by Dedicated Schools Grant	Central Expenditure £000	ISB £000	Total £000
Final DSG for the financial year			(124,491)
Adjustment for Academy Transfers			(6,139)
Brought forward from 2010/11			(497)
Carry forward to 2012/13			276
Agreed budgeted distribution in year	(15,752)	(115,099)	(130,851)
Actual central expenditure	15,092	-	15,092
Actual ISB deployed to schools	-	115,099	115,099
Local Authority contribution for 2011/12	-	-	-
Carry Forward to 2011/12	(660)	-	(660)
Total amount carried forward			(936)

Schools Budget Funded by Dedicated Schools Grant	Central Expenditure £000	ISB £000	Total £000
Final DSG for the financial year			(114,783)
Adjustment for Academy Transfers			(3,822)
Brought forward from 2009/10			(775)
Carry forward to 2011/12			157
Agreed budgeted distribution in	(17,782)	(101,441)	(119,223)
Actual central expenditure	17,636	-	17,636
Actual ISB deployed to schools	-	101,247	101,247
Local Authority contribution for 2010/11	-	-	-
Carry Forward to 2010/11	(146)	(194)	(340)
Total amount carried forward			(497)

2 Pooled Funds and Similar Arrangements

In April 2004 the Council entered into a section 75 Pooled Budget arrangement with NHS Peterborough for the provision of Adult Social Care (ASC). On 1 March 2012 this agreement came to an end and the Council manages the provision of ASC services directly rather than through the Pooled Partnership.

For the 2011/12 financial year, changes to the Section 75 partnership agreement came in to effect. This change in agreement resulted in a change to the Council's accounting treatment for ASC expenditure. Rather than accounting for only the Council's contribution to the Pooled Partnership Fund, the Council is now be required to account for ASC expenditure undertaken by the Pooled Partnership as if the Council had incurred that expenditure directly.

The Council has assessed the impact of this amendment to the accounting treatment for ASC and has concluded that as the values involved are immaterial the required adjustments would not add any additional value to the reader of the accounts. Therefore the Council has not accounted for this change in risk share under merger accounting in the Balance Sheet but the notes to the Comprehensive Income and Expenditure Statement have been amended.

Further information can be found in Note 45.

3 External Audit Costs

The Council has incurred the following cost in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors, PriceWaterhouseCoopers.

2010/11 £000	External Audit Costs	2011/12 £000
252	Fees payable with regard to external audit services carried out by the appointed auditor	226
45	Fees payable for the certification of grant claims & returns carried out by the appointed auditor	45
-	Fees payable in respect of other services provided by the appointed auditor	16
<u>297</u>	Total	<u>287</u>

4 Members Allowances

The following amounts were paid to members of the Council during the year.

2010/11 £000	Members Allowances	2011/12 £000
714	Allowances	708
1	Expenses	1
<u>715</u>	Total	<u>709</u>

5 Termination Benefits and Packages

The Council terminated the contracts of a number of employees as part of the voluntary redundancy programme in 2011/12, incurring liabilities of £2.3m (£5.4m 2010/11). These costs include voluntary and compulsory redundancy costs, pension strain and other departure costs.

The costs include those paid and those provided for in the year, see Note 36 for details of the redundancy provision. The costs were charged to the Comprehensive Income and Expenditure Statement as shown in the table below:

2010/11 £000	Termination Benefits	2011/12 £000
128	Central Services to the Public	165
30	Cultural and Related Services	88
2,735	Education & Children's Services	1,146
124	Environmental and Regulatory Services	62
220	Highways & Transport Services	130
461	Other Housing Services	2
266	Planning Services	93
-	Adult Social Care	156
60	Corporate & Democratic Core	87
706	Trading Operations	14
652	Support Services (<i>recharged to the services</i>)	342
<u>5,382</u>	Total	<u>2,285</u>

The numbers of packages agreed and the value of those packages are analysed below, in bands of £20k up to £100k and bands of £50k thereafter.

Termination and Exit Packages 2011/12							
Compulsory number	Voluntary number	Total number	Bands	Compulsory £000	Voluntary £000	Total £000	Pension Strain inc. in total * £000
9	73	82	£0 - £19,999	135	439	574	34
-	38	38	£20,000 - £39,999	-	1,092	1,092	140
-	5	5	£40,000 - £59,999	-	253	253	45
-	3	3	£60,000 - £79,999	-	185	185	70
-	2	2	£80,000 - £99,999	-	181	181	77
9	121	130	Total	135	2,150	2,285	366

Termination and Exit Packages 2010/11							
Compulsory number	Voluntary number	Total number	Bands	Compulsory £000	Voluntary £000	Total £000	Pension Strain inc. in total * £000
2	93	95	£0 - £19,999	15	886	901	33
-	58	58	£20,000 - £39,999	-	1,674	1,674	240
-	23	23	£40,000 - £59,999	-	1,097	1,097	332
-	11	11	£60,000 - £79,999	-	826	826	222
-	5	5	£80,000 - £99,999	-	465	465	321
-	2	2	£100,000 - £149,999	-	224	224	127
-	1	1	£150,000 - £200,000	-	195	195	97
2	193	195	Total	15	5,367	5,382	1,372

* Pension Strain inc. in total is the amount paid to the Local Government Pension Scheme, see Note 7 for further information.

6 Pension Schemes Accounted for as Defined Contribution Schemes

Teachers Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon retirement, and the Council contributes towards the cost by making contributions based on a percentage of members' pensionable salaries through the DSG allocation (Note 1).

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2011/12 the Council paid £6.4m to Teachers' Pension in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £7.0m and 14.1%. The contributions reduced between years as two secondary and a primary school have transferred to Academy status during 2011/12. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 7.

NHS Pension Scheme

This scheme applies to some of the former employees of the Pooled Partnership with NHS Peterborough for the delivery of Adult Social Care services. Present employees are covered by the provisions of the NHS Pension Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.nhsbsa.nhs/pensions.

The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable participating bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the Council of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

7 Defined Benefit Pension Schemes

Participation in pension schemes

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

The Council participates in the Local Government Pension Scheme (LGPS), administered by Cambridgeshire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into

a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions relating to post employment benefits

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

2010/11 £000	Comprehensive Income and Expenditure Statement	2011/12 £000
	Cost of Services:	
12,586	Current service cost	10,512
(53,405)	Past service cost	(2,413)
(4,657)	Curtailment and Settlement	(506)
	Financing & Investment Income & Expenditure	
24,212	Interest cost (Note 11)	22,359
(18,057)	Expected return on scheme assets (Note 11)	(17,874)
<u>(39,321)</u>	Total post employment benefit charged to the Deficit / (Surplus) on the Provision of Services	12,078
	Other employment benefit charged to the Comprehensive Income and Expenditure Statement	
(31,527)	Actuarial losses / (gains)	42,243
<u>(70,848)</u>	Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	54,321
	Movement in Reserves Statement	
70,848	Reversal of net charges made to the (Surplus) / Deficit on the Provision of Services for post employment benefits in accordance with the code	(54,321)
	Actual amount charged against the General Fund Balance for pensions in the year:	
14,562	Employer's contributions payable to scheme	12,386
<u>85,410</u>	Total Movement in Reserves Statement	(41,935)

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 is a loss of £190.3m and at 31 March 2011 was a loss of £148.1m which has built up from 1st April 2004.

Assets and liabilities in relation to post employment benefits

31 March 2011 £000	Reconciliation of Present Value of Scheme Liabilities (defined benefit obligation)	31 March 2012 £000
480,626	Opening Liability at 1 April	407,309
12,586	Current Service Cost	10,512
24,212	Interest Cost	22,359
4,512	Contributions by Scheme Participants	3,629
(28,175)	Actuarial Losses / (Gains)	25,111
456	Losses on Curtailments (excluding settlement amounts)	964
(22,946)	Liabilities Extinguished on Settlements	(4,569)
(53,405)	Past Service Costs	(2,413)
	- Liabilities Assumed on a Business Combination	12,290
(10,557)	Benefits Paid	(10,174)
407,309	Closing Liability at 31 March	465,018

31 March 2011 £000	Reconciliation of the Fair Value of the Scheme Assets	31 March 2012 £000
249,867	Opening Value at 1 April	261,960
18,057	Expected Rate of Return on Assets	17,874
3,352	Actuarial Gains	(17,132)
(17,833)	Assets Distributed on Settlements	(3,099)
14,562	Employer Contributions	12,386
4,512	Contributions by Scheme Participants	3,629
	- Assets Acquired in a Business Combination	12,290
(10,557)	Benefits Paid	(10,174)
261,960	Closing Fair Value of Scheme Assets at 31 March	277,734

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 £0.8m (2010/11 £16.3m).

Scheme history

Local Government Pension Scheme	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Present Value of Liabilities	272,854	270,081	480,626	407,309	465,018
Fair Value of Assets in the Scheme	(210,145)	(178,074)	(249,867)	(261,960)	(277,734)
(Surplus) / Deficit in scheme	62,709	92,007	230,759	145,349	187,284

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £187.3m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, see Note 17, page 36. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

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

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £8.8m.

Basis for estimating assets and liabilities

The principal assumptions used by the actuary have been:

31 March 2011		31 March 2012
Long-term expected rate of return on assets in the scheme		
7.5%	Equity Investments	6.3%
4.9%	Bonds	3.3%
5.5%	Property	4.4%
4.6%	Cash	3.5%
Mortality Assumptions		
Longevity at 65 for Current Pensioners:		
21.0	Men	21.0 years
23.8	Women	23.8 years
Longevity at 65 for Future Pensioners:		
22.9	Men	22.9 years
25.7	Women	25.7 years
Financial Assumptions		
2.8%	Rate of inflation	2.5%
2.8%	Rate of increase in pensions	2.5%
5.1%	Rate of increase in salaries	4.8%
6.8%	Expected return on assets	5.6%
5.5%	Rate for discounting scheme liabilities	4.8%
25.0%	Take-up of option to convert annual pension into retirement lump sum-pre April 2008 service	25.0%
63.0%	Take-up of option to convert annual pension into retirement lump sum-post April 2008 service	63.0%

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. The Local Government Pension Scheme liabilities have been assessed by Hymans Robertson, the independent actuaries to the Cambridgeshire County Council Pension Fund based on the latest full valuation

of the scheme as at the 31 March 2010. The results of this valuation were projected forward using approximate methods.

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

31 March 2011		31 March 2012
%		%
73	Equity investments	72
15	Bonds	14
8	Property	9
4	Cash	5
100	Total	100

History of Experienced Gains and Losses

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

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
Differences between expected and actual return on assets	(26.75)	(32.33)	19.29	1.28	6.17
Experience Gains and Losses on Liabilities *	12.98	0.16	(0.36)	(5.86)	(1.25)

* represents where events have not coincided with the actuarial assumptions made for the last valuation – the closer to zero the more accurate the assumptions

8 Officers' Remuneration

The number of employees whose remuneration, including lump sum retirement payments but not any associated pension strain, was £50,000 or more in bands of £5,000 is shown in the table.

2010/11 Number of Employees	Remuneration Band	2011/12 Number of Employees
89	£50,000 - £54,999	73
47	£55,000 - £59,999	43
42	£60,000 - £64,999	28
23	£65,000 - £69,999	19
13	£70,000 - £74,999	16
8	£75,000 - £79,999	11
11	£80,000 - £84,999	10
4	£85,000 - £89,999	7
8	£90,000 - £94,999	2
1	£95,000 - £99,999	4
1	£100,000 - £104,999	2
1	£105,000 - £109,999	1
3	£110,000 - £114,999	1
-	£115,000 - £119,000	-
1	£120,000 - £124,999	1
-	£125,000 - £129,999	-
-	£130,000 - £134,999	-
1	£135,000 - £139,999	-
-	£140,000 - £144,999	-
-	£145,000 - £149,999	-
1	£155,000 - £159,999	-
-	£170,000 - £174,999	1
1	£175,000 - £179,999	-

The disclosure is based on gross pay rather than taxable pay i.e. before employee contributions to pension funds.

The bands include those employees who have received remuneration and lump sum payments during the year. This makes comparison between years difficult, but data showing the termination and exit packages is detailed in Note 5. The employees within the Adult Social Care service that transferred to the Council on 1 March 2012 have been included at their salary for the whole year, and thus affect the comparison between years.

The following table shows the remuneration paid to the Council's senior employees.

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

Post Holder	Year	Salary*	Bonuses	Expenses allowance	Compensation for loss of Office	Benefits in kind	Election duties	Total Remuneration (exc. Pension contributions)	Pension Contributions (employers)#	Total Remuneration (inc. Pension contributions)
Chief Executive G Beasley	2011/12	169,265	-	-	-	-	6,000	175,265	29,951	205,216
	2010/11	170,175	-	-	-	-	5,000	175,175	29,951	205,126
Executive Director - Strategic Resources	2011/12	120,282	-	-	-	16	3,025	123,323	21,330	144,653
	2010/11	121,192	-	-	-	109	2,308	123,609	21,330	144,939
Executive Director - Operations	2011/12	107,706	-	-	-	24	525	108,255	19,116	127,371
	2010/11	108,679	-	-	-	596	865	110,140	19,116	129,256
Executive Director - Children Services to 2 September 2011	2011/12	62,641	-	-	34,577	-	-	97,218	10,278	107,496
	2010/11	138,308	-	-	-	-	-	138,308	24,342	162,650
Director - Commercial Services to 4 March 2011	2011/12	-	-	-	-	-	-	-	-	-
	2010/11	83,851	-	1,136	-	1,405	383	86,775	14,756	101,531
Director of Adult - Social Services to 1 January 2012	2011/12	81,595	-	-	-	73	175	81,843	18,021	99,864
	2010/11	110,235	-	-	-	418	-	110,653	19,401	130,054
Solicitor to the Council	2011/12	90,323	-	-	-	-	2,750	93,073	15,897	108,970
	2010/11	90,323	-	-	-	171	2,250	92,744	15,897	108,641

* The small decrease in some officer salaries reflects car parking charges made from 1st April 2011 which are deducted directly from earnings via a salary sacrifice scheme

* Salary includes fees and allowances plus basic arrears

+ Travel related benefits

The Pension Contributions column reflects the employer's contribution only. Each employee makes their own contributions directly to the Pension Fund

9 Trading Operations

The Council has established a number of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations.

Trading Operations 2011/12	Expenditure	Income	Deficit /
	£000	£000	(Surplus) £000
Industrial Properties	1,528	(1,646)	(118)
Commercial Properties	647	(1,960)	(1,313)
Market Properties	405	(530)	(125)
Total for Properties	2,580	(4,136)	(1,556)
Other Traded Services	2,161	(1,893)	268
Sub Total	4,741	(6,029)	(1,288)
Capital Charges Adjustment	186	-	186
Total for Trading Units	4,927	(6,029)	(1,102)

Trading Operations are incorporated into the Comprehensive Income and Expenditure Statement. The majority relate to the Council's property portfolio, but Westcombe Engineering, a company set up to create employment opportunities for people with disabilities is included within the Other Traded Services.

Trading Operations 2010/11	Expenditure	Income	Deficit /
	£000	£000	(Surplus) £000
<i>Industrial Properties</i>	1,094	(1,577)	(483)
<i>Commercial Properties</i>	584	(2,213)	(1,629)
<i>Market Properties</i>	422	(584)	(162)
Total for Properties	2,100	(4,374)	(2,274)
<i>Building Cleaning</i>	880	(894)	(14)
<i>Building Maintenance</i>	2,603	(2,514)	89
<i>Catering</i>	1,315	(1,314)	1
<i>Grounds Maintenance</i>	3,157	(3,170)	(13)
<i>Refuse Collection</i>	3,825	(3,710)	115
<i>Street Cleaning</i>	2,454	(2,842)	(388)
<i>Vehicle Maintenance</i>	948	(944)	4
<i>Other</i>	7,057	(3,432)	3,625
<i>Inter Departmental Adjustment</i>	(18,119)	18,119	-
Total for City Services	4,120	(701)	3,419
Other Traded Services	1,944	(1,588)	356
Sub Total	8,164	(6,663)	1,501
<i>Capital Charges Adjustment</i>	7,398	-	7,398
Total for Trading Units	15,562	(6,663)	8,899

The City Services Trading operations were transferred to Enterprise Peterborough as part of the long-term strategic partnership on 4 March 2011.

10 Comprehensive Income and Expenditure Statement – Other Operating Expenditure

2010/11 £000		2011/12 £000
	Other Operating Expenditure	£000
364	Parish Council Precepts	397
553	Drainage & Flood Levies	564
8,899	(Gains) / Losses on Trading Operations - (Note 9)	(1,102)
10	Payments to the Government Housing Capital Receipts Pool (Note 17)	6
827	Losses on Disposal of Non Current Assets	5,526
(714)	Gains on Right To Buy Receipts (Note 17)	(1,335)
<u>9,939</u>	Total	4,056

11 Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure

2010/11 £000		2011/12 £000
	Financing & Investment Income & Expenditure	£000
10,287	Interest Payable & Similar Charges (Note 29)	10,271
6,155	Pension Interest Cost & Expected Return on Pension Assets (Note 7)	4,485
(466)	Interest Receivable & Similar Income (Note 29)	(262)
5,171	(Gains)/Losses in Fair Value of Investment Properties (Note 20)	5,363
<u>21,147</u>	Total	19,857

12 Comprehensive Income and Expenditure Statement – Taxation and Non Specific Grant Incomes

2010/11 £000		2011/12 £000
	Taxation & Non-Specific Grant Income	£000
(60,986)	Council Tax Income	(61,836)
(67,249)	Distribution of national non-domestic rates (NNDR)	(60,102)
(23,761)	Non-Specific Government Grants (Note 13)	(22,128)
(22,792)	Capital Grants & Contributions (Note 26)	(32,173)
<u>(174,788)</u>	Total Income	(176,239)

13 Grant Income

The Council receives a number of grants that contribute to the Taxation and Non-Specific Grant Income line in the Comprehensive Income and Expenditure Statement, Note 12.

2010/11 £000		2011/12 £000
	Taxation & Non Specific Grant Income	£000
(9,765)	Revenue Support Grant	(18,578)
(13,996)	Area Based Grant	-
	Council Tax Freeze Grant	(1,533)
-	New Homes Bonus	(1,300)
-	Local Services Support Grant	(717)
<u>(23,761)</u>	Total General Government Grants	(22,128)
(67,249)	Distribution of national non-domestic rates (NNDR)	(60,102)
<u>(91,010)</u>	Total non-specific Income from Government	(82,230)

14 Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows the readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The UK Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 16 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in Note 33.

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in Note 4. Members have been consulted over potential related parties and there are no material transactions which require disclosure. The Register of Members' Interest is open to public inspection at the Town Hall during office hours and the details of Members Interests are disclosed in the Democracy area by Member on the Council's website.

Members and officers are appointed as representatives to various local and national bodies where related party transactions could arise, but these have not been identified

separately. The List of Outside Bodies is available for public inspection at the Town Hall during office hours and is also in the Democracy area of the Council's website.

As part of its normal business operations the Council has relationships with other local authorities, these include the provision of legal services and trading standards to Rutland County Council, the joint school broadband regional consortia E2BN with other East of England Authorities and other services with Cambridgeshire County Council including a joint area based broadband project. These initiatives are designed to produce cost savings for the Council, but are not individually of a material nature.

The Council is sole trustee for the charity Peterborough Museum and Art Gallery. The charity is responsible for the provision and maintenance of a Museum and Art Gallery for the City of Peterborough and neighbourhood: for the preservation and exhibition of specimens of natural history, geology, archaeology, social history and the fine arts and as a centre for promoting artistic and general knowledge, and providing access to collections for the purpose of knowledge, education, research and learning. From 1 May 2010 the delivery and operation of cultural services, including Peterborough Museum and Art Gallery, were transferred to Vivacity. However the Council remains sole Trustee for the Peterborough Museum and Art Gallery charity.

Where the Council has substantial interest in companies and relevant transactions and balances these are detailed in Note 15.

There are no further material related party transactions which are not reported elsewhere in the accounts.

15 Interest in Companies

Opportunity Peterborough

The registered name of the company is Peterborough Urban Regeneration Company Limited, known as Opportunity Peterborough, and the company is a wholly owned subsidiary of Peterborough City Council. Before 31 March 2011 it had three guarantors, Homes and Community Agency (HCA), The East of England Development Agency (EEDA) and Peterborough City Council. On 31 March 2011 HCA and EEDA ceased to be members of the company.

The Company exists to “assist, promote, encourage, develop and secure the regeneration in the social, physical, economic environment of the area of Peterborough”. The Council makes a funding contribution to the company and the cost of this, £377,792 in 2011/12 (£250,000 in 2010/11), along with the funding for seconded staff and specific projects, £34,238 in 2011/12 are included within the Council’s Cost of Services.

The net assets of the Company at 31 March 2012 are £197,440 (31 March 2011 £219,201), and the Company made a net deficit of £21,761 in 2011/12 (2010/11 deficit of £251,203). The accounts can be obtained from Opportunity Peterborough, Stuart House, Ground Floor, Zone 5, St John’s Street, Peterborough PE1 5DD.

Blue Sky Peterborough

The registered name of the company is Blue Sky Peterborough Limited, and the company is a wholly owned subsidiary of Peterborough City Council. The company was incorporated on 21 September 2011, and exists to “deliver renewable energy solutions and energy efficiency for Peterborough City Council”.

The company is limited by shares, and the share capital of the company is £1.

16 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 Code of Practice. However, decisions about resource allocation are taken by the Council’s Cabinet on the basis of budget reports analysed across Cabinet portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payments of employer’s pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to portfolios

The income and expenditure of the Council’s principal portfolios recorded in the budget reports for the year is as follows:

Portfolio Income & Expenditure for 2011/12	Chief Executives £000	Children's Services £000	Operations £000	Strategic Resources £000	Adult Social Care £000	2011/12 Total £000
Fees, charges & other service income	(1,889)	(24,051)	(12,939)	(26,421)	(5,119)	(70,419)
Government Grants	(421)	(158,455)	(5,219)	(84,284)	(3,033)	(251,412)
Total Income	(2,310)	(182,506)	(18,158)	(110,705)	(8,152)	(321,831)
Employee expenses	5,597	121,790	11,459	9,878	11,605	160,329
Other service expenses	4,226	90,002	26,960	148,032	42,993	312,213
Total Expenditure	9,823	211,792	38,419	157,910	54,598	472,542
Net Expenditure	7,513	29,286	20,261	47,205	46,446	150,711
Reconciliation of Portfolio Income & Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement						
						Net Expenditure in the Portfolio Analysis 150,711
						Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis 15,046
						Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement (17,911)
						Cost of Services in Comprehensive Income and Expenditure Statement 147,846

<i>Portfolio Income & Expenditure for 2010/11</i>	<i>Chief Executives £000</i>	<i>Children's Services £000</i>	<i>City Services £000</i>	<i>Operations £000</i>	<i>Strategic Resources £000</i>	<i>Adult Social Care £000</i>	<i>2010/11 Total £000</i>
<i>Fees, charges & other service income</i>	<i>(2,100)</i>	<i>(6,034)</i>	<i>(25,669)</i>	<i>(10,420)</i>	<i>(18,107)</i>	<i>(4,651)</i>	<i>(66,981)</i>
<i>Government Grants</i>	<i>(989)</i>	<i>(150,995)</i>	<i>(47)</i>	<i>(8,644)</i>	<i>(75,973)</i>	<i>(2,284)</i>	<i>(238,932)</i>
<i>Total Income</i>	<i>(3,089)</i>	<i>(157,029)</i>	<i>(25,716)</i>	<i>(19,064)</i>	<i>(94,080)</i>	<i>(6,935)</i>	<i>(305,913)</i>
<i>Employee expenses</i>	<i>5,063</i>	<i>141,120</i>	<i>11,949</i>	<i>13,615</i>	<i>11,297</i>	<i>716</i>	<i>183,760</i>
<i>Other service expenses</i>	<i>6,810</i>	<i>54,782</i>	<i>27,367</i>	<i>32,754</i>	<i>115,116</i>	<i>46,801</i>	<i>283,630</i>
<i>Total Expenditure</i>	<i>11,873</i>	<i>195,902</i>	<i>39,316</i>	<i>46,369</i>	<i>126,413</i>	<i>47,517</i>	<i>467,390</i>
<i>Net Expenditure</i>	<i>8,784</i>	<i>38,873</i>	<i>13,600</i>	<i>27,305</i>	<i>32,333</i>	<i>40,582</i>	<i>161,477</i>
<i>Reconciliation of Portfolio Income & Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement</i>							
							Net Expenditure in the Portfolio Analysis 161,477
							Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis (14,603)
							Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement (54,120)
							Cost of Services in Comprehensive Income and Expenditure Statement 92,754

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the

'(Surplus) / Deficit on the Provision of Services' line included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2011/12	Portfolio Analysis	Amounts not Reported to Mgmt ¹	Amounts not included in CIES ²	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service Income	(70,197)	5,933	7,009	11,743	(45,512)	(11,927)	(57,439)
Interest & Investment Income	(222)	-	222	-	-	(262)	(262)
Income from Council Tax	-	-	-	-	-	(61,836)	(61,836)
Government Grants & Contributions	(251,412)	-	3,550	-	(247,862)	(114,403)	(362,265)
Total Income	(321,831)	5,933	10,781	11,743	(293,374)	(188,428)	(481,802)
Employee Expenses	160,329	(5,014)	(942)	-	154,373	5,427	159,800
Other Service Expenses	306,118	(13,600)	(21,655)	-	270,863	3,984	274,847
Support Services Recharges	-	5	-	(11,743)	(11,738)	-	(11,738)
Depreciation, Amortisation & Impairment	-	27,722	-	-	27,722	5,363	33,085
Interest Payments	6,095	-	(6,095)	-	-	10,271	10,271
Precepts & Levies	-	-	-	-	-	961	961
Payments to Housing Capital Receipts Pool	-	-	-	-	-	6	6
Loss on Disposal of Non-Current Assets	-	-	-	-	-	10,090	10,090
Total Expenditure	472,542	9,113	(28,692)	(11,743)	441,220	36,102	477,322
Deficit / (Surplus) on the Provision of Services	150,711	15,046	(17,911)	-	147,846	(152,326)	(4,480)

¹ Amounts not reported to Management are accounting entries over which the Management have no control ie IAS19 pension adjustment and the accumulated compensated absences adjustment

² Amounts not included in the Comprehensive Income and Expenditure Statement (CIES) are the Trading Units which are shown in Other Operating Expenditure rather than in the Cost of Services in the Comprehensive Income and Expenditure Statement.

<i>Reconciliation to Subjective Analysis 2010/11 – Comparative Figures Table</i>	<i>Portfolio Analysis</i>	<i>Amounts not Reported to Mgmt</i>	<i>Amounts not included in CIES</i>	<i>Allocation of Recharges</i>	<i>Cost of Services</i>	<i>Corporate Amounts</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Fees, Charges & Other Service Income</i>	(66,981)	4,695	29,344	(91,177)	(124,119)	(13,713)	(137,832)
<i>Interest & Investment Income</i>	-	-	-	-	-	(466)	(466)
<i>Income from Council Tax</i>	-	-	-	-	-	(60,986)	(60,986)
<i>Government Grants & Contributions</i>	(238,932)	-	47	-	(238,885)	(113,849)	(352,734)
<i>Total Income</i>	(305,913)	4,695	29,391	(91,177)	(363,004)	(189,014)	(552,018)
<i>Employee Expenses</i>	183,760	(58,870)	(12,401)	-	112,489	18,556	131,045
<i>Other Service Expenses</i>	283,630	(13,379)	(71,110)	-	199,141	10,258	209,399
<i>Support Services Recharges</i>	-	-	-	91,177	91,177	-	91,177
<i>Depreciation, Amortisation & Impairment</i>	-	52,951	-	-	52,951	5,171	58,122
<i>Interest Payments</i>	-	-	-	-	-	10,287	10,287
<i>Precepts & Levies</i>	-	-	-	-	-	917	917
<i>Payments to Housing Capital Receipts Pool</i>	-	-	-	-	-	10	10
<i>Loss on Disposal of Non-Current Assets</i>	-	-	-	-	-	113	113
<i>Total Expenditure</i>	467,390	(19,298)	(83,511)	91,177	455,758	45,312	501,070
<i>Deficit / (Surplus) on the Provision of Services</i>	161,477	(14,603)	(54,120)	-	92,754	(143,702)	(50,948)

17 Movement in Reserves Statement – Adjustments between Accounting Basis and Funding Basis under Regulations

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

Usable Reserves are those reserves that can be applied to fund expenditure or reduce local taxation and Unusable Reserves are those reserves that absorb the timing differences arising from different accounting arrangements.

- **Summary of Usable and Unusable Reserves**

Summary of Usable Reserves	31 March 2011 £000	Movement £000	31 March 2012 £000
Usable Reserves			
General Fund Balance	(6,000)	-	(6,000)
School Balances	(6,749)	(100)	(6,849)
Specific Earmarked Reserves (Note 18)	(17,038)	58	(16,980)
Capital Receipts Reserve	-	-	-
Capital Grants Unapplied Account	(4,964)	3,235	(1,729)
Total Usable Reserves	(34,751)	3,193	(31,558)

Summary of Unusable Reserves	31 March 2011 £000	Movement £000	31 March 2012 £000
Unusable Reserves			
Revaluation Reserve	(99,230)	(21,151)	(120,381)
Capital Adjustment Account	(176,000)	(14,986)	(190,986)
Deferred Capital Receipts	(2,971)	1,014	(1,957)
Donated Assets Account	(2,548)	2,206	(342)
Financial Instruments Adjustment Account	504	(7)	497
Pension Fund Reserve	145,349	41,935	187,284
Collection Fund Adjustment Account	363	(110)	253
Accumulating Compensated Absences Adjustment Account	4,519	(221)	4,298
Total Unusable Reserves	(130,014)	8,680	(121,334)
Total Usable & Unusable Reserves	(164,765)	11,873	(152,892)

- **Capital Receipts Reserve**

Capital Receipts can only be used to finance new capital expenditure or to repay debt.

2010/11	Capital Receipts Reserve:	General Fund Balance	Capital Adjustment Account	Deferred Capital Receipts Account	Capital Receipts Reserve 2011/12
		£000	£000	£000	£000
£000	- Balance Brought Forward				-
(3,253)	Transfer of Sale Proceeds Credited as part of the (Gains) / Losses on Disposals to the Comprehensive Income & Expenditure Statement	4,494			(4,494)
(714)	Transfer of Right to Buy Proceeds Credited to Comprehensive Income & Expenditure Statement	1,335			(1,335)
(16)	Transfer of Other Receipts	70	143	5	(218)
3,973	Use of the Capital Receipts Reserve to Finance New Capital Expenditure		(7,050)		7,050
	- Transfer from Deferred Capital receipts Reserve upon Receipt of Cash			1,009	(1,009)
10	Contribution from the Capital Receipts Reserve to Finance the Payments to the Government Capital Receipts Pool	(6)			6
	- Balance Carried Forward				-
	Impact of movement in this Reserve on the General Fund Balance & other Accounts	5,893	(6,907)	1,014	

- **Capital Grants Unapplied Account**

The balance on the Capital Grants Unapplied Account represents grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement,

but where the resources have yet to be used to finance Capital Expenditure. Amounts are transferred to the Capital Adjustment Account once the resources have been utilised.

2010/11 Capital Grants Unapplied Account (Note 26):		General Fund Balance	Capital Adjustment Account	Capital Grants Unapplied Account 2011/12
<i>£000</i>		£000	£000	£000
(5,297)	Balance Brought Forward			(4,964)
(452)	Transfer of Unapplied Capital Grant & Contributions via the Comprehensive Income and Expenditure Statement	340		(340)
-	Adjustments made to Classification of Grant Received 2010/11	(2,513)		2,513
785	Application of Grants to Capital Financing		(1,062)	1,062
(4,964)	Balance Carried Forward			(1,729)
	Impact of movement in this Account on the General Fund Balance & other Account	(2,173)	(1,062)	

- **Revaluation Reserve**

The Revaluation Reserve contains the gains made by the Council 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 realised

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

2010/11	Revaluation Reserve:	General Fund Balance	Capital Adjustment Account	Revaluation Reserve 2011/12
		£000	£000	£000
	£000			
(58,637)	Balance Brought Forward			(99,230)
(59,050)	Upward revaluation of assets	42,449		(42,449)
7,949	Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	(3,468)		3,468
4,122	Surplus or deficit on revaluation of non-current assets posted to the Comprehensive Income and Expenditure Statement	(10,939)		10,939
1,550	Difference between fair value depreciation and historical cost depreciation		(2,300)	2,300
4,836	Release of revaluation gains on disposals		(4,591)	4,591
<u>(99,230)</u>	Balance Carried Forward			(120,381)
	Impact of movement in this Reserve on the General Fund Balance & other Account	28,042	(6,891)	

- **Capital Adjustment Account**

The Capital Adjustment Account (CAA) absorbs the timing differences arising from the different arrangements for accounting for the consumption of non current assets and for financing 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. The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties.

2010/11	Capital Adjustment Account	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Donated Asset Reserve	Revaluation Reserve	Capital Adjustment Account 2011/12
		£000	£000	£000	£000	£000	£000
	£000						
(176,070)	Balance Brought Forward						(176,000)
46,535	Charges for Depreciation & Impairment of Non Current Assets	(18,754)					18,754
(16,560)	Increases in the Market Value of Investments	(2,979)					2,979
1,094	Amortisation of Intangible Assets	(649)					649
(31,671)	Capital Grants & Contributions that have been applied to Capital Financing	40,292					(40,292)
14,651	Revenue Expenditure Funded from Capital under Statute	(16,607)					16,607
7,015	Amounts of Non Current Assets written off on disposal or sale as part of the (Gains) / Losses on Disposal in the Comprehensive Income and Expenditure Statement	(10,092)					10,092
502	Capitalisation Direction	(470)					470
(8,753)	Statutory Provision for the Repayment of Debt (MRP)	9,330					(9,330)
(785)	Application of Grants to Capital Financing from the Capital Grants Unapplied Account			1,062			(1,062)
-	Movement in the Donated Assets Account				55		(55)
(3,155)	Depreciation & Impairment write down to Revaluation Reserve					2,300	(2,300)
(4,836)	Transfer of revaluation reserve on disposal					4,591	(4,591)
(3,973)	Capital Receipts transferred from Useable Capital receipts		7,050				(7,050)
6	Repayment of loan		(143)				143
(176,000)	Balance Carried Forward						(190,986)
	Impact of movement in this Account on the General Fund Balance & other Accounts & Reserves	71	6,907	1,062	55	6,891	

170

- **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 Council does not treat these

gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlements eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2010/11 Deferred Capital Receipts Reserve:		General Fund Balance	Capital Receipts Reserve	Deferred Capital Receipts Reserve 2011/12
<i>£000</i>		£000	£000	£000
(49)	Balance Brought Forward			(2,971)
(2,932)	Transfer of Deferred Sale Proceeds Credited as part of the (Gains) / Losses on Disposals to the Comprehensive Income and Expenditure Statement			-
10	Transfer to the Capital Receipts Reserve upon receipt of cash		(1,014)	1,014
(2,971)	Balance Carried Forward			(1,957)
	Impact of movement in this Reserve on the General Fund Balance & other Reserve	-	(1,014)	

- **Donated Assets Account**

The Donated Assets Account contains the gains made by the Council arising from the increases in value of Donated Assets.

2010/11 Donated Assets Account:		General Fund Balance	Capital Adjustment Account	Donated Assets Account 2011/12
<i>£000</i>		£000	£000	£000
(799)	Balance Brought Forward			(2,548)
(1,804)	Upward Revaluation of assets	54		(54)
-	Impairment of assets - Change in market value	(2,205)		2,205
55	Adjustment between historic cost and current value depreciation		(55)	55
(2,548)	Balance Carried Forward			(342)
	Impact of movement in this Account on the General Fund Balance & other Account	(2,151)	(55)	

- **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 benefitting from gains per statutory provisions.

<i>2010/11</i> Financial Instruments Adjustment Account:		General Fund Balance	Financial Instruments Adjustment Account 2011/12
<i>£000</i>		£000	£000
<i>1,380</i>	Balance Brought Forward		504
Amount by which Finance Costs charged to the Comprehensive Income and Expenditure Statement are different from the Finance Costs chargeable in the Year in Accordance with Statutory Requirements in relation to:			
<i>(7)</i>	Interest Paid on Short Term Loans	7	<i>(7)</i>
<i>(869)</i>	Icelandic Banks	-	-
<u><i>504</i></u>	Balance Carried Forward		497
	Impact of movement in this Account on the General Fund Balance	<u>7</u>	

- **Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet costs. However, statutory arrangements require benefits

earned to be financed as the Council makes employers' contributions to pension funds or eventually pay any pension for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. For further information see Note 7.

2010/11 Pension Reserve:		General Fund Balance	Pension Reserve 2011/12
		£000	£000
£000			
230,759	Balance Brought Forward		145,349
(31,527)	Actuarial gains or losses on pensions assets and liabilities	(42,243)	42,243
(39,321)	Reversal of Items Relating to Post Employment Benefits Debited or Credited to the (Surplus) / Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement (Note 7)	(12,078)	12,078
(14,562)	Employer's Pensions Contributions & Direct Payments to Pensioners Payable in Year	12,386	(12,386)
<u>145,349</u>	Balance Carried Forward		187,284
	Impact of movement in this Reserve on the General Fund Balance	<u>(41,935)</u>	

- **Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared

with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. For further details on the Collection Fund, see page 64

2010/11 Collection Fund Adjustment Account:		General Fund Balance	Collection Fund Adjustment Account 2011/12
£000		£000	£000
(645)	Balance Brought Forward		363
1,008	Amount by which Council Tax income Credited to the Comprehensive Income and Expenditure Statement is Different from Council Tax Income Calculated for the Year in Accordance with Statutory Requirements	110	(110)
363	Balance Carried Forward		253
	Impact of movement in this Account on the General Fund Balance	110	

- **Accumulating Compensated Absences Adjustment 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, eg annual leave entitlement

carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

2010/11 Accumulating Compensated Absences Adjustment Account (Note 36):		General Fund Balance	Accumulating Absences Account 2011/12
£000		£000	£000
3,351	Balance Brought Forward		4,519
1,168	Amount by which Officer remunerations charged to the Comprehensive Income and Expenditure Statement on an Accruals Basis is Different from the Remuneration chargeable in the Year in Accordance with Statutory Requirements	221	(221)
4,519	Balance Carried Forward		4,298
	Impact of movement in this Account on the General Fund Balance	221	

18 Movement in Reserves Statement – Transfers to / (from) Earmarked Reserves

This note sets out the amounts set aside from the General Fund Balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

General Fund Earmarked Reserves	31 March 2011	Transfers Out	Transfers In	Movement between Reserves	31 March 2012	Purpose of the Earmarked Reserve
	£000	£000	£000	£000	£000	
Departmental Reserves	3,300	(2,056)	2,919	(131)	4,032	These have been identified by the Cabinet or the Corporate Management Team and are incorporated within the Medium Term Financial Strategy for Departmental use.
Commercial Property Portfolio	3,341	(1,021)	-	(2,320)	-	To meet the future costs associated with the Council's property portfolio to mitigate the effects of the recession, and impact of void and vacant properties.
Insurance	3,007	-	518	(545)	2,980	To provide for future claims (self insurance). A number of risks, contingencies and financial losses are held covered by the Council's Insurance Reserve. In general terms the Council self-insures against the risks of theft, subsidence and accidental damage to property. Additionally, the excess on external insurance arrangements, which range from £2,500 to £25,000 per loss, are also met by the Reserve.
Schools Capital	584	(151)	1,399	-	1,832	School revenue reserves put aside for funding future school capital schemes.
Grant Certification	250	(12)	-	(238)	-	Possible repayment of grant allocations which are subject to audit certification.
Available for Capacity Building	6,144	(6,684)	5,084	3,229	7,773	The balance of the sums set aside which can be utilised to fund one-off type expenditure which will improve the longer term financial position of the council.
Salix Carbon Reduction	375	(75)	11	(125)	186	To fund specific carbon reduction projects
Other	37	(32)	42	130	177	These include the Local Authority Mortgage Scheme, Building Control, Hackney Carriage Accounts and Parish Burial Reserves.
Total Reserves	17,038	(10,031)	9,973	-	16,980	

19 Property, Plant and Equipment

Property, Plant & Equipment (PPE) – 2011/12	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Heritage & Donated Assets	Assets under Construction	Total PPE
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000
At 31 March 2011 Gross Book Value	295,224	46,819	164,388	5,552	-	10,761	522,744
Asset Reclassified	(3,499)	-	-	380	3,499	-	380
At 1 April 2011 Gross Book Value	291,725	46,819	164,388	5,932	3,499	10,761	523,124
Additions	12,541	2,804	9,060	14	2,611	31,665	58,695
Revaluation increase recognised in the Revaluation Reserve	37,308	-	-	189	614	-	38,111
Revaluation increase recognised in the (Surplus) / Deficit on Provision of Services	8,539	-	-	8	-	-	8,547
Derecognition - Disposals	(2,785)	(729)	-	(153)	-	-	(3,667)
Assets reclassified to Held for Sale	(1,722)	-	-	403	-	-	(1,319)
Assets Under Construction Completed In Year	3,678	-	168	105	586	(4,857)	(320)
At 31 March 2012	349,284	48,894	173,616	6,498	7,310	37,569	623,171
Accumulated Depreciation							
At 31 March 2011	(12,192)	(27,273)	(48,041)	(6)	-	-	(87,512)
Asset Reclassified	79	-	-	-	(79)	-	-
At 1 April 2011	(12,113)	(27,273)	(48,041)	(6)	(79)	-	(87,512)
Depreciation Charge	(7,653)	(6,765)	(7,865)	(6)	(85)	-	(22,374)
Depreciation written out to the Revaluation Reserve	6,237	-	-	10	-	-	6,247
Depreciation written out to the (Surplus) / Deficit on Provision of Services	3,156	-	-	17	-	-	3,173
Impairment losses / (reversals) recognised in the Revaluation Reserve	(13,303)	-	-	(440)	(2,573)	-	(16,316)
Impairment losses / (reversals) recognised in the (Surplus) / Deficit on Provision of Services	(7,569)	(23)	(11)	(289)	-	-	(7,892)
Derecognition - Disposals	241	291	-	-	-	-	532
At 31 March 2012	(31,004)	(33,770)	(55,917)	(714)	(2,737)	-	(124,142)
Net Book Value - At 31 March 2012	318,280	15,124	117,699	5,784	4,573	37,569	499,029
<i>Net Book Value - At 31 March 2011</i>	283,032	19,546	116,347	5,546	-	10,761	435,232

Comparative Movements in 2010/11

<i>Property, Plant & Equipment (PPE) – 2010/11</i>	<i>Other Land & Buildings</i>	<i>Vehicles, Plant & Equipment</i>	<i>Infra-structure Assets</i>	<i>Community Assets</i>	<i>Assets under Construction</i>	<i>Total PPE</i>
<i>Cost or Valuation</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>At 31 March 2010</i>	279,760	42,536	145,645	9,354	17,775	495,070
<i>2009/10 Impairment</i>	(20,461)	(2,516)	-	(3,993)	-	(26,970)
<i>At 1 April 2010</i>	259,299	40,020	145,645	5,361	17,775	468,100
<i>Additions</i>	13,711	5,221	16,950	41	7,089	43,012
<i>Revaluation increase recognised in the Revaluation Reserve</i>	31,553	-	-	238	-	95,373
<i>Revaluation increase recognised in the (Surplus) / Deficit on Provision of Services</i>	9,983	-	-	53	-	10,036
<i>Derecognition - Disposals</i>	(273)	(1,633)	-	-	-	(1,906)
<i>Assets reclassified (to) / from Held for Sale</i>	(1,625)	-	-	(4)	-	(1,629)
<i>Assets Under Construction Completed In Year</i>	8,112	2,256	1,793	447	(14,103)	(1,495)
<i>At 31 March 2011</i>	320,760	45,864	164,388	6,136	10,761	611,491
<i>Accumulated Depreciation</i>						
<i>At 31st March 2010</i>	(35,052)	(24,198)	(41,166)	(4,004)	-	(104,420)
<i>2009/10 Impairment</i>	20,461	2,516	-	3,993	-	26,970
<i>At 1 April 2010</i>	(14,591)	(21,682)	(41,166)	(11)	-	(77,450)
<i>Depreciation Charge</i>	(7,226)	(5,642)	(6,875)	(3)	-	(19,746)
<i>Depreciation written out to the Revaluation Reserve</i>	6,551	-	-	8	-	6,559
<i>Depreciation written out to the (Surplus) / Deficit on Provision of Services</i>	3,074	896	-	-	-	3,970
<i>Impairment reversals recognised in the Revaluation Reserve</i>	(8,457)	(11)	-	(30)	-	(8,498)
<i>Impairment reversals recognised in the (Surplus) / Deficit on Provision of Services</i>	(17,022)	(1,114)	-	(554)	-	(18,690)
<i>Derecognition - Disposals</i>	1	1,235	-	-	-	1,236
<i>Elimination on reclassification to Assets Held for Sale</i>	(58)	-	-	-	-	(58)
<i>At 31 March 2011</i>	(37,728)	(26,318)	(48,041)	(590)	-	(112,677)
<i>Net Book Value - At 31 March 2011</i>	283,032	19,546	116,347	5,546	10,761	435,232
<i>Net Book Value - At 31 March 2010</i>	244,708	18,338	104,479	5,350	17,775	390,650

20 Investment Properties

The rental income and operating expenses from the Council's investment properties are disclosed within the Trading Operations Note 9 on page 22.

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

The following table summarises the movement in the fair value of investment properties over the year:

2010/11 £000		2011/12 £000
45,945	Balance at start of year	40,012
	Additions:	
-	Transfer from Assets Under Construction	20
192	Subsequent Expenditure	228
(955)	Disposals	(1,071)
16,560	Revaluations (Note 11)	2,979
(21,730)	Impairments (Note 11)	(8,342)
<u>40,012</u>	Balance at end of the Year	<u>33,826</u>

21 Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life. A three year useful life is assigned to all intangible assets with exception to the licence plate which the Council have deemed to have an infinite life and is therefore not amortised.

The carrying amount of intangible assets is amortised on a straight-line basis.

There are two items of capitalised software that are individually material to the financial statements:

31 March 2011 £000	Intangible Assets	Remaining Amortisation Period Years	31 March 2012 £000
550	EDRM Software	2.5	548
530	Integrated Case Management System	2.5	354
<u>1,080</u>	Total		<u>902</u>

The movement on Intangible Assets balances during the year is as follows:

<i>Internally Generated Asset</i> £000	<i>Software & Other Assets</i> £000	<i>2010/11 Total</i> £000	Intangible Assets	Internally Generated Asset £000	Software & Other Assets £000	2011/12 Total £000
147	5,244	5,391	Balance at 1 April:	142	6,644	6,786
(57)	(3,097)	(3,154)	Gross Carrying Amounts	(87)	(4,161)	(4,248)
90	2,147	2,237	Accumulated Amortisation	55	2,483	2,538
			Net Carrying Amount at Start of the Year			
-	-	-	Additions	-	-	-
-	1,393	1,393	Internal Development	-	457	457
-	20	20	Purchases	-	-	-
(5)	(13)	(18)	Assets Under Construction Completed in Year	-	(198)	(198)
(30)	(1,064)	(1,094)	Impairment Losses Recognised in the (Surplus) / Deficit on the Provision of Services	(18)	(631)	(649)
55	2,483	2,538	Amortisation for the period	37	2,111	2,148
			Net Carrying Amount at the End of Year			
142	6,644	6,786	Gross Carrying Amounts	142	6,903	7,045
(87)	(4,161)	(4,248)	Accumulated Amortisation	(105)	(4,792)	(4,897)
55	2,483	2,538	Net Carrying Amount at the End of Year	37	2,111	2,148

22 Surplus Assets and Assets Held for Sale

The following note details assets which are surplus to the Council's service needs. Surplus assets that meet the strict 'Assets held for sale' criteria are shown as current assets in the

table below. Surplus assets that do not meet the 'Assets held for sale' criteria are shown as Non current assets.

2010/11		Surplus Assets and Assets Held for Sale	2011/12	
Surplus Assets Non-Current Assets £000	Assets Held for Sale Current Assets £000		Surplus Assets Non-Current Assets £000	Assets Held for Sale Current Assets £000
4,862	7,780	Balance at 1 April:	24,382	6,146
-	1,629	Property, Plant and Equipment Newly Classified as Current Asset	-	1,722
-	-	Revaluation Losses	-	-
19,930	2,224	Revaluation Gains	912	-
(543)	(1,369)	Impairment Losses	(237)	(867)
-	(7)	Property, Plant and Equipment Declassified as Held for Sale	-	(5)
-	-	Property, Plant and Equipment Surplus Movement	(403)	-
(228)	(5,003)	Assets Sold	(1,054)	(4,929)
(148)	148	Transfers from Non Current to Current	(148)	148
		Other movements:		
(21)	-	Depreciation Charged In Year	(5)	-
19	122	Additions	63	-
511	622	Capital Costs Incurred In Preparation For Disposal	7	85
24,382	6,146	Balance Outstanding	23,517	2,300

23 Capital Commitments

As at 31 March 2012 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2011/12 and future years budgeted to cost £103m as approved within the MTFs. The major commitments are:

Description of Contract / Capital Scheme	Value of contract	Value outstanding at 31/3/12
	£000	£000
ICT Transformation	5,908	812
John Mansfield College	957	477
Affordable Housing	4,403	2,202
Local Transport Plan – Junction 8 Roundabout	4,500	113
Stadium Enabling Works	341	326
Disabled Access - Regional Pool	152	152
Strategic Property - Focus Centre	175	115
Key Theatre Extension	1,269	772
Bayard Place	889	229
Demolition Buildings	484	363
Archive Store Central Library	280	280
Schools Works:		
Welland School	6,863	3,163
Bushfield Academy School	20,667	3,331
Hampton College Extension	7,692	6,378
Nene Park Academy School	14,443	12,752
Stanground College Extension	22,573	19,264
Other schools extensions	11,102	4,345
Total	102,698	55,074

24 Revaluations

The Council has a rolling programme that ensures that all Property, Plant and Equipment measured at fair value and is revalued at least every four years. The valuations in 2011/12 were carried out by Peterborough Serco Strategic Partnership (PSSP) and Wilks Head & Eve (WHE) and totalled £28.9m. 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. In addition to the rolling four year programme each year WHE also assess the whole of the Council's property portfolio to consider if there would be any valuation changes as a result of the current economic climate at the time. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for condition of the asset.

The significant assumptions applied in estimating the fair values are:

- Market Value – the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion
- Existing Use Value – as above but including an assumption that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost

- Depreciated Replacement Cost – has been used to arrive at Existing Use Value where specialised property is valued. It is the least cost of purchasing the remaining service potential of the asset at the date of valuation

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Surplus Assets £000	Total £000
Valued at fair value as at:				
31 March 2012	22,349	(26)	(1,172)	21,151
31 March 2011	21,223	(73)	19,443	40,593
31 March 2010	12,871	116	919	13,906
31 March 2009	6,417	-	595	7,012
31 March 2008	37,420	-	299	37,719
Total Valuation	100,280	17	20,084	120,381

25 Impairment Losses

Impairment losses and impairment reversals charged to the Surplus / Deficit on the Provision of Services line and to Other Comprehensive Income and Expenditure are disclosed in Notes 19 and 21 which reconcile the movement over the year for Property, Plant and Equipment and Intangible Asset balances respectively.

As part of the regeneration activity of South Bank area of the City, former investment properties were demolished, which include the former Matalan and B&Q sites. As a result the Council has recognised an impairment loss of £6.0m, and changed the asset classification from Investment Property to Open Space therefore requiring different valuation methodologies to be applied. The impairment loss is charged to Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

26 Capital Expenditure and Capital Financing

2010/11 £000		2011/12 £000
216,046	Opening Capital Financing Requirement	230,611
4	Adjustment for Leases	-
216,050	Adjusted Opening Capital Financing Capital Investment	230,611
35,924	Property, Plant and Equipment	27,030
7,089	Assets Under Construction	31,665
192	Investment Properties	228
141	Assets Held for Sale	63
1,393	Intangible Assets	457
14,502	Revenue Expenditure Funded from Capital under Statute	16,254
502	Capitalisation Direction	470
-	Loans to Third Parties	1,140
	Sources of Finance	
(3,973)	Capital Receipts	(7,050)
(32,456)	Capital Grants & Contributions	(41,354)
(8,753)	Sums set aside from revenue (inc.direct revenue financing and (MRP))	(9,330)
230,611	Closing Capital Financing Requirement	250,184
	Explanation of movements in year	
	Increase in underlying need to borrow:	
6,192	Supported borrowing	-
17,035	Unsupported / Prudential borrowing	28,789
87	Assets acquired under finance leases	114
	Decrease in underlying need to borrow:	
(8,753)	MRP	(9,330)
14,561	Increase in Capital Financing Requirement	19,573

The total amount of capital expenditure incurred in the year is shown in the table above (including the value of assets acquired

under finance leases), together with the resources that have been used to finance the expenditure. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2010/11 £000	Body of Grant Funding Applied	2011/12 £000
233	Big Lottery Fund	41
5,048	Department for Communities & Local Government	1,478
72	Department for the Environment, Farming and Rural Affairs	-
6,273	Department for Transport	5,455
14,582	Department of Education	6,058
219	Department of Health	-
613	East of England Development Agency	3
145	English Partnerships (Padholme Drain Scheme)	10
175	Homes and Communities Agency	-
3,128	Partnership for Schools	25,092
17	The Home Office	39
500	Government Offices (East of England)	-
-	Various	803
31,005	Total Grants Applied	38,979
923	Section 106 Contributions	1,193
528	Third Party Contributions	1,182
1,451	Total Contributions applied	2,375
32,456	Total Grants & Contributions applied	41,354

2010/11 £000	Reconciliation of Grant Funding Applied to Capital Financing	2011/12 £000
22,792	Grants Received in year (Note 12)	32,173
9,331	Grants used to Fund Revenue Expenditure Funded from Capital under Statute	5,946
-	Adjustments made to Classification of Grant Received 2010/11	2,513
(452)	Grants Received in year not applied in year	(340)
785	Grants applied from Capital Grants Unapplied Account	1,062
32,456	Total Grants & Contributions applied	41,354

27 Private Finance Initiatives (PFI) and Similar Contracts

On the 31 July 2006 the Council signed a PFI agreement with IIC BY Education (Peterborough Schools) Limited for the delivery of new and improved facilities and services for three secondary schools in Peterborough. This agreement requires the contractor to construct the new Voyager secondary school, and to extend and refurbish two existing secondary schools (Jack Hunt and Ken Stimpson). The contractor will maintain these three schools and provide them with a range of other services such as caretaking, cleaning and catering for the next 30 years. The three schools and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration.

One of the schools has Foundation status and another has transferred to Academy status therefore in line with the Audit Commission guidance the associated assets are not recognised on the Council's Balance Sheet.

The Council makes an agreed payment each year which is increased each year by inflation and will be reduced if the

contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2012 (excluding any estimation of inflation and availability / performance deductions) are as follows:

Repayment of:	Finance Lease Liability	Interest	Service Charges	Total
	£000	£000	£000	£000
Payable:				
In 2012/13	1,468	3,091	3,245	7,804
Within two to five years	5,585	11,133	15,289	32,007
Within six to ten years	4,943	10,517	26,474	41,934
Within 11 to 15 years	5,920	8,351	30,064	44,335
Within 16 to 20 years	9,536	7,018	30,494	47,048
Within 21 to 25 years	11,781	2,616	35,724	50,121
Within 26 to 30 years	710	(278)	3,722	4,154
Total	39,943	42,448	145,012	227,403

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability to the contractor for capital expenditure incurred is as follows:

31 March 2011		31 March 2012
£000		£000
(42,784)	Balance brought forward	(41,385)
1,399	Lease liability redemption in the year	1,442
(41,385)	Value of Total Liability carried forward	(39,943)
(1,442)	Short Term Liability	(1,468)
(39,943)	Long Term Liability	(38,475)
(41,385)	Value of Total Liability carried forward	(39,943)

28 Council as Lessee - Finance Leases

The Council has acquired land, buildings, vehicles and equipment under finance leases, shown in the table below.

31 March 2011		31 March 2012
£000	Council as Lessee - Finance Leases	£000
2,946	Other Land & Buildings	2,833
2,208	Vehicles, Plant Furniture & Equipment	1,379
5,154	Total	4,212

Two land leases held on 999 year leases, two school leases for 125 years and a retail property held on a 99 year lease are at peppercorn rent, whilst the two industrial site units are carried on the Council's Balance Sheet as Investment Properties at the net book values shown above.

The vehicles and equipment acquired are carried as Property, Plant and Equipment in the Balance Sheet at the net amounts also shown in the previous table.

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and the finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2011		31 March 2012
£000	Finance Lease Liabilities (net present value of minimum lease payments)	£000
1,102	Current	799
3,596	Non-current	2,893
21,734	Finance costs payable in future years*	21,105
26,432	Minimum lease payments	24,797

* Non-Peppercorn leases range from five to ninety four years

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

31 March 2011			31 March 2012	
Min. Lease Payment	Finance Lease Liabilities	Minimum lease payments	Min. Lease Payment	Finance Lease Liabilities
£000	£000		£000	£000
1,757	1,102	Not later than one year	1,274	799
2,457	1,074	Later than one year & not later than five years	1,591	371
22,218	2,522	Later than five years *	21,932	2,522
26,432	4,698	Total	24,797	3,692

There are no contingent rents payable as all rents are adjusted after any rent amendments are made and the tables above reflect the current lease rental positions.

Of the investment properties held under these finance leases, the Council has sub-let individual units. At 31 March 2012 the minimum payments expected to be received under these sub-leases was £305k (£277k in 2010/11). The majority of the vehicles held under finance leases were used within City Services. When this department was transferred to Enterprise Peterborough the leases were retained and the vehicles sub-leased to Enterprise Peterborough. In order to achieve Best Value from the charges made by Enterprise Peterborough to the Council these sub-leases are at zero cost, offset by a reduction in the overall contract sum paid.

Council as Lessee - Operating Leases

The majority of the Council's operating leases are for land and buildings, however there is a small number of vehicles and equipment held under operating leases.

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

31 March 2011		31 March 2012	
£000	Council as Lessee - Operating Leases		£000
645	Not later than one year		847
2,568	Later than one year & not later than five years		2,948
812	Later than five years		795
4,025	Total		4,590

The amount charged to Cost of Services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases are shown in the table below:

31 March 2011		31 March 2012	
£000	Council as Lessee - Operating Leases		£000
851	Minimum lease payments		1,055
-	Contingent rents		-
(17)	Sublease payment receivable		(99)
834	Total		956

Council as Lessor - Finance Leases

The Council has leased land on long term leases, these include playing fields and Nene Park. The Council has also leased schools to various trusts as the schools transferred to Academy status. The leases are at peppercorn or minimal value rents only.

Council as Lessor – Operating Leases

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

- For the provision of community services, such as sports facilities and community centres

- For economic development purposes to provide suitable affordable accommodation for local businesses
- To generate an income from property owned as investment property

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

31 March 2011		31 March 2012	
£000	Council as Lessor - Operating Leases	£000	
2,655	Not later than one year	3,140	
8,575	Later than one year & not later than five years	10,294	
28,214	Later than five years*	39,527	
<u>39,444</u>	Total	<u>52,961</u>	

* Above operating leases range from five to 115 years

There are no contingent rents payable as all rents are adjusted after any rent amendments are made and the tables above reflect the current lease rental positions.

29 Financial Instruments

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

2010/11		2011/12	
£000	Financial Assets	£000	
141	Interest income	222	
325	Impairment adjustment	40	
<u>466</u>	Total for Financial Assets (Note 11)	<u>262</u>	
	Financial Liabilities		
(3,338)	Interest payable relating to PFI	(3,522)	
(6,949)	Interest payable on borrowings	(6,749)	
<u>(10,287)</u>	Total for Financial Liabilities (Note 11)	<u>(10,271)</u>	
<u>(9,821)</u>	Net loss for the year	<u>(10,009)</u>	

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories:

Financial Instruments Balances	31 March	Long Term £000	Current £000
Investments - Loans & Receivables	2012	158	438
	2011	457	449
Debtors - Loans & Receivables	2012	2,353	12,681
	2011	2,334	24,842
Borrowings - Financial Liabilities at Amortised Cost	2012	(115,387)	(29,213)
	2011	(115,387)	(20,883)
Other Long Term Liabilities - PFI & Finance Lease Liabilities	2012	(43,445)	-
	2011	(43,688)	-
Creditors - Financial Liabilities at Amortised Cost	2012	-	(12,526)
	2011	-	(8,385)

The Debtors figure includes a long term debtor for the Local Authority Mortgage Scheme (LAMS). In December 2011 the Council advanced £1m to Lloyds Banking Group as part of this scheme. LAMS is aimed at first time buyers and the advance reflects the Council's share of financial assistance through the provision of an indemnity. This indemnity will be in place for a fixed five year period, at which point the advance will be returned to the Council plus an amount of interest. As at 31st March 2012 the total commitment against the £1m indemnity is £336,049.

30 Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value has been 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:

- PWLB interest rates for new loans at 31 March 2012 have been used for loans from the PWLB
- the prevailing rate of a similar instrument with a published market rate has been used as the discount factor for other loans receivable and payable
- no early repayment is recognised
- the Fair Value of trade debtors is taken to be the invoiced or billed amount

The Loans and Receivables value includes trade debtors. The Fair Values calculated are as follows:

Fair Value of Assets and Liabilities Carried at Amortised Cost	31 March	Carrying Amount £000	Fair Value £000
Financial Liabilities	2012	(157,126)	(161,185)
	2011	(144,655)	(133,197)
Long Term Creditors	2012	(43,445)	(43,445)
	2011	(43,688)	(43,688)
The Fair Value of the financial liabilities in 2011/12 is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans at the Balance Sheet date.			
Loans & Receivables	2012	13,277	13,277
	2011	25,748	25,746
Long Term Debtors	2012	2,353	2,353
	2011	2,334	2,334

31 Nature and Extent of Risks Arising from Financial Instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and money market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Capital and Treasury Team, under policies approved by the Council in the Annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

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

The risk is minimised through the Annual Investment Strategy, which requires that investments are not made with financial institutions unless they meet minimum credit criteria in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. This Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The 2011/12 Annual Investment Strategy sets out the credit criteria below although the Council actually minimised the risk further by only investing with the Debt Management Office, its banking provider and other Local Authorities.

The credit criteria in respect of financial assets held by the Council are as follows:

- Deposits are made with banks and other financial institutions that have been rated by recognised independent credit rating agencies with a minimum score of “A”, with £100 million of the total amount deposited in the highest rated category.
- Deposits can be made with other institutions that have not found it necessary to maintain a credit rating e.g. certain building societies and local authorities, and these are subject to an assessment of risk that is carried out internally. Deposits to these bodies are limited to £50 million in total.
- No more than £15 million is held with any one institution, regardless of standing or duration, and a range of counterparties that operate in different sectors in the UK and European economies is used to reduce risk exposure.
- All the counterparties used are licensed to accept deposits in the United Kingdom and are regulated by the Financial Services Authority.
- Creditworthiness advice and market intelligence is received from its treasury advisors, Sector Treasury Services Ltd.

The 2012/13 Annual Investment Strategy reflects the rapidly changing economic climate and the changes in the credit ratings of the financial institutions. The Strategy therefore includes a revision of the credit criteria stated above.

In 2008/09 the Council had two investments with Icelandic Banks, which went into administration in October 2008. The sum invested, £3m, has been impaired taking into account information available at the time in relation to likely recovery of principal.

The table summarises the Council’s maximum exposure to credit risk, based on the experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

Deposits with UK banks & building societies (excluding Icelandic Banks)		£000
Amount as at 31 March 2012		3,500
Historical Experience of Default %		-
Historical Experience Adjusted for Market Conditions as at 31 March 2012		-
Estimated Maximum Exposure to Default & Uncollectability Total		-
Estimated Maximum Exposure at 31 March 2012		-

Prior to 2008/09 and the experience in relation to the investments in banks with Icelandic parents, the Council had no experience of default. The following table shows the original invested amount, and current carrying value following impairment adjustments required from improved recovery rates.

The impairment has been revised in 2011/12 to reflect the improved recovery rates now expected, which is 86p to 90p in the £ for Heritable Bank (79p to 85p, 2010/11) and 81p to 86p in the £ for Kaupthing Singer & Friedlander, (65p to 78p, 2010/11).

Bank	Heritable Bank	Kaupthing Singer & Friedlander Ltd	Total
	£000	£000	£000
Date Invested	02/04/07	03/04/07	
Interest Rate	6.07%	5.90%	
Principal Amount Invested	1,000	2,000	3,000
Interest Accrued 2008/09	61	117	178
Carrying Amount	1,061	2,117	3,178
Impairment 2008/09	(326)	(1,190)	(1,516)
Impairment 2009/10	61	310	371
Impairment 2010/11	-	325	325
Impairment 2011/12	25	15	40
Total Impairment to Date	(240)	(540)	(780)
Recoverable Amount	821	1,577	2,398
Principal Default *	1.92%	3.84%	

* *Principal Default – amount of defaulted loan as expressed as a % of the Council's average cash balance over the last five years*

Council tax and business rates are statutory charges and the Council monitors total and individual arrears from taxpayers taking effective action to minimise losses on collection. Other customers of the Council's goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council. The Council makes prudent financial provision for bad debts based on an assessment of the risks for each type of debt and the age of those debts.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counter parties in relation to deposits and bonds.

The Council has therefore reviewed all its Financial Instruments and adjusted its bad debt provision accordingly.

The Council does not allow credit for customers, and the £9m debtors balance can be analysed by age as follows:

2010/11		2011/12
£000	Age of Trade Debt	£000
5,732	Less than three months	5,154
443	Three to six months	718
550	Six months to one year	872
2,482	More than one year	2,667
9,207	Total	9,411

Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board (PWLB) and the money market generally, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The Council's strategy to reduce this risk, is to spread the profile of maturing loans to ensure that a significant number do not all mature in the same year. The Council's cashflow is forecast, in detail, for up to 12 months ahead and more broadly for the succeeding two years. The majority of the Council's in-hand balances are revenue in nature and consequently a significant proportion of its investment portfolio is held repayable on demand or on notice to accommodate cash

outflows. Cash surpluses are typically deposited to dates when cash shortages are expected to occur.

The maturity analysis of financial liabilities is as follows:

2010/11 £000	Maturity analysis of financial liabilities	2011/12 £000
(29,268)	Less than one year	(41,739)
(2,247)	Between one and two years	(2,608)
(5,888)	Between two and five years	(6,406)
(150,940)	More than five years	(149,820)
(188,343)	Total	(200,573)

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

Market risk

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates – the fair value of the borrowings will fall
- investments at fixed rates – the fair value of the assets will fall
- borrowings at variable rates – the interest expense charged to the (Surplus) / Deficit on the Provision of Services will rise
- investments at variable rates – the interest income credited to the (Surplus) / Deficit on the Provision of Services will rise

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the (Surplus) / 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 Comprehensive Income and Expenditure Statement and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk as follows:

- the borrowing preference is to negotiate fixed rate terms at acceptable rates for budget certainty
- depending upon economic conditions the Council may maintain variable rate short or long term borrowings to offset the risk of diminishing receipts from its investment portfolio or at times when current fixed interest rate levels are deemed to be too high
- variable interest rate borrowings should not exceed 25% of total gross borrowing
- during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans may be repaid early to exploit market conditions and further reduce the interest payable burden
- the risk of increasing interest outlay is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provides compensation for a proportion of any higher costs

The Capital and Treasury Team assesses interest rate exposure which feeds into the setting of the annual budget and which is used to update the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is at fixed or variable rate.

According to this assessment strategy, at 31 March 2012, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease in the Fair Value of Fixed Rate Borrowing Liabilities by £20.4m but this would have no impact on the (Surplus) / Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council does not invest in equity shares and hence currently has no exposure to losses arising from movements in the prices of the shares.

The Council has a £1 share in its subsidiary company, Blue Sky Peterborough. The Council is not exposed to price risk through this holding.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

32 Inventories

31 March 2011	Inventories	31 March 2012
£000		£000
187	City Services Stores	-
185	Westcombe Industries Stock	203
112	Other Stock Balances	182
484	Total	385

Landfill Allowance Trading Scheme

The balance of stock was not deemed to have a value as at 31 March 2012 (also nil value in 2010/11).

33 Debtors

31 March 2011	Debtors (Each item is net of impairment)	31 March 2012
£000		£000
13,546	Central Government Departments	13,134
7,709	NNDR reimbursement from pool	1,331
502	Cambridgeshire County Council	440
178	National Heritage (Lottery)	356
2,004	Cross Keys Homes	2,237
-	Peterborough Primary Care Trust	4,005
4,738	Council Tax Arrears	5,440
2,466	Payments in Advance	4,348
17,451	General Debtors	16,105
48,594		47,396
	Outstanding Balances on Loans Granted	
42	Loans to Employees (Car Purchase)	35
48,636	Total Debtors	47,431

34 Creditors

31 March 2011	Creditors	31 March 2012
£000		£000
(415)	Central Government Departments	(2)
-	Peterborough Primary Care Trust	(12,189)
(460)	Council Tax Overpaid	(564)
(1,104)	NNDR Overpaid	(711)
(7,198)	Deposits / Receipts in Advance	(2,494)
(43,824)	General Creditors	(45,236)
<u>(53,001)</u>	Total Creditors	(61,196)

35 Capital Grants Receipts in Advance

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

31 March 2011	Capital Grants Receipts in Advance	31 March 2012
£000		£000
(14,589)	Department of Education	(4,962)
(31)	Other Grants Received in Advance	-
(219)	Homes and Communities Agency (HCA)	(470)
(126)	Other Third Party Contributions	(39)
(2,762)	Partnership for Schools	(3,315)
(7,882)	Section 106 Contributions	(8,134)
<u>(25,609)</u>	Total	(16,920)
-	HCA - South Bank Redevelopment	(500)
<u>(25,609)</u>	Total Capital Grants Receipts in Advance	(17,420)

36 Provisions

Provision Description	31 March 2011	Additional Provision	Amounts Used or Reversed	31 March 2012
	£000	£000	£000	£000
Short Term Provisions				
<u>Accumulated Absences</u> – employee holiday and flexi-time accumulated in 2011/12 and carried forward into 2012/13	(4,519)	(4,298)	4,519	(4,298)
<u>Insurance Claims</u> – This represents the current balance set aside to meet the expected total cost of uninsured losses arising from public liability, employer’s liability and property damage. The amount and timing of these payments are uncertain. This provision is split into short and long term	(276)	(126)	-	(402)
<u>Payroll</u> - Redundancy related payments, regarding decisions made in 2011/12 but paid in 2012/13	-	(559)	-	(559)
<u>Charges from suppliers which are uncertain or in dispute</u> - These represent two charges from suppliers that are currently in dispute and three charges from suppliers that are of an uncertain amount	(332)	(17)	196	(153)
<u>Legal/Grant Penalty Payment</u> - Under the terms of a Grant that has been received in full, there is a possibility that the Council may have to repay a proportion under penalty clauses. The additional provision is for a potential fine against the council and for legal claims which are dependant on the result of a government or court decision	(854)	-	506	(348)
<u>Children’s Services</u> – Costs dependant on the results of an investigation	(30)	-	1	(29)
<u>Land Charges Litigation</u> – Following the Information Commission Ruling, personal search agencies are now able to reclaim the amounts paid for additional information on the land charges register	-	(475)	-	(475)
<u>Carbon Reduction Commitment Scheme (CRC)</u> – The obligation of the Council for the purchase of CRC allowances for 2011/12	-	(260)	-	(260)
<u>HMRC – SIPS and Panel Advisors</u> – HMRC ruled that School Improvement Partners and Panel Advisors were Office Holders of the Council, and so any tax and national insurance is due on any payments made	-	(16)	-	(16)
Long Term Provisions				
<u>Social Care Repayment</u> - Following a House of Lords Judgement, services provided under Section 117 of the Mental Health Act were adjudged to be free. The provision represents the liability due to be repaid	(68)	-	-	(68)
<u>Insurance Claims</u> – see above comments	(1,507)	-	97	(1,410)
<u>Appointee Provision</u> – Client money held on account to be repaid	(36)	-	36	-
Total	(7,622)	(5,751)	5,355	(8,018)

37 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2010/11 £000		2011/12 £000
(341)	Interest Received	(299)
10,289	Interest Paid	10,315

38 Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

2010/11 £000		2011/12 £000
39,456	Purchase of Property, Plant & Equipment, Investment Property & Intangible Assets	58,144
-	Purchase of Short-Term & Long-term Investments	-
14,314	Other Payments for Investing Activities	17,600
(2,818)	Proceeds from the Sale of Property, Plant & Equipment, Investment Property & Intangible Assets	(6,094)
(573)	Proceeds from Short-Term & Long-Term Investments	(349)
(9,330)	Other Receipts from Investing Activities	-
<u>41,049</u>	Net cash flows from investing activities	<u>69,301</u>

39 Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

2010/11 £000		2011/12 £000
-	Cash Receipts of Short & Long Term Borrowing	(10,000)
-	Other receipts from Financing Activities	-
2,489	Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and On-Balance Sheet PFI Contracts	2,544
-	Repayments of Short- & Long-Term Borrowing	1,619
9,261	Other Payments for Financing Activities	5,934
<u>11,750</u>	Net cash flows from financing activities	<u>97</u>

40 Cash Flow Statement – Cash and Cash Equivalents

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

2010/11 £000		2011/12 £000
18,272	Short Term Cash Investments	3,500
79	Petty Cash & Imprest	66
(2,717)	Bank Current Accounts	(295)
<u>15,634</u>	Total Cash & Cash Equivalents	<u>3,270</u>

41 Trust Funds

The Council administers 14 trust funds for the benefit of children in specific schools or in care. The total value invested as at 31 March 2012 was £92,508 (£94,638 at 31 March 2011). Interest is allocated to the funds at bank base rate.

The Council acts for 12 Adults under Court of Protection administration orders. The total value of funds is £14,878 (£13,284 at 31 March 2011) all invested internally.

The Council administers a Trust Fund to support services users and their families with HIV/AIDS. In the main the Trust Fund is used to fund items such as courses, therapies and support sessions that are not provided through the main HIV/AIDS budget. The value of the fund is £11,141 (£6,873 at 31 March 2011).

As a result of the return of Adult Social Care services to the direct control of the Council the role of Appointee for Clients' monies has also been transferred. Thus responsibility for managing the financial affairs of some 152 adults and older people is now carried out by the Council. Total Client funds at 31 March 2012 was approximately £967k.

The Council acts as the sole trustee of the City Museum, a registered charity, and fully funds the annual deficit, which is included within the Comprehensive Income and Expenditure Statement.

These Trust Funds are not included in the Council's balance sheet.

42 Contingent Liabilities

- There are a number of issues relating to decisions taken by the Council that might result in claims being made against the Council. Those relating to Planning may end up in Appeals or Judicial Review and those relating to dismissals of staff for disciplinary and redundancy reasons may end up at Employment Tribunals. At this stage, there is no certainty that costs will be awarded against the Council and, therefore, nothing has been included in the Accounts for any of these issues. Additionally, there are Adoption processes in progress at year end that, when completed, may result in future financial implications for the Council.
- There are potential unknown environmental issues relating to land and buildings that the Council owns, or has owned, such as contaminated land or asbestos in buildings, for which costs are difficult to estimate.
- The Council has a disposal programme which may include sale of assets that could be subject to a claw back agreement. This would mean that a proportion of the sale proceeds would require payment to the interested party.
- Municipal Mutual Insurance (MMI) - In 1992-93 the Council's insurers, MMI, ceased taking new business and are now being managed under a "scheme of arrangement". The amount paid to the Council under this arrangement is £316,000. It is possible that a proportion of this may need to be repaid by the Council if the scheme of arrangement is triggered by insolvency, but the amount cannot be quantified at this stage. The Company still predicts a solvent run off.
- As part of the single status agreement, made between the National Joint Council (NJC) and Councils, the Council has reviewed the pay and grading structure to ensure equal pay

for work of equal value. The new structure was implemented on the 1 March 2008, backdated to the 1 April 2007. Employees have the option to appeal against the initial outcomes of the re-grading process. The majority of these have now been settled but there are a small number of legal claims in process.

- As part of the delivery of services, expenditure is incurred by the Council which in turn may be funded directly from grants. Some grants are allocated to the Council for specific purposes, and as such may require an audit certification to be completed to ensure the grant had been correctly applied. Reimbursement of grants may be necessary if it is found that the Council has not met the term and conditions of use of the grant. Amount and timings are dependent upon the results of any claim certification.
- Under a 1987 Bond Issue North Housing Association Ltd (now Home Housing) raised finance to carry out development in a number of local authority areas. The Peterborough Development Corporation entered into an agreement with North Housing Association Ltd to carry out development in the Peterborough area. This agreement was subsequently novated to Peterborough City Council. The Local Authorities agreed to indemnify bond holders against a fixed percentage of indebtedness under the bonds issued, against which North Housing Association Ltd gave a counter indemnity to the Local Authorities of the same amount. Peterborough City Council's share of the indemnity is 11.72% of the Issue which equates to £9.9m.

43 Contingent Assets

The Council's disposal programme has given rise to a contingent asset, in relation to funds held in retention by the purchaser. The amount receivable by the Council is dependent upon the value of the work required to be carried out, and the timeframe involved for the completion of this work.

44 Accounting Standards that have been Issued but have Not Yet Been Adopted

The adoption of amendments to IFR 7 Financial Instruments: Disclosures by the Code will result in a change of accounting policy. The amendments are intended to assist users of the financial statements to evaluate the risk exposures in relation to the transfer of financial assets and the effect of those risks on the Council's financial position. Relevant circumstances would arise where the Council retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership. The Council has concluded that this amendment has no impact on the Council as it has not taken part in such activity.

45 Critical Judgement in Applying Accounting Policies

In applying the accounting policies, set out from page 66, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a degree of uncertainty about future levels for funding for local government. The current local government settlement is for two years only. Whilst the Council has

produced a ten year Medium Term Financial Strategy (MTFS), which anticipates future funding reductions and the actions which will be taken in order to achieve a balanced budget, there has been no settlement confirmation other than there remains financial uncertainty of local government funding arrangements from 2013/14 onwards. The Council has determined that given the uncertainty there is not sufficient indication of any additional impact on the accounts or accounting policies.

- During 2010/11 the coalition government invited all schools in England to become Academies and encourage parents to set up their own schools, called free schools. Some schools within the Peterborough area already have Academy status, with some achieving this status during 2011/12, and a few more expressing interest. Academies do not fall within the remit of the Local Education Authority. When a school attains Academy status, the Council is required to remove assets linked to the school from the Balance Sheet and no longer consolidates the income and expenditure of that school into the Comprehensive Income and Expenditure Statement.
- The Council has applied its judgement in the classification of investment properties. Investment properties are held to earn rentals or for capital appreciation or both. Some properties earn rentals but are held for regeneration purposes or wider socio-economic reasons. Where this is the case, these properties have been classed as Property, Plant and Equipment. Further information can be found in Note 20, page 41.
- The Council has three arrangements which it has considered against the Group Accounting criteria.

The Council has not included these arrangements as Group Accounts in the Statement for the following reasons:

- Opportunity Peterborough – the company exists to promote and secure regeneration activities within the Peterborough area. Due to the nature of its activities and its small size, the consolidation of the figures would be immaterial and would not add any additional value to the reader of the accounts that a note would not provide. Further information can be found in Note 15 Interest in Companies. On 31st March 2011 Homes and Communities Agency and the East of England Development Agency ceased to be members of the company, leaving Peterborough City Council the sole member and guarantor.
- Peterborough Museum and Art Gallery – the Council is sole trustee of the trust set up to provide the City with access historic artefacts to promote artistic and general knowledge. Due to the nature of its activities and its small size, the consolidation of the figures would be immaterial and would not add any additional value to the reader of the accounts that a note would not provide. Further information can be found in Note 14 Related Party Transactions.
- Blue Sky Peterborough (BSP) – during the financial year the Council has established an Energy Services Company, BSP. The aim of this ESCo is to pursue the provision of low and zero-carbon energy schemes with the energy produced available to the Peterborough area for both domestic and business users. As BSP is in its infancy for 2011/12, the nature of its activities and its small size, the consolidation of the figures would be immaterial and would

not add any additional value to the reader of the accounts that a note would not provide. Further information can be found in Note 15 Interest in Companies.

- For the financial year 2011/12 changes to the Section 75 partnership agreement came into effect. Due to the amendment in the risk share agreement the Council needed to adjust its accounting treatment of ASC transactions under merger accounting standards, IFRS 3 Business Combinations and FRS 6 Acquisitions and Mergers.

Under the former accounting treatment the Council paid a monthly contribution to the Pooled Partnership and collected income from clients receiving care. These transactions were shown in the Council's Comprehensive Income and Expenditure Statement (CIES) under the service line Adult Social Care. The new accounting treatment requires a more detailed breakdown of expenditure into its constituent parts. The CIES would not be affected as the pooled contribution is equal to the total expenditure on ASC services. However, the notes which support the CIES would need to be amended. Inclusion of ASC balances as at the 1 April 2011 would have a net impact of £396k on the balance sheet.

As the impact on the CIES is minimal, with the impact more presentational to the supporting notes, and as the amounts involved for the balance sheet are immaterial the Council has concluded that no additional value would be provided to the reader of the accounts. Therefore the Council has not adjusted its Balance Sheet for 2011/12. Further information can be found in Note 2, Pooled Funds and Similar Arrangements.

46 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

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

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

Item	Uncertainties	Effect if Actual results Differ from Assumptions
Property, Plant and Equipment	Depreciation and amortisation is provided for Property, Plant and Equipment and Intangible assets respectively. This enables the assets to be written down to their residual value over their estimated useful lives and show an appropriate cost of the use of the asset in the Comprehensive Income and Expenditure Statement. Management judgement is used to determine the useful economic lives of the Plant and Equipment and the Council's valuers for lives of Property.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £387k for every year that useful life is reduced</p>
Property, Plant and Equipment	Property, Plant and Equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Each year the Council's valuers complete an impairment assessment. The recoverable amount is then estimated having regard to the application of the concept of materiality.	<p>If an asset is impaired the carrying value of the asset is reduced.</p> <p>It is estimated that a 1% fall in market value would reduce the Council's Investment Properties and Assets Held for Sale balances by a total of £361k.</p> <p>6% of the Council's asset base is valued at Market Value, so the impact of a change in market value is limited.</p>
Pensions Liability	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. These judgements are completed by the Cambridgeshire County Council Pension Fund actuaries.	<p>The effects on net pensions liability of changes in individual assumptions can be measured. For instance,</p> <ul style="list-style-type: none"> • a 0.5% decrease in discount rate assumption would result in an increase in pension liability of 10% or £48m • a 1 year increase in member life expectancy would result in an increase in pension liability of 3% or £14m • a 0.5% increase in the salary increase rate would result in an increase in pension liability of 2% or £11m • a 0.5% increase in the pension increase rate would result in an increase in pension liability of 8% or £36m
Arrears	At 31 March 2012 the Council had a balance of £8.8m for sundry debtors. A review of balances suggested that an impairment of doubtful debts, based on age profile, of 20% or £1.8m was appropriate.	<p>If collection rates were to deteriorate and sundry debt increased by 10% with the same debt profile, an additional contribution of £178k would be set aside as an allowance.</p> <p>If 10% of the debt portfolio was one year older, a contribution of £91k</p>

Item	Uncertainties	Effect if Actual results Differ from Assumptions
		would be set aside as additional allowance.
Icelandic Investments	The investment has been impaired to reflect the recovery rates expected as at 16 May 2012. The final repayments are not anticipated until January 2014 for Kaupthing Singer & Friedlander Ltd, and April 2013 for Heritable Bank. The final cost therefore could be greater or lower depending on the final recoverable amounts and the timings of payments..	If the expected dividend was increase by 1% the amount the carrying value of the asset would increase by £112k. If the final dividend was received a year earlier than currently anticipated, the carrying value of the asset would increase by £5k.

47 Authorisation of the Accounts

The Executive Director - Strategic Resources authorises these accounts to be issued on 25 June 2012.

The Collection Fund and Notes

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2010/11		Collection Fund			2011/12	
£000	£000		Notes	£000	£000	
		Income				
(61,948)		Council Tax (net)	1	(62,881)		
(12,321)		Transfer from General Fund - Council Tax benefits		(12,593)		
(80,410)		Business Ratepayers (NNDR)	2	(85,807)		
	(154,679)	Total Income			(161,281)	
		Expenditure				
9,393		Cambridgeshire Police Council Precept	3	9,490		
3,206		Cambridgeshire Fire Council Precept	3	3,239		
61,060		Demand by Peterborough City Council	3	61,726		
	73,659	Total Precepts			74,455	
79,519		Payment to NNDR National Pool		84,756		
273		NNDR cost of collection allowance		271		
	79,792	Total Business Rates			85,027	
1,317		Change in provision	4	1,665		
	1,317	Total Bad and Doubtful Debts			1,665	
		Contribution to previous year's estimated surplus:				
143		Cambridgeshire Police Authority	3	-		
49		Cambridgeshire and Peterborough Fire Authority	3	-		
934		Peterborough City Council	3	-		
	1,126	Total Surplus Distributed			-	
	155,894	Total Expenditure			161,147	
	1,215	Deficit / (Surplus) for the year			(134)	

201

1 Calculation of Council Tax Base

Council Tax Band	Ratio to Band D	No. of Dwellings	Band D Equivalent
A	6/9	33,545	22,363
B	7/9	18,800	14,622
C	8/9	12,631	11,228
D	9/9	6,878	6,878
E	11/9	4,042	4,940
F	13/9	1,744	2,519
G	15/9	834	1,390
H	18/9	63	126
Total		78,537	64,066

The Band D Equivalent shown above is calculated by applying the relevant factor but is before statutory discounts, exemptions, etc., and any allowance for non-payment which is at the discretion of each Council. The tax base used for Council Tax setting purposes after taking account of these factors was 55,971 (55,395 in 2010/11).

2 National Non-Domestic Rates

As at 31 March 2012 the total national non-domestic rateable value against the 2010 list was £230,176,210 (£229,205,560 at 31 March 2011) linked to 5,552 properties with the national multiplier set at 43.3p.

The amount due is calculated by reference to the actual charge during the year, which changes on a daily basis. The gross charge is further reduced because of reductions due to successful appeals, voids, interest on refunds and reliefs.

3 Precepting Authorities

The Precepting Authorities are those as shown in the statement.

2010/11	Preceptor	Precept / Demand	Share of Surplus at 31	2011/12 Total
£000		£000	£000	£000
60,986	Peterborough City Council	61,726	110	61,836
9,381	Cambridgeshire Police	9,490	18	9,508
3,203	Cambridgeshire Fire	3,239	6	3,245
73,570		74,455	134	74,589

4 Provision for Doubtful Debts

The provision for doubtful debts for Council Tax stood at £2.3m as at 31 March 2012 against arrears of £8.2m. At 31 March 2011, the provision stood at £2.4m against arrears of £6.7m.

Statement of Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year end 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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.

Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or

service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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 highly liquid investments that mature in three 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 Council's cash management.

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

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

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 non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. 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 Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by a contribution in the General Fund Balance (MRP), by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, for current employees and are recognised as an expense for services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg 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 remuneration rates applicable at 31st March of the reported period. 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

the holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Local Government Pensions Scheme, administered by Cambridgeshire County Council.
- The Teachers Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

- The NHS Pension Scheme, administered by NHS Pensions.

These schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' and NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year, and equally the Social Care Adults for the NHS.

The Local Government Pension Scheme

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

- The liabilities of the Cambridgeshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using an appropriate discount rate (based on the indicative rate of return on high quality corporate bond as identified by the actuary)

- The assets of the Cambridgeshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value
- The change in the net pension liability is analysed into seven components:
 - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
 - expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
 - gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pension Reserve
 - contributions paid to the Cambridgeshire County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension 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 Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) 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.

Events after the Balance Sheet Date

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

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

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

Exceptional Items

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

Financial Instruments

Financial Liabilities

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

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

For the three stepped rate loans, the amount charged to revenue is based on the effective interest rate and the difference between that and the cash paid is reversed out in the Movement in Reserves Statement.

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 repurchase has taken 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 Council 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. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council 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 (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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
- equity shares with no quoted market prices – independent appraisal of company valuations

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

Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

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

Any gains or 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).

Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of 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 ring-fenced 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.

Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. These assets are recognised and measured in accordance with the Council's accounting policies on Property, Plant, and Equipment. However, the assets are recognised in the Balance Sheet using as its base the detailed insurance valuation (which are based on market values) held by the Council. And as heritage assets held have indeterminate lives and a high residual value; the Council does not consider it appropriate to charge depreciation for the assets.

Intangible Assets

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

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 Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure 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 Council'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 Council can be determined by reference to an active market. 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 service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve

Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

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.

Investment Properties

Investment properties are those that are used solely to earn rentals and / or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased

assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses and therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services 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 (eg there is a rent-free period at the commencement of the lease).

Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Asset Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – 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 non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure

Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

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 principals of the CIPFA *Service Reporting Code of Practice 2011/12 (SeRCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and 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 Expenditure on the Cost of Services.

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 administration purposes and that are expected to be used during

more than one financial year are classified as Property, Plant and Equipment.

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of acquisition is the carrying amount of the asset given up by the Council.

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

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

- infrastructure and assets under construction – depreciated historical cost.
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every four years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services 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:

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

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

Foundation Schools, Voluntary Aided (VA) and Voluntary Controlled (VC) Schools are not shown on the Council's Balance Sheet. Some elements of the VA and VC schools land is still owned by the Council and is shown on the Balance Sheet.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of 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 classification 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 recognised losses 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 Asset Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. 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 Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain

Community Assets) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI scheme and as ownership of property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contract on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the balance sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operator each year are analysed into four elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principals as for a finance lease)

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as

current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be

confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

The Council sets aside specific amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a

transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

Glossary

Accruals - The concept that revenue and capital income and expenditure are recognised as they are earned or incurred, not as money is received or paid. Transactions are treated on an accruals basis with income and expenditure due as at 31 March brought into the accounts.

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.

Amortisation – the reduction in the useful economic life of a long term intangible asset, whether arising from time or obsolescence through technological or other changes.

Annual Governance Statement – identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded.

Council – is a shortened name for ‘Local Council’ – see below.

Balance Sheet - Fundamental to the understanding of a local Council's financial position at the year-end. It shows the balances and reserves at the Council's disposal and its long term indebtedness, and the long term and net current assets employed in its operations.

Balances – The non-earmarked reserves of a local Council, which are made up of the accumulated surplus of income over expenditure. This is known as the General Fund Balance for all the other services provided by the Council. Adequate revenue

balances are needed to meet unexpected expenditure or a shortfall of income. A local Council may decide to use its revenue balances to reduce its budget and thus its call on the Collection Fund.

Budget (Medium Term Financial Strategy) - A statement of a Council's plans for net revenue and capital expenditure over a specified period of time.

Capital Adjustment Account – This account was created at midnight on 31 March 2007 and its opening balance was made up of the balance on the Fixed Asset Restatement Account (FARA) and the Capital Financing Account.

Capital Charge - A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of their services.

Capital Expenditure - Expenditure on the acquisition or development of major assets which will be of use or benefit to a Council in providing its services beyond the year of account.

Capital Grant - A grant received towards the capital expenditure incurred on a particular service or project. Capital grants can be made by a Council, for example, to homeowners to meet the cost of improving their houses.

Capital Receipts - Proceeds from the sale of non-current assets, e.g. land and buildings. The proceeds can be used to finance new capital expenditure or repay debt. It cannot be used to finance revenue expenditure.

Collection Fund - A statutory fund in which a Council records transactions for Council Tax, Non-Domestic (Business) Rates and residual Community Charges

Community Assets - Assets that the local Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and open spaces.

Comprehensive Income and Expenditure Statement - reports the income and expenditure for all the Council's services and demonstrates how that cost has been financed from general government grants and income from taxpayers.

Council – means 'Peterborough City Council' specifically. The Council is a local Council and this term is used in these definitions, and in the Statement of Accounts', to define any or all Councils.

Creditor - An amount owed by a local Council for work done, goods received or services rendered to the Council within the accounting period but for which payment has not been made.

Current Asset - An asset which can be expected to be consumed or realised during the next accounting period.

Current Liability - An amount which will become payable or could be called in within the next accounting period, e.g. creditor, cash overdrawn.

Debt Redemption - The repayment of loans raised to finance capital expenditure.

Debtor - An amount owed to a local Council within the accounting period, but not received at the Balance Sheet date.

Dedicated Schools Grant (DSG) – grant received from Department for Education to fund schools related expenditure.

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 long term asset, whether arising from use, time or obsolescence through technological or other changes.

Derecognition – The term used for the removal of an asset or liability from the balance sheet.

Direct Revenue Financing (DRF) - A contribution to the financing of capital expenditure by a charge to the Comprehensive Income and Expenditure Statement. This can be used to supplement a local Council's other capital resources.

Effective Rate of Interest – The rate of interest that will discount the estimated cash flows over the life of a financial instrument to the amount in the balance sheet at initial measurement.

Equity Instrument – A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (e.g an equity share in a company).

Fair Value – the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction.

Financing Charges - Annual charges to the Comprehensive Income and Expenditure Statement of a local Council to cover the interest on, and repayment of, loans raised for capital expenditure.

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at

the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset

Financial Asset – A right to future economic benefits controlled by the Council. Examples include bank deposits, investments and loans receivable.

Financial Instrument – Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instrument Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund.

Financial Liability – An obligation to transfer economic benefits controlled by the Council. Examples include borrowings, financial guarantees and amounts owed to trade creditors.

Long Term Asset - An asset which has value beyond one financial year

General Fund - The main revenue account of a local Council which summarises the cost of all services provided by the Council which are paid for from Council Tax, government grant and other income.

Government Grants and Subsidies - Grants towards either the revenue or capital cost of local Council services. These may be either in respect of particular services or purposes, (specific and supplementary grants), or in aid of local services generally e.g. Revenue Support Grant.

Heritage Assets – is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

IAS 19 - This is an International Accounting Standard (which replaces Financial Reporting Standard 17) now universally adopted across all sectors (public and private) for the inclusion and reporting of pension costs in Financial Accounts. It is based on the principle of recognising pension costs in the financial year that they become known rather than the cash transfers made in that year – usually, this means that a higher cost arises. These (higher) costs are calculated each year by Actuaries who forecast changes in future liabilities and the performance of the Pension Fund in determining any potential shortfall. In local government, a Pension Reserve has been introduced to absorb this impact so that no additional costs fall on Council Taxpayers until they are actually due.

Impairment – The term used where the estimated recoverable amount from an asset is less than the amortised cost at which the asset is being carried on the balance sheet.

Infrastructure Assets - Assets that are inalienable, ie may not be sold, transferred or assigned to another. These include facilities required to enable other developments to take place e.g. roads and street lighting.

Investment Properties – are those properties that are used solely to earn rentals and/or for capital appreciation.

Loans Outstanding - The total amounts borrowed from external lenders for capital and temporary revenue purposes and not repaid at the Balance Sheet date.

Local Council – is a corporate body, established by statute, to undertake specific local functions. It is governed by Members (also known as Councillors) who are either elected or appointed. Peterborough City Council is a 'local Council'. In these definitions, the term 'local Council' is used to describe one or all Councils generally. Sometimes, this is shortened to just 'Council'.

Minimum Lease Payments – are those lease payments that the Council is, or can be, required to make.

Minimum Revenue Provision (MRP) - This is the minimum amount which must be charged to a local Council's Comprehensive Income and Expenditure Statement and set aside to repay debt. It is calculated by charging 4% on all borrowing up to the 1st April 2007 and for any new supported borrowing. For the remaining unsupported borrowing, MRP is charged in line with the life of the asset for which the borrowing was undertaken.

Movement in Reserves Statement – this statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and unusable reserves.

National Non-Domestic Rates (NNDR) - The rates payable by businesses on their properties are calculated by applying a nationally determined multiplier to the rateable value of the property. This is collected by local authorities and paid to the Government who then redistribute the money to authorities based on a standard amount per head.

Operating Leases - Leases under which the ownership of the asset remains with the lessor.

Pooling – The term used for the calculation and payment of a proportion of housing capital receipts into a national pool for redistribution.

Precept - The amount a local Council, who cannot levy a council tax directly on the public (eg Fire and Police authorities, Parish council), requires it to be collected on its behalf.

Provisions - are required for any liabilities of uncertain timing or amount that have been incurred. Provisions are set aside in the accounts and charged to individual services. When the relevant expenditure occurs, it is charged direct to the Provision.

Reserves - Amounts set aside for purposes falling outside the strict definition of provisions are considered as reserves. Reserves include earmarked reserves set aside for specific projects or service areas, or expected future commitments.

Revaluation Reserve – This account was created on 1 April 2007 and its balance represents the revaluation gains accumulated since 1 April 2007.

Revenue Expenditure - The day-to-day running costs a local Council incurs in providing services (as opposed to capital expenditure).

Revenue Support Grant (RSG) - A general grant paid by the government and recognised in the General Fund to help finance local Council revenue expenditure.

Supported Borrowing – the amount of borrowing assumed by Government in the calculation of their grant payment.

Usable Reserves – those reserves that can be applied to fund expenditure or reduce local taxation.

Unusable Reserves – those reserves that absorb the timing differences arising from different accounting arrangements.

Unsupported / Prudential borrowing – the amount of borrowing for which there is no grant to support its revenue impact.

VAT Shelter – The Council transferred its housing stock to Cross Key Homes in October 2004. Housing Associations are at a disadvantage compared to Local Authorities because they are not able to recover VAT on their expenditure. The VAT shelter agreement enables the VAT on capital works to be reclaimed and the benefit split equally between the Council and Cross Keys. This income is included within the Comprehensive Income and Expenditure Statement.

Index of Notes to the Core Financial Statements

Note	Description	Page	Note	Description	Page
1	Dedicated Schools Grant.....	13	23	Capital Commitments	44
2	Pooled Funds and Similar Arrangements.....	13	24	Revaluations	44
3	External Audit Costs	14	25	Impairment Losses	45
4	Members Allowances.....	14	26	Capital Expenditure and Capital Financing.....	45
5	Termination Benefits and Exit Packages.....	14	27	Private Finance Initiatives (PFI) and Similar Contracts	46
6	Pension Schemes Accounted for as Defined Contribution Schemes	16	28	Council as Lessee - Finance Leases.....	47
7	Defined Benefit Pension Schemes	16	29	Financial Instruments.....	49
8	Officers' Remuneration	20	30	Fair Value of Assets and Liabilities Carried at Amortised Cost	49
9	Trading Operations.....	22	31	Nature and Extent of Risks Arising from Financial Instruments	50
10	Comprehensive Income and Expenditure Statement – Other Operating Expenditure.....	23	32	Inventories	54
11	Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure	23	33	Debtors	54
12	Comprehensive Income and Expenditure Statement – Taxation and Non Specific Grant Incomes.....	23	34	Creditors	55
13	Grant Income.....	23	35	Capital Grants Receipts in Advance.....	55
14	Related Parties	24	36	Provisions	56
15	Interest in Companies.....	25	37	Cash Flow Statement – Operating Activities	57
16	Amounts Reported for Resource Allocation Decisions.....	25	38	Cash Flow Statement – Investing Activities.....	57
17	Movement in Reserves Statement – Adjustments between Accounting Basis and Funding Basis under Regulations	29	39	Cash Flow Statement – Financing Activities.....	57
18	Movement in Reserves Statement – Transfers to / (from) Earmarked Reserves	38	40	Cash Flow Statement – Cash and Cash Equivalents.....	57
19	Property, Plant and Equipment.....	39	41	Trust Funds	57
20	Investment Properties.....	41	42	Contingent Liabilities.....	58
21	Intangible Assets	41	43	Contingent Assets.....	59
22	Surplus Assets and Assets Held for Sale	43	44	Accounting Standards That Have Been Issues but Have Not Yet Been Adopted	59
			45	Critical Judgement in Applying Accounting Policies	59
			46	Assumptions made about the Future and Other Major Sources of Estimation Uncertainty.....	61
			47	Authorisation of the Accounts.....	63

This page is intentionally left blank

PETERBOROUGH



CITY COUNCIL

Annual Governance

Statement - 2011/12



Annual Governance Statement

The Annual Governance Statement is being discussed and approved by this Audit Committee on 25 June 2012. The Statement will be included in the final published Statement of Accounts in September 2012.

Signed:

Gillian Beasley, Chief Executive

Date:

Signed:

Councillor Marco Cereste, Leader of the Council

Date:

228

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 10
25 JUNE 2012	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

WORK PROGRAMME 2012 / 2013

1. ORIGIN OF REPORT

This is a standard report to Audit Committee which forms part of its agreed work programme. This standard report provides details of the proposed Work Programme for the Municipal Year 2012 / 2013 together any training needs identified.

2. UPDATE

Work Programme

The Work Programme (Appendix 1) is based on previous years meeting dates / agendas. The programme will be refreshed in consultation with senior officers and the Committee membership throughout the year.

Training

An overview of the works channelled through the Audit Committee will be provided alongside this agenda. In addition, prior to each committee meeting, further training will be provided subject to the needs of the committee.

3. APPENDICES

Appendix 1 – Work Programme

WORK PROGRAMME FOR 2012 / 2013

Date	Work Programme	Key Officer
7 June 2012	Agenda items: <ul style="list-style-type: none"> • Information Governance: Data Incident Policy • Audit Committee Handbook Training: <ul style="list-style-type: none"> • Overview of the Final Accounts process 	Louise Tyers Steve Crabtree Steven Pilsworth
25 June 2012	Agenda Items: <ul style="list-style-type: none"> • Fraud: Annual Report 2011 / 2012 • Internal Audit: Review of Effectiveness • Internal Audit: Annual Report 2011 / 2012 • Draft Annual Governance Statement • Budget Monitoring Report Outturn 2011 / 2012 • Statement of Accounts 2011 / 2012 Training: <ul style="list-style-type: none"> • None identified 	Ben Stevenson Steve Crabtree Steve Crabtree Steve Crabtree Steven Pilsworth Steven Pilsworth
3 Sept 2012	Agenda Items: <ul style="list-style-type: none"> • Risk Management Strategy • Risk Management: Strategic Risks • Regulation of Investigatory Powers Act (RIPA): Annual Report • RIPA: Progress Report To 30 June 2012 • Feedback Report Training: <ul style="list-style-type: none"> • To be determined 	Operations Directorate Operations Directorate Ben Stevenson Ben Stevenson
24 Sept 2012	Agenda Items: <ul style="list-style-type: none"> • Audit of Statement of Accounts • Strategic Risks: Adult Social Care *NEW* • Strategic Risks: Children's Services *NEW* • Feedback Report Training: <ul style="list-style-type: none"> • To be determined 	Steven Pilsworth
5 Nov 2012	Agenda Items: <ul style="list-style-type: none"> • Internal Audit: Mid-Year Progress against Audit Plan • Use of Consultants: Progress Report *NEW* • Treasury Management Update • RIPA: Progress Report to 30 September 2012 • Feedback Report Training: <ul style="list-style-type: none"> • To be determined 	Steve Crabtree Steven Pilsworth Steven Pilsworth Ben Stevenson

Date	Work Programme	Key Officer
4 Feb 2013	Agenda Items: <ul style="list-style-type: none"> • Risk Management: Strategic Risks • External Audit: Annual Audit Letter • External Audit: Report to Management • External Audit: Grant Claims Annual Certification • Effectiveness of the Audit Committee • Feedback Report Training: <ul style="list-style-type: none"> • To be determined 	Operations Directorate PwC PwC PwC Steve Crabtree
25 Mar 2013	Agenda Items: <ul style="list-style-type: none"> • RIPA: Progress Report to 31 December 2012 • Internal Audit: Strategy and Audit Plan 2013 / 2014 • External Audit: Audit Plan • Draft Annual Audit Committee Report • Feedback Report Training: <ul style="list-style-type: none"> • To be determined 	Ben Stevenson Steve Crabtree PwC Steve Crabtree

Each meeting may be supplemented by additional reports deemed appropriate for the Committee, and in accordance with the Terms of Reference. This could relate to:

- Specific work requests for Internal Audit or External Audit;
- Changes made to Financial Regulations or Contract Regulations; or
- Other governance or legislation which impacts on the work of the Committee.

The Work Programme will be refreshed at each meeting.

This page is intentionally left blank