PETERBOROUGH CITY COUNCIL

AUDIT COMMITTEE

WEDNESDAY 29 JUNE 2016
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

To receive, consider and endorse the annual report on the investigation of fraud and irregularities for the year ended 31 March 2016

8. Internal Audit: Annual Audit Opinion **177 - 204**

To receive, consider and endorse the annual Audit Opinion of Internal Audit for the year ended 31 March 2016.

9. Draft Annual Governance Statement **205 - 228**

To receive, consider and endorse the draft Annual Governance Statement for the year ended 31 March 2016

INFORMATION AND OTHER ITEMS

10. Use of Regulation of Investigatory Powers Act 2000 (RIPA)

The Committee is asked to **NOTE** that there have been no RIPA authorisations in this quarter.

11. Approved Write-Offs Exceeding £10,000

The Committee is asked to **NOTE** that there have been no approved write-off amounts to report since 21 March 2016, which exceed the Council's Financial Regulation threshold of £10,000.

12. Feedback Report **229 - 234**

13. Draft Work Programme 2016/2017 **235 - 240**

To receive, consider and endorse the annual Audit Opinion of Internal Audit for the year ended 31 March 2016.

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 Karen S Dunleavy on 01733 452233 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.

Recording of Council Meetings: Any member of the public may film, audio-record, take photographs and use social media to report the proceedings of any meeting that is open to the public. A protocol on this facility is available at:

http://democracy.peterborough.gov.uk/documents/s21850/Protocol%20on%20the%20use%20of%20Recording.pdf

Committee Members:

Councillors: Fuller (Chairman), Aitken (Vice Chairman), D Over, Sims, E Murphy, K Sharp and A Shaheed

Substitutes: Councillors: King, Lillis, Hussain and B Saltmarsh

Further information about this meeting can be obtained from Karen S Dunleavy on telephone 01733 452233 or by email – karen.dunleavy@peterborough.gov.uk

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Public Document Pack

PETERBOROUGH CITY COUNCIL

MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 21 MARCH 2016

Present: Councillors Aitken (Vice Chairman), F Fox, Harper, Shaheed, Sharp, Lane, Sylvester and Scott OBE.

Also Present: Councillor Seaton Cabinet Member for Resources

Officers in Attendance:
Kim Sawyer, Director of Governance
Steven Crabtree, Chief Internal Auditor
Kevin Dawson, Head of Resilience
Karen S Dunleavy, Democratic Services Officer

Also in Attendance: Kay Mcclennon, Ernst and Young
Clare Armitage, Ernst and Young

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Over, Councillor Harper was in attendance as a substitute.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF THE MEETING HELD ON 8 FEBRUARY 2016

The minutes of the meeting held on Monday, 8 February 2016 were approved as an accurate and true record.

4. RISK MANAGEMENT: STRATEGIC RISKS

The Head of Resilience introduced the report to Audit Committee Members, as a planned report on Risk Management.

Key points highlighted included:

- Risk Management Review
- Risk Management Policy

The Head of Resilience, responded to comments and questions raised by Members. A summary of responses included:

- The risks highlighted for the shortage of school places was a national issue, which had also applied to Peterborough. It had been confirmed to the resilience team recently that work was underway to mitigate the issue;
- The continued amber and red risks would be mitigated by Directors. Some of risks would be on a cycle, such as in relation to the budget which would remain as a high risk area, whereas some may spiral downwards. It would be very difficult to predict the direction of a new risk;

- The Cabinet Member for resources advised that the Strategic Risk Register would highlight key items that could have a significant impact on the Council;
- A demand for school places could be solved by the provision of temporary mobile classrooms to manage the situation;
- There were budget reserves in place if the Council were required to act quickly to a significant risk; and
- School admissions would remain the responsibility of the Authority when schools move to Academy status as per the recent Government direction.

The Committee:

Note the latest Risk Management Report.

5. Outcome of the Code of Conduct Review

The Director of Governance introduced the report to Audit Committee Members, which sought a recommendation for an appropriate Code of Conduct (CoC) for the Council to adopt. Members of the Committee also received tabled comments from Elected Members outlining their preferred option.

The Committee was asked to review the three options as its preferred Code of Conduct for Members and select the appropriate Code to recommend for adoption at the Annual Council meeting:

a) Option 1 - the existing Code of Conduct with a minor amendment on other interests at paragraph 9.2;
b) Option 2 – the amended Code of Conduct based on the Local Government Association model; and
c) Option 3 – The amended Code of Conduct based on the Department of Communities and Local Government (DCLG) model.

The Director of Governance, responded to comments and questions raised by Members. A summary of responses included:

- The decision had been made by Audit Committee to move away from the Local Government Association (LGA) model as it was too prescriptive in telling Elected Members how to carry out their function; and
- The CoC review group was unable to meet sooner due to logistical issues and other Council commitments.

A motion was proposed and seconded to recommend the DCLG Code of Conduct for recommendation to Council for adoption. The motion was carried, three in favour, two against, one abstention and two no votes.

The Committee:

Agreed that option 3, the Department for Communities and Local Government (DCLG) model would be recommended to Council for adoption.

6. Internal Audit: Draft Internal Audit Plan 2016 / 2017

The Chief Internal Auditor introduced the report to Audit Committee Members, which outlined the Draft Internal Audit Plan 2016/2017, which had been in line with the Committee's agreed Work Programme for 2015/2016.

Key points highlighted included:

- Audit Charter;
- Code of Ethics;
- Audit Strategy and Audit Plan; and
- Performance Indicators.

The Chief Internal Auditor, responded to comments and questions raised by Members. A summary of responses included:

- The team had intended to make full use of the allocation of resources and page 92 of the report provided a full breakdown on the allocation. It had been expected that some tasks would overlap between financial years;
- The allocation of audit resources shared with two other authorities had reflected the number of days spent at other Councils;
- The resources allocated for audit reviews had changed over time due to varied reasons, however, the level of auditors in comparison to the audit reviews required, had been correctly applied and would be reviewed as necessary. Any variation required for the internal audit plan following a review would be reported back to Audit Committee as appropriate;
- Members raised concerns over the amount of resources available to conduct internal audits and requested that consideration should be given to closely monitor the issue;
- Costs for audit reviews for each shared authority were charged respectively;
- The audit feedback performance targets had been consistent for each year and had scored 4 – 4.5 against the target of 3.75 set.

The Cabinet Member for Resources suggested that audit support in terms of the integration of the Digital Strategy was considered by the Audit Committee.

The Committee:

Examined the draft Internal Audit Plan for 2016 / 2017 and:

1. Identified any areas for further consideration;
2. Approved the draft Audit Plan and Audit Strategy;
3. Noted the contents of the Internal Audit Charter;
4. Noted the contents of the Code of Ethics; and
5. Noted the performance indicators set for the service.

The Committee Also Agreed:

That the Chief Internal Auditor would arrange a meeting between the Audit Committee Chair, Cabinet Member for Resources and the Chief Internal Auditor to discuss the specific technical skills and resources required in order to undertake ICT audits to ensure that projects were fully integrated and in line with the Digital Strategy.

7. Draft Annual Audit Committee Report

The Director of Governance introduced the report to Audit Committee Members, which outlined the work of the Audit Committee over the municipal year 2015/2016.

The Committee:

Approved the draft Annual Audit Committee report for submission to Council.

8. Account and Audit Regulations 2015

The Chief Internal Auditor introduced the report to Audit Committee Members, which outlined the implications of the changes to the Audit and Accounts Regulations 2015. The changes were due to be effective from Financial Year 2017/2018.

Key points highlighted included:

- Draft accounts deadline date had changed from 30 June to 31 May;
- The draft accounts required signature by the Section 151 Officer for release into the public domain;
- The changes would impact the Audit Committee's work programme.
- The Audit and Accounts Regulations 2015 deadline for the sign off of accounts by Committee was 31 July.

The Chief Internal Auditor, responded to comments and questions raised by Members. A summary of responses included:

- The Audit and Account Regulations requirements would be effective from 2017/2018; and
- Paragraph 4.18 of the report should state that the sign off of accounts responsibility would change to a different meeting date rather than to a different Committee.

The Committee:

1. Noted the impacts of the Audit and Accounts Regulations 2015 as set out in section 4 of the report; and
2. Considered and approved the recommended approach to adjust the Work Programme and meeting dates as result of the change in regulations.

INFORMATION AND OTHER ITEMS

9. USE OF REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

The Committee noted that there had been no RIPA authorisations in this quarter.

The Committee:

Agreed that a guidance note would be provided to Audit Committee Members, which would outline when an application could be made for the use of Regulation of Investigatory Powers Act 2000 (RIPA).

10. APPROVED WRITE-OFFS EXCEEDING £10,000

The Committee noted that there had been no write-offs for the Council exceeding £10,000.

7:00pm – 7:49pm
Chairman

AUDIT COMMITTEE	AGENDA ITEM NO: 4
29 JUNE 2016	PUBLIC REPORT

Cabinet Member(s) responsible:	Resources Portfolio Holder, Cllr Seaton	
Committee Member(s) responsible:	Councillor Fuller, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Corporate Director Resources Steven Pilsworth, Service Director Financial Services	Tel. 452398 Tel. 384564

EXTERNAL AUDIT: AUDIT PLAN 2015/16

R E C O M M E N D A T I O N S

FROM : Ernst and Young (EY) | **Deadline date :** N/A

The Committee is asked to:

1. Consider the External Audit Plan for 2015/16 and consider points raised by EY in the document:
   - Proposed scope, comfortable with the audit risks, and approach;
   - Consider and respond to matters relating to fraud;
   - Consider and respond to the EY view on the value of misstatements; and
   - Note the audit fees for the year.
2. Provide comment on any amendments necessary

1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its Work Programme for 2015/16.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to consider and respond to the Audit Plan for 2015/16 from Ernst and Young (EY), the Council's external auditors, in accordance with the Committees' Terms of Reference:

2.2.1.5 To consider the external auditors annual letter, relevant reports, and the report to those charged with governance, and

2.2.1.7 To comment on the scope and depth of external audit work and to ensure it gives value for money.

3. TIMESCALE

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

4. EXTERNAL AUDIT PLAN

4.1 The 2015/16 audit will be the first year that the Council has Ernst and Young (EY) as its external auditor. The Audit Plan has been prepared to inform the Council about the responsibilities of its external auditors and how those responsible will be discharged. It has been discussed and agreed jointly by Council representatives and External Audit (EY).

4.2 EY have worked through the transitional arrangements with its predecessors, PricewaterhouseCoopers, including a review of their files. The Plan (Appendix 1) summarises the preliminary assessment of the key issues which drive the development of an effective audit for the Council, and outlines EY's planned audit strategy in response to those risks. The plan has been developed to consider the impact of the recent key developments and risks based upon discussion with management and understanding of the City Council and the local government sector.

4.3 There are a number of sections within the Plan as follows:

a) **Overview** – contains the introductory paragraphs, and the framework for the audit.

b) **Financial statement risks** – EY complete this to enable them to determine where audit effort should be focused. There are a mix of types of risks identified, from the general risk such as management override of controls and fraud which any organisation would face and are not specific to the Council, and those more specific to the Council, such as the property valuation assumptions and methodologies used by the Council's external valuers, the accounting treatment for the Council's Private Finance Initiative, minimum revenue provision following the revised 2015/16 policy as agreed as part of the MTFS in March 2016, and the Council's assessment of the boundary with regards to Group Accounts. Other financial statement risks identified include recognition of the new financial system used by the Council and Better Care Fund accounting.

c) **Value of money risks (VFM)** – EY are required to consider whether the Council has in place 'proper arrangements' to secure economy, efficiency, and effectiveness on it use of resources. The significant VFM EY have identified regards budget pressures following central government reductions and the Council's savings plans.

d) **Audit process and strategy** – in order to be more efficient EY's intention is to carry out a fully substantive audit in 2015/16 rather than rely on the operation of controls.

   EY will liaise with Internal Audit to gain an understanding of the control environment, and use computer-based analytic tools to help identify specific exceptions and anomalies.

   EY set the materiality level in accordance with national auditing guidelines and standards. The level at which uncorrected audit misstatements are reported to Audit Committee has been decreased to £250k from the £500k used last year by PwC (£350k in the year prior to that). It has been set at this level in order to be consistent with the reporting level for Whole Government Accounts purposes. A calculation is made because if misstated amounts below this level are found the correction of them will not have a material effect on the Statement of Accounts. If however the misstatement has arisen due to a control issue rather than a technical accounting adjustment, it will be reported to the Audit Committee in the Annual Report to Management.

e) **Independence** – EY are required to report to Audit Committee all significant facts and matters that bear on their independence and objectivity.

f) **Appendix A** – a breakdown of the agreed fees.

g) **Appendix B –** UK required communications with those charged with governance.

h) **Appendix C –** Detailed scopes.

5. CONSULTATION

5.1 The Plan has been circulated to relevant officers for comment, including the Corporate Director Resources, Service Director Financial Services, Head of Corporate Finance, and the Chief Internal Auditor.

6 ANTICIPATED OUTCOMES

6.1 Approval of the External Audit Plan 2015/16.

7 REASONS FOR RECOMMENDATIONS

7.1 The Plan provides a summary of the Auditor's proposed work for 2015/16. Members can ask questions and make comments to the External Auditor on its contents and coverage.

8 ALTERNATIVE OPTIONS CONSIDERED

8.1 The External Auditor can take on board responses received prior to the finalisation of the plan. No specific options are submitted for consideration.

9 IMPLICATIONS

9.1 There are no direct implications arising from this Plan for Ernst and Young. Fees identified are commensurate with previous years, and are set by the Public Sector Audit Appointments body.

10 BACKGROUND DOCUMENTS

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

External Audit Plan 2015/16

11 APPENDICES

Appendix 1 – External Audit Plan 2015/16

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Peterborough City Council

Year ending 31 March 2016

Audit Plan

March 2016

To be presented at Audit Committee on 29 June 2016

Ernst & Young LLP

Building a better working world

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Audit Committee
Peterborough City Council
Town Hall
Bridge Street
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PE1 1QT

6 June 2016

Dear Committee Members

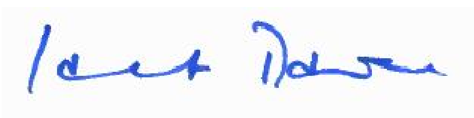
Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your new auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

2015/16 will be our first year as your external auditor. We have worked through the transitional arrangements with our predecessors, PWC, including a review of their files. This plan therefore summarises our preliminary assessment of the key issues which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 29 June 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Janet Dawson
Partner
For and behalf of Ernst & Young LLP
Enc

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ''Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Peterborough City Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended;
- Our conclusion on the Council arrangements to secure economy, efficiency and effectiveness; and
- Any additional specific sector requirements.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

Since our appointment as auditors of Peterborough City Council, we have completed a range of transition and planning activities including:

- Meetings with the Audit Committee and Senior Management.
- Review of strategic documentation, including the Council's financial plans and strategic risk register.
- Review of predecessor auditor's 2014/15 audit reports and working papers.
- Participation in an accounts closure workshop at the Council.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our transition and initial planning activities.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	We will ► Review and test revenue and expenditure recognition policies ► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ► Develop a testing strategy to test material revenue and expenditure streams ► Review and test revenue cut-off at the period end date
Risk of management override	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ► Reviewing accounting estimates for evidence of management bias, and ► Evaluating the business rationale for significant unusual transactions ► Testing for capitalisation of revenue spend
Property, plant and equipment valuation	
Property, Plant and Equipment (PPE) represent the largest asset values on the Council's balance sheet. Land and buildings are initially measured at cost and then revalued to fair value. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Revaluations are carried out by the Council's appointed valuers. Valuations are based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.	We will obtain an understanding of and evaluate key controls over the valuation of PPE. Where asset valuations are undertaken in-year we will: ► agree the source data used by your valuer to supporting records; ► assess the work of your valuer; and ► agree the outputs to your fixed asset register and statements. Where the Council proposes significant changes to valuation bases we will evaluate the rationale. ► Where assets are not revalued in-year, we will review the Council's impairment assessment and consideration of whether the carrying value of these assets remain appropriate.

The Council' previous auditor raised two issues in their annual audit letter relating to PPE valuations, re:

- **Lack of reconciliation of Gross Internal Area (GIA)** documentation. However, their work in this area concluded that the amounts on the valuation certificates were appropriate and no adjustments were required to the accounts as a result of this matter.
- **Accounting for schools' non-current assets.** Your previous auditor identified matters in relation to 5 schools with a total netbook value of £9.5m. It is the Authority's view that legal ownership should reside with, and is in the process of transferring to, the governing bodies of the schools, who have substantive control over these assets. Therefore, the Authority does not have control over the assets and has not included these assets in the balance sheet. The Council's previous auditor was satisfied with the conclusions made by the Council not to recognise these assets but requested disclosure of this matter, including the net book value of the non-current assets of £9.5m, in a note to the accounts.

We will:

- agree the source data used by your valuer to supporting records;
- assess the work of your valuer; and
- agree the outputs to your fixed asset register and statements.

We have discussed the latest position with the finance team, and understand that these schools are still in the process of transferring to the governing bodies.

It is likely that we will take the same view as your previous auditor and would require the Council to make a similar disclosure this year, if the position has not been resolved by the date of our audit opinion.

Private Finance Initiative

The Council recognises on its Balance Sheet a PFI liability for a PFI agreement with IIC BY Education (Peterborough Schools) Limited which the Council signed in 2006 for the delivery of new and improved facilities and services for three secondary schools in Peterborough. The contractor will maintain these three schools and provide them with a range of other services such as caretaking, cleaning and catering for 30 years. One of the three schools has transferred to Academy status therefore the associated assets are not recognised on the Council's Balance Sheet. The value of the two schools which are recognised on the Council's Balance Sheet is £25.1m

The PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IAS 17.

The accounting entries are based on a complex range of assumptions via a PFI accounting model.

We will:

- Obtain an understanding of and evaluate key controls over the valuation of the PFI liability.
- Ensure the PFI model has been brought forward correctly from the previous year, consider engaging relevant experts to review the model against an EY model to ensure the client model is still working as expected.
- Ensure the PFI accounting model has been updated for any service or other agreed variations.
- Agree outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure.

Minimum Revenue Provision (MRP) methodology change

In common with many other local authority bodies in 2015/16 Peterborough City Council has reviewed the basis on which they calculate the required "prudent" MRP amount.. The change is proposed to assist with funding the budget gap which has been identified by the Council.

The Council is currently applying MRP at a rate of 4% which is the previously accepted methodology for the capital expenditure incurred prior to 1 April 2008 which was funded by borrowing, and for supported borrowing undertaken from 2000809 to 2010/11. The key element of the Council's revised approach is to link the MRP calculation to the weighted average life of these assets. In addition, the annuity basis is to be applied to unsupported borrowing post 2008.

The MRP adjustment is material and we consider that there are risks around:

- Whether the weighted average life of the assets has been correctly calculated;
- The treatment of Adjustment A ; and
- Whether the revised calculation of MRP is correct.

The Council has prepared a briefing note on its proposed treatment and we held an initial meeting with the finance team to discuss this and share our initial observations. We agreed that the finance team would carry out further work on the briefing note and supporting documents and we are now carrying out a more detailed review of the proposal.

Our approach will focus on:

- reviewing the approach put forward by the Council and conclude whether we are satisfied that the approach is reasonable and meets statutory guidance from DCLG;
- discussing our findings from this review with the finance team;
- agreeing the any recalculation of the adjustment as necessary and confirming that it has been applied correctly.

Assessment of the Group boundary

Peterborough City Council has a number of joint arrangements which may necessitate the preparation of group accounts.

The Council will need to identify and consider all of its relationships with its subsidiaries and other partners and assess the nature of these arrangements to determine whether they create functional bodies and other group entities which now fall within the group boundary and therefore require consolidating into the Council's Financial Statements. Group accounts have not previously been prepared by the Council.

The review will need to consider the new accounting practices introduced in the 2014/15 CIPFA Code of Practice.

There is a risk that associated group boundary changes may go undetected, and that the required disclosures are not made in accordance with the new standards.

Our approach will focus on:

- assessing where overall control lies with regard to the operation and delivery of services of the potential group bodies; and
- ensuring that appropriate consolidation procedures are applied to those bodies that lie within the group boundary.

Other financial statement risks

New financial system

On 1 November 2015 the Council changed its financial system from Oracle to Agresso. The transactions and balances from the first seven months of the year were transferred from Oracle to Agresso in a data migration exercise, with the remaining five months transactions being processed in the new system.

The risk is that the data has not been transferred correctly and the year end accounts could be misstated.

Our approach will focus on:

- reviewing Internal Audit work on the data migration process
- reviewing the checks and reconciliations performed by the Finance department and IT department,
- reperforming any of these checks as necessary, and
- carrying out any additional testing necessary.

Better Care Fund accounting

The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. From 1 April 2015 the BCF has been set up as a pooled budget between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled fund to jointly commission or deliver health and social care services at a local level.

Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the pool.

In addition, the Council is party to a number of other pooled budget arrangements. Proper disclosure of the nature of all of these arrangements is important together with the accounting and disclosure implications arising from them in the Council's accounts

We will engage with management to ensure that their plans for financial statements production are clear. We will look specifically at proposed accounting treatments for the Better Care Fund and other pooled budgets, and reviewing the disclosures made under IFRS11 and 12 relating to the arrangements.

We will keep our approach under review, pending further guidance from CIPFA, NHSE the National Audit Office and PSAA.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- Identifying fraud risks during the planning stages;
- Enquiry of management about risks of fraud and the controls to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address any identified risks of fraud, and,
- Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources.

For 2015/16, this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment to date has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion. Should we identify any additional significant value for money risks during the course of our audit, we will update management and the Audit Committee.

Significant value for money risks	Our audit approach
Budget pressures	
Councils are funded by grants from central government and locally raised revenue from council tax and business rates or from fees, charges, or other revenue generating activities. Since 2010/11 funding for Councils from central government has reduced by 37 per cent in real terms, and further reductions for the period 2016-17 to 2019-20 are likely. The Council is taking action to address longer term financial resilience issues identified in the Medium Term Financial Strategy. The budget for 2016/17 is balanced; however, there are still some gaps to cover in subsequent years: £4 million in 2017/18, £24 million in 2018/19 and £31 million in 2019/20. Achieving the 2016/17 budget will be reliant on savings plans of £12m being realised. In addition, £5 million savings are planned in each year as a result of changing the methodology of calculating Minimum Revenue Provision (MRP) which is currently subject to audit.	Our approach will focus on: ► Financial reporting including achievement of financial targets. ► Delivery of the Council's 2015/16 savings plans and linkages to delivery of longer-term transformational change; ► The Council's 2016/17 financial plan; ► The Council's longer-term financial strategy in the light of the local and wider financial pressures in the local economy; and ► Review of the Council's proposal to change its MRP methodology.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- Financial statements
- Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;
- Examine and report on the consistency of any consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period;

2. **Arrangements for securing economy, efficiency and effectiveness (value for money)**

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

To the fullest extent permissible by auditing standards, we intend to consider internal audit's work in documenting your financial systems and controls. This will enable us to more efficiently update our understanding of your systems and carry out the walkthrough of those systems as required under auditing standards. Our intention is to carry out a fully substantive audit in 2015-16 rather than rely on the operation of controls as we believe this to be a more efficient approach however:

IT systems and applications: we will consider the general IT controls built in to the Council's core IT applications, and form a general understanding of the IT control environment

Entity level controls: we will maximise efficiency by seeking to rely on entity level controls and processes, such as budget setting and monitoring process.

Where we note any weaknesses in controls as part of our work, we will bring these to the attention of the finance team and will report them in communications to the Audit Committee if necessary.

Liaising with Internal Audit

A key part of understanding and monitoring of the control environment is our ongoing liaison with Internal Audit. We will develop a strong working relationship with Internal Audit. We will discuss and review Internal Audit's annual plans and reports to inform where specific reviews can assist us in our controls and Value for Money Conclusion work.

We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we note issues that could have an impact on the year-end financial statements

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- Give greater likelihood of identifying errors than random sampling techniques.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists will provide input for the current year based on our initial planning activities are:

Area	Specialists
Pensions	EY Pensions team/ Third party specialists
Valuations	EY Valuations team/ Third party specialists
PFI	EY PFI specialist
MRP	EY Financial Accounting Advisory Services (FAAS) team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source date is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO
- Examining and reporting on the consistency of any consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £9,682,000 based on 2% of gross revenue expenditure. We will communicate uncorrected audit misstatements greater than £250,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Peterborough City Council is £108,533.

At this stage we identify that there will be additional fee for our work on reviewing the MRP methodology change, any audit work relating to group accounts if these are required, and any significant audit work arising from the data migration exercise.

4.6 Your audit team

The engagement team is led by Janet Dawson, who has significant experience of local government audits. Janet is supported by Kay McClennon, Audit Manager, who is responsible for the day-to-day direction of audit work. Kay is the key point of contact for the Head of Corporate Finance.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	**December 2015 - February 2016**	**June 2016**	Audit Fee Letter Audit Plan
Risk assessment and setting of scopes	**January/February 2016**	**June 2016**	Audit Plan
Testing routine processes and controls	**January/February 2016**	**June 2016**	Progress Report
Year-end audit	**June/July 2016**	**September 2016**	Report to those charged with governance via the Audit Results Report
Completion of audit	**September 2016**	**September 2016**	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion. Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	**October 2016**		Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 ‘Communication of audit matters with those charged with governance’, requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

At the time of writing, we have completed no non-audit work.

No additional safeguards are required

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson, the audit engagement Partner and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Scale fee 2015/16 £	Scale fee 2014/15 £
Opinion Audit and VFM Conclusion	108,533	144,710
Total Audit Fee – Code work	**108,533**	**144,710**
Certification of claims and returns [1]	13,619	18,740

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- We can rely on the work of internal audit as planned;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

At this stage we identify that there will be additional fee for our work on reviewing the MRP methodology change, any audit work relating to group accounts if these are required, and any significant audit work arising from the data migration exercise.

Fees for the auditor’s consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

[1] Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process	► Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Report to those charged with governance
Fraud ► Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	► Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	► Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Report to those charged with governance
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	► Report to those charged with governance

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	► Audit Plan ► Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	► Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	► Report to those charged with governance
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	► Audit Plan ► Report to those charged with governance ► Annual Audit Letter if considered necessary
Group audits ► An overview of the type of work to be performed on the financial information of the components ► An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ► Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ► Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ► Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Plan
Opening Balances ► Findings and issues regarding the opening balance of initial audits	Report to those charged with governance
Certification work ► Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary

Appendix C Detailed scopes

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

The preliminary audit scopes we have adopted to enable us to report on the group accounts are set out below. Our audit approach is risk-based, and therefore the data below on coverage of gross revenue expenditure and total assets is provided for your information only.

Group audit scope	Number of locations	% of GRE	% of Total Assets
Still to be determined if necessary			

- **Full scope**: locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).

- **Specific scope**: locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.

- **Limited Scope**: limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

- **Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant locations/reporting units. Our involvement can be summarised as follows:

- Discussion with the component team concerning:

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

AUDIT COMMITTEE	AGENDA ITEM NO: 5
29 JUNE 2016	PUBLIC REPORT

Cabinet Member(s) responsible:	Resources Portfolio Holder, Cllr Seaton	
Committee Member(s) responsible:	Councillor Fuller, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Corporate Director Resources Steven Pilsworth, Service Director Financial Services	Tel. 452398 Tel. 384564

BUDGET MONITORING REPORT FINAL OUTTURN 2015/16

RECOMMENDATIONS	
FROM: Corporate Director: Resources	**Deadline date:** 3 June 2016

That Audit Committee approve:

1. The reserves position for the Council.

That Audit Committee note:

2. The final outturn position for 2015/16 (subject to finalisation of the statutory statement of accounts) of a £1.0m underspend on the Council's revenue budget.
3. The outturn spending of £81.8m in the Council's capital programme in 2015/16.
4. The performance against the prudential indicators;
5. The performance on treasury management activities, payment of creditors, collection performance for debtors, local taxation and benefit overpayments.

1. ORIGIN OF THE REPORT

1.1. This report is submitted to Audit Committee and contains details on the final position for both revenue budget and capital programme. Audit Committee are required to approve the reserves position as part of the Council's statement of accounts.

2. PURPOSE AND REASON FOR REPORT

2.1. The report provides Audit Committee with the outturn position for both the revenue budget and capital programme for 2015/16, subject to any changes required in the finalisation of the Statement of Accounts.

2.2. The report also contains performance information on treasury management activities, payment of creditors and collection performance for debtors, local taxation and benefit overpayments.

2.3. The report is for Audit Committee to consider under its terms of reference 2.2.1.18 to review the annual statement of accounts, specifically, whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements of from the audit that need to be brought to the attention of Council.

3. TIMESCALE

Is this a Major Policy Item/ Statutory Plan	No	If yes, date for Cabinet meeting	n/a

4. FINAL OUTTURN 2015/16

Corporate Overview

4.1. The Council, at its meeting in March 2015 approved a balanced budget for 2015/16 that supported the Council's key priorities. The approved budget included £25m of savings, comprising £12.5m of grant reductions and £12.5m of demand-related pressures. The MTFS also outlined a number of risks that were required to be monitored during the year. Following on from the publication of the Autumn Statement, and subsequently, the Budget, officers have taken a proactive approach to meeting the financial challenges that face the Council in future years.

4.2. During the year CMT have received regular updates on the in-year budget position including progress updates against savings approved as part of previous budget rounds. The Cabinet also discuss the financial position regularly, with formal positions reported to Cabinet meetings held between September and March. Financial plans have also been considered by a cross-party budget working group.

4.3. Actions undertaken by the CMT and Cabinet have included:

- Departmental management teams have reviewed the budget position monthly and have taken appropriate action including plans to address budget issues. These have been acknowledged in corporate budget reports;
- Regular reports to CMT have included a summary of progress with savings proposals, additional pressures and risks;
- Savings brought forward as part of a two stage budget process for 2016/17 at December Council;
- Review of the capital programme during the year, 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 has reduced the costs of financing borrowing which has been reflected in the revenue outturn position;
- As part of the 2016/17 MTFS, a revised Minimum Revenue Provision (MRP) policy was agreed by Council for 2015/16. This has enabled the Council to reprofile the timing of its debts repayments resulting in additional savings for 2015/16 which have contributed to the Grant Equalisation Reserve.
- Utilising all opportunities to capitalise expenditure relieving pressure on the general fund; and
- Review of reserves and provisions, and the management of risk.

4.4. Management initiatives outlined above, and a number of one-off actions in 2015/16 have allowed for the creation of a Grant Equalisation reserve, which will defer the impact of reductions in Government funding in the short term, to allow officers to tackle the issues that lay ahead whilst protecting, as far as possible, the services that residents value the most. Further details on the Grant Equalisation reserve can be found in section 6.

4.5. After taking into account contributions to the new Grant Equalisation reserve, the November information upon which the probable outturn was based indicated a £0.5m overspend for the year. The Council can now report a departmental underspend of £1.028m. This is outlined in a summary table section 5 below, with additional detailed information in Appendix A.

4.6. In addition to this, there was an over-achievement against savings brought forward from the MTFS totalling £3.2m. These underspends will be added to the Grant Equalisation Reserve. This reserve was created in the 2016/17 MTFS to protect the Council's financial position over the longer term. The table on page 5 shows the contributions to the Grant Equalisation reserve forecast in the MTFS and the outturn position, along with an explanation of any variances.

4.7. The Council's budget for 2016/17 includes savings of £23.2m and a further budget gap for 2017/18 exceeding £4.1m, with the gap increasing substantially from 2018/19 onwards, with an extra £33.8m of savings being required by the end of 2020/21.

4.8. Whilst the Council has achieved a balanced position for 2015/16, it will remain challenging to deliver a balanced position for 2016/17 and to deliver the substantial savings required from 2017/18 onwards. To be clear, many difficult decisions remain.

4.9. Contributions made in 2015/16 to the Grant Equalisation Reserve will aid officers in taking a strategic and measured approach to address this, however, it remains a significant gap to cover and difficult decisions will be needed in the future. The Grant Equalisation will be utilised in full to address the challenges outlined above.

5. Financial Report – Revenue Outturn

5.1. The Council's overall revenue outturn shows a balanced position for 2015/16, after movements in reserves. The table below summarises the revenue outturn position by the Directorates during 2015/16.

Revenue outturn 2015/16

Department	Budget £000	Contributions from Reserve £000	Revised Budget £000	Actual £000	Variance £000	Contributions to Reserve £000	Revised Variance £000
Chief Executive	365	0	365	260	**-105**	50	**-55**
Governance	5,349	208	5,557	4,925	**-632**	126	**-506**
Growth & Regeneration	11,845	884	12,729	11,181	**-1,548**	281	**-1,267**
People & Communities	70,635	2,927	73,562	71,643	**-1,919**	3,610	**1,691**
Public Health	-455	296	-159	-669	**-510**	510	**0**
Resources	53,724	5,230	58,954	48,611	**-10,343**	9,494	**-849**
Totals	**141,463**	**9,545**	**151,008**	**135,953**	**-15,055**	**14,069**	**-986**
						Financing Adjustment	**-42**
						Revised Underspend	**-1,028**
						Additional contribution to Grant Equalisation Reserve	1,028
						Final Variance	**0**

5.2. A detailed breakdown of the outturn by Directorate and explanation of the major variations is provided in Appendix A.

5.3. The overall position shows a £1.0m underspend against a November BCR forecast of a £0.5m deficit. This is largely due to favourable variances in the Growth & Regeneration directorate, with underspends also achieved in the Resources and Governance Directorates.

5.4. In addition to this, an additional £3.2m was contributed to the Grant Equalisation Reserve due to the over-achievement of one-off savings brought forward from the 2016/17 Medium Term Financial Strategy. Further details are provided in section 6.

5.5. The Dedicated Schools Grant shows an underspend of £5.5m against a budget of £118.2m. The Schools Forum is responsible for decisions relating to the Dedicated Schools Grant. This has been included for information purposes only. In accordance with accounting guidance, the under spend has been carried forward to next financial year.

6. Financial Report – Reserves

6.1. The Council's departmental reserves and the capacity building reserve are monitored throughout the year as part of budget monitoring and feed into the budget setting process accordingly. The next table summarises the balance for all reserves at the end of 2014/15 against the position at the end of 2015/16.

Earmarked Reserves	31/3/15 Balance £000	Contributions From £000	Contributions To £000	31/3/16 Balance £000	Change £000
Departmental Reserve	6,717	-3,974	1,641	4,384	-2,333
School Capital Expenditure Reserve	1,150	-417	693	1,426	276
Future Cities Reserve	2,074	-801	-	1,273	-801
Insurance and Other minor reserves	4,109	-46	503	4,566	457
Risk Management Contingency	657	-	55	712	55
Capacity Building Reserve	8,237	-3,970	1,130	5,397	-2,840
Public Health Reserve	254	-240	510	524	270
Grant Equalisation Reserve	-	-98	12,023	11,925	11,925
Subtotal - Earmarked Reserves	**23,198**	**-9,546**	**16,555**	**30,206**	**7,009**
General Fund Balance	6,000	-	-	6,000	-
Total Reserve Balances	**29,198**	**-9,546**	**16,555**	**36,206**	**7,009**

6.2. The majority of reserve balances are set aside for specific purposes and a significant element will be required in 2016/17 and 2017/18. They are therefore not additional monies, only a timing issue between financial years of when the commitments are likely to occur.

6.3. Key comments for reserve movements are as follows:

Departmental Reserves - the amounts set aside by departments during the preparation of the accounts is in accordance with financial guidance to minimise risk exposure to the council in the following financial year.

School Capital Expenditure Reserves/Insurance/Other Minor Reserves - are held on behalf of others or are sums that the Council is independently advised to hold.

Future Cities Reserve – the movement on this reserve represents further drawdowns from the Future Cities Grant awarded to Peterborough in 2013/14.

Risk Management Contingency – this reserve was created in the 2014/15 budget process by transfer from the capacity building reserve to fund one-off type expenditure.

Capacity Building Reserve - this reserve is held to meet one off costs of service transformation and the delivery of savings within the MTFS. The MTFS agreed that a proportion of this would be used in 2016/17 to drive savings in 2017/18 and beyond.

Public Health – movements on this reserve represent a net carry forward of Public Health grant. Any underspends are carried forward to this reserve in accordance with appropriate accounting treatments.

Grant Equalisation – the Medium Term Financial Strategy forecast a contribution to the Grant Equalisation reserve of £12.1m. During the year, the forecast schedule for capital receipts income was revised, which will have a cash flow impact in the amount in reserve at the year end. Overall, there is an additional £3.2m being added to the Grant Equalisation reserve from additional savings, as well as a departmental underspend of £1.0m. Further details of movements on this reserve are detailed in 6.4 below.

General Fund – the general fund will be maintained at £6.0m and this is consistent with the current budget strategy.

6.4. The Grant Equalisation Reserve has been created to mitigate the impact of known Government funding reductions, in order that officers can take a measured and strategic response to the financial challenge ahead. The MTFS has agreed that this reserve will be fully utilised by 2017/18.

Table 1: Grant Equalisation Reserve Contributions

Item	Forecast in MTFS £000s	Outturn £000s	Variance £000s	Explanation
Direct Revenue Finance Savings	340	1,227	887	For MTFS an estimate was made of additional capital expenditure schools may incur and fund from revenue resources. The £1.2m represents the original MTFS contribution of £750k which would have been transferred to the Capacity Reserve, and an additional capital expenditure incurred by schools over and above the estimate.
Minimum Revenue Provision (MRP)	5,865	6,739	874	Following detailed discussions with the Councils auditors on the precise calculation for MRP, the estimated contribution to reserve was increased as the average life increased from 42 to 46 years. Other savings are a result of recharging MRP to invest to save projects which are self-financing, capital expenditure profiling between years, and other minor corrections of past MRP charges.
Shared Chief Executive	50	50	0	n/a
Capital Receipts	5,202	766	(4,436)	This is due to changes in expected cashflows and does not represent a risk to the forecast amount. It is expected that these funds will be received in 2016/17.
VAT Shelter Income	840	800	(40)	The MTFS was based on a best estimate. Confirmation of the final figure is £40k below forecast.
Additional Business Rates Income	908	1,412	504	This is additional income received from the Council's Business Rate Retention pilot scheme.
Procurement	(615)	0	615	Reported via the departmental BCR.
Solar	48	(98)	(146)	The outfit of solar panels to residential homes has not occurred at the rate original envisaged at the time of the MTFS, and therefore the loan drawn

Item	Forecast in MTFS £000s	Outturn £000s	Variance £000s	Explanation
				down by Empower has not occurred in order to achieve interest and Feed In Tariff income.
Contribution to Risk Management Reserve	(500)	0	500	Following management actions, the contribution from Risk Management reserve to cover the forecast overspend is no longer required.
Departmental Underspend	0	1,028	1,028	
Total	**12,138**	**11,924**	**(214)**	

7. Financial Report – Capital

7.1. The planned capital programme for the financial year was £141.4m. Slippage of expenditure from 2014/15 of £58.9m increased the agreed budget at 1 April 2015 to £200.3m. Throughout the year the capital programme was regularly reviewed and finally reduced to £140.3m through slippage and savings. Much of the slippage has been built into future budgets as part of setting the 2016/17 budget.

7.2. Capital expenditure during 2015/16 totalled £81.8m as shown in the summary table below:

Capital Programme 2015/16 by Directorate	Budget 01/04/2015 £000	Revised Budget £000	Actual £000
Governance	540	447	-
Growth & Regeneration	17,850	22,152	18,499
People & Communities	4,947	32,188	22,550
Resources	63,227	39,821	31,466
Invest to Save	54,791	61,930	9,252
Total	**141,355**	**156,538**	**81,767**
Financed by:			
Capital Receipts	11,820	1,583	1
External Sources	16,920	25,384	17,096
Prudential Borrowing	112,615	129,571	64,670
Total	**141,355**	**156,538**	**81,767**

7.3. The Council and CMT have agreed to reduce and re-phase some projects in the programme during the year to reduce the impact on financial resources or to reflect changing demographic needs. Other projects have been subject to delays which have led to budgets being slipped to 2016/17. Listed below are the significant projects that have been slipped into 2016/17 that has contributed to the variance between the revised budget reported in November 2015 and the reported capital programme outturn of £81.8m.

Growth & Regeneration
- £ 3.1m Street Lighting projects
- £ 1.4m Affordable Housing
- £ 4.2m Roads & Bridges/Transport projects
- £ 1.6m Public Realm projects

Resources
- £ 1.0m ICT projects
- £ 0.7m Renewable Energy projects
- £ 1.2m Waste Management Strategy
- £ 0.5m Cycle Track Embankment

People & Communities
- £ 8.7m New School Places
- £ 2.0m Academies
- £ 1.0m Adult Social Care transformation
- £ 5.7m Capital Maintenance on Schools

Invest to Save
- £10m Axiom Loan
- £31m Empower Loan

7.4. The Invest to Save outturn of £9.3m in 2015/16 includes expenditure on delivering energy efficiency measures across the council's buildings portfolio including schools. The schemes are self-funding in two ways:

a. Firstly, introducing energy efficiency measures through the replacement of plant inside the buildings driving down energy costs (for example in our swimming pools through new filters and a combined heat and power unit for the regional pool, more efficient lighting in car parks and replacing school boilers).

b. Secondly, putting solar panels on roofs to provide a cheaper source of energy for the buildings and an income stream by selling surplus energy to the grid (including schools and the central library).

7.5. The Invest to Save outturn also includes the investment the Council has made in its strategic partnership with Empower Community Management LLP (EC), a social enterprise company that has, as its primary purpose, the installation of solar panels on residential properties. This scheme is the first scheme of its type in the UK and in particular the first of its kind that involves a Council. The major benefits of the scheme are:

- No cost to the owner for installation
- Free energy generated to the occupier
- A fee for installation paid to the owner
- Creation of a local community fund out of profits
- A fee to the Council out of profits generated
- Investment returns generated by the Council

7.6. The capital programme is financed through borrowing, capital receipts, grants and contributions. Although the amount of borrowing required has reduced due to slippage in the capital programme since the MTFS was approved, the Council would need to borrow £64.4m to fund 2015/16 capital expenditure although the actual Council borrowing was £57.4 as reported in paragraph 8.3b.

8. Financial Report – Treasury Management Activity for 2015/16

8.1. The Council is required to operate a balanced budget, which means that cash raised through the year will meet cash expenditure. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

8.2. Another role of treasury management is to fund the Council's capital programme. The programme provides a guide to the borrowing needs of the Council and the planning of a longer term cash flow to ensure capital obligations are met. The management of long term cash may involve arranging short or long term loans or using longer term cash flow surpluses.

8.3. The treasury activity for the Council during 2015/16 is compliant with the Treasury Management Strategy approved in March 2015. Investment and borrowing activities include:

a. Investment – The Council aims 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 Barclays (the Council's current banking provider), the Debt Management Office and Local Authorities. As at 31 March 2016 the Council's external investments totalled £19.1m and have yielded interest at an average rate of 0.29% in the financial year 2015/16. Investments were placed for short periods to cover daily cash flow fluctuations.

b. Borrowing – In 2015/16 the Council increased its borrowing by £57.4m. Although £64.7m was required to fund the capital programme, due to timing issues surplus cash balances were utilised to off-set the actual borrowing requirement in the year. The borrowing has been taken out over a range of periods to best fit the Council's maturity profile of debt. Also the best possible interest rate has been sought in line with the budget for borrowing, including the continuation of the council benefitting from reduced interest rates on long term PWLB loans by 20 basis points (0.2%) due to it submitting borrowing plans to government.

c. 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.

8.4. 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 2015/16 Code the liability for the Private Finance Initiative (PFI) agreement and finance leases also impact on the CFR.

8.5. In 2015/16 the CFR was:

Capital Financing Requirement	**£000**
Opening Capital Financing Requirement 1 April 2015	422,532
New Capital Expenditure Financed by Borrowing	64,670
Minimum Revenue Provision for Debt Repayment	(5,210)
Minimum Revenue Provision for PFI	(350)
Minimum Revenue Provision for Leases	(576)
Closing Capital Financing Requirement 31 March 2016	**481,066**

8.6. As part of the setting of the treasury strategy, the Council sets annual prudential indicators to measure effectiveness of treasury management and reports against these indicators during the financial year. The indicators have not been breached during 2015/16.

8.7. Further information on the Council's capital financing arrangements can be found in the Prudential Indicators performance found in Appendix B along with an update on treasury management activity and other financial performance indicators in Appendix C.

9. Consultation

9.1. Detailed reports have been discussed in Departmental Management Teams and this report with the Corporate Management Team.

10. Anticipated Outcomes

10.1. That the outturn position for 2015/16 is noted.

11. Reasons for Recommendations

11.1. This monitoring report forms part of the 2015/16 closure of accounts and decision making framework culminating in the production of the Statement of Accounts.

12. Alternative Options Considered

12.1. None required.

13. Implications

13.1. Members must have regard to the advice of the Section 151 Officer.

14. Background Documents

14.1. The 2015/16 and 2016/17 Medium Term Financial Strategies.

APPENDIX A – 2015/16 REVENUE OUTTURN REPORT

Forecast Variance in 2016/17 MTFS (Nov 15)	Department	Revised 2015/16 Budget	Contributions From Reserve	**Revised Budget**	Actual	Contributions To Reserve	**Revised Actual**	**Final Variance**
		£000	£000	£000	£000	£000	£000	£000
-50	Chief Execs Office	328	0	**328**	233	50	**283**	**-45**
0	Chief Execs Departmental Support	37	0	**37**	27	0	**27**	**-10**
-50	**TOTAL CHIEF EXECUTIVE**	365	0	**365**	260	50	**310**	**-55**
15	Director of Governance	328	0	**328**	334	0	**334**	**6**
-223	Legal & Democratic Services	3,231	4	**3,235**	3,140	15	**3,155**	**-80**
-69	Human Resources	1,423	65	**1,488**	1,219	0	**1,219**	**-269**
-121	Performance & Information	1,306	0	**1,306**	1,216	36	**1,252**	**-54**
-14	City Services & Communications (CSC) – Head of Service	443	0	**443**	416	0	**416**	**-27**
-300	CSC - Regulatory Services	337	0	**337**	-36	0	**-36**	**-373**
-56	CSC - Parking Services	-2,513	50	**-2,463**	-2,544	0	**-2,544**	**-81**
1	CSC - Communications	237	32	**269**	166	75	**241**	**-28**
92	CSC - CCTV, Resilience & Health + Safety	502	7	**509**	657	0	**657**	**148**
226	CSC - Markets, Tourism & Events	55	50	**105**	357	0	**357**	**252**
-449	**TOTAL GOVERNANCE**	5,349	208	**5,557**	4,925	126	**5,051**	**-506**
18	Director, OP & JV	454	0	**454**	187	150	**337**	**-117**
-146	Development & Construction	213	46	**259**	-131	0	**-131**	**-390**
-77	Sustainable Growth Strategy	1,302	801	**2,103**	1,727	97	**1,824**	**-279**
-116	Peterborough Highway Services	9,876	37	**9,913**	9,398	34	**9,432**	**-481**
-321	**TOTAL GROWTH AND REGENERATION**	11,845	884	**12,729**	11,181	281	**11,462**	**-1,267**
145	Director of People and Communities	18	0	**18**	697	0	**697**	**679**
68	Adult Services	36,493	2,303	**38,796**	38,721	76	**38,797**	**1**
138	Communities	4,889	180	**5,069**	5,350	30	**5,380**	**311**
-183	Children's Services and Safeguarding	24,469	27	**24,496**	23,522	35	**23,557**	**-939**
1,172	Education	3,877	0	**3,877**	4,543	788	**5,331**	**1,454**
241	Business Management & Commercial Ops	623	0	**623**	808	0	**808**	**185**
n/a	*Dedicated Schools Grant*	*266*	*417*	***683***	*-1,998*	*2,681*	***683***	**0**
1,581	**TOTAL PEOPLE AND COMMUNITIES**	70,635	2,927	**73,562**	71,643	3,610	**75,253**	**1,691**

Forecast Variance in 2016/17 MTFS (Nov 15)	Department	Revised 2015/16 Budget	Contributions From Reserve	**Revised Budget**	Actual	Contributions To Reserve	**Revised Actual**	**Final Variance**
		£000	£000	£000	£000	£000	£000	£000
0	Public Health	-455	296	**-159**	-669	510	**-159**	**0**
0	**TOTAL PUBLIC HEALTH**	-455	296	**-159**	-669	510	**-159**	**0**
2	Director's Office	231	0	**231**	230	0	**230**	**-1**
-12	Financial Services	3,382	61	**3,443**	2,742	401	**3,143**	**-300**
-2,977	Capital Finance	23,590	0	**23,590**	13,740	7,531	**21,271**	**-2,319**
146	Corporate Items	4,321	1,146	**5,467**	3,984	1,151	**5,135**	**-332**
615	Peterborough Serco Strategic Partnership	7,745	3,010	**10,755**	10,991	300	**11,291**	**536**
0	ICT	4,087	0	**4,087**	4,667	18	**4,685**	**598**
4	Commercial Group	-1,771	27	**-1,744**	-1,740	0	**-1,740**	**4**
216	Amey Peterborough & Waste Management	10,384	262	**10,646**	11,001	-2	**10,999**	**353**
75	Westcombe Engineering	96	0	**96**	190	0	**190**	**94**
-231	Energy	444	361	**805**	1,172	0	**1,172**	**367**
0	Vivacity / Cultural Services	2,545	244	**2,789**	2,688	0	**2,688**	**-102**
-32	Cemeteries, Cremation & Registrars	-1,150	99	**-1,051**	-1,223	91	**-1,132**	**-80**
515	Corporate Property	-180	20	**-160**	169	4	**173**	**333**
-1,970	**TOTAL RESOURCES**	53,724	5,230	**58,954**	48,611	9,494	**58,105**	**-849**
2,617	Other reserve adjustments							**0**
500	**SUBTOTAL**	**141,463**	**9,545**	**151,008**	**135,953**	**14,069***	**150,022**	**-986**
0	Other financing adjustments							**-42**
500	**TOTAL OVER / (UNDER)SPEND**							**-1,028**

**N.B. The reserve movements shown in the BCR do not include financing and business rates adjustments included in section 6..*

Key Departmental Variances (<>£100k):

The following table details the reasons for significant (<>£100k) variations between the budgeted for and outturn positions (before movements in reserves).

Department	Variances <>£100k £000s	Explanation
Chief Executive	None	n/a
Governance		
Human Resources	-269	Training budgets have been underspent by £188k following a period of reviewing how training activity is commissioned. Staff vacancies led to a £37k underspend, Occupational Health income exceeded target by £17k along with other minor variances.
City Services & Communications - Regulatory Services	-373	Land charges income exceeded the budgeted target by £154k, and Trading Standards income by £40k. Additional New Burdens funding of £136k has been received. Across regulatory services, spend management work undertaken to review supplies and services budgets has delivered additional savings.
City Services & Communications - CCTV, Resilience & Health + Safety	148	Income has been lower than budgeted in respect of Health & Safety (£73k) and CCTV (£54k) contracts. The cost of CCTV transmissions and communications equipment has exceeded budget (£21k) and there are measures to address this in future years.
City Services & Communications - Markets, Tourism & Events	252	Income budgets at the City Market and the Visitor Destination Centre and Travel Centre are higher than the amounts generated. Rental income from the Market is £407k which is £58k lower than budgeted. Income from the Visitor Destination Centre and Travel Centre totals £262k compared with a budgeted income of £347k. Costs exceeded budget by £49k at the Visitor Centre, and £60k across the rest of the service.
Growth & Regeneration		
Director, OP & JV	-117	Income from the Peterborough Investment Partnership joint venture was higher than anticipated (£77k), and the City wide funding unit was set up later than initially planned, saving £40k.
Development & Construction	-390	Income has exceeded the budget by £218k, mainly as a result of a late upturn in planning applications. Staffing vacancies have led to an underspend of £147k, along with £25k of supplies and services savings.
Sustainable Growth Strategy	-279	Additional income of £152k has been generated from shared service arrangements. Staff vacancies have led to an underspend of £52k, and savings have been made across supplies and services budgets of £75k.
Peterborough Highway Services	-482	The concessionary fares and bus services budgets have achieved a saving of £229k, prior to the contract renewal period. Savings in transport planning have been achieved of £101k. Staff vacancies have led to a £142k underspend, and £30k has been saved in the footbridge budget.
People & Communities		
Director of People and Communities	679	£472k of business support savings were unachievable during the year which has been addressed in 16/17. Customer Experience savings of £200k were achieved in other ways. Other minor variances of £7k.
Communities	311	Unachieved income from EPC Certificates caused pressures of £95k. Non achievement of savings targets in communities caused a pressure of £99k, YJB reduced their grant in year causing a pressure of £72k. Other minor variances across the business area

Department	Variances <>£100k £000s	Explanation
		of £45k.
Children's Services and Safeguarding	-939	Favourable movement in placement mix for Looked After Children (LAC) gave a favourable variance of £347k. Savings with turnover in agency staff gave a favourable variance of £198k. Delays in recruitment to the new teams of Quality Assurance and Quality Improvement has given a favourable variance of £263k. The Alternatively Qualified Staff proposal achieved savings of £235k which offset supplies and services adverse variances across childrens services of £105k.
Education	1,454	Non achievement of savings proposal for home to school transport of £400k and demography increases and availability of school places gave rise to further home to school transport pressures of £463k. Reduction in the Education Support Grant gave pressures of £182k. Central recharges to Dedicated Schools Grant no longer allowed £435k and minor favourable variances across education of £26k
Business Management & Commercial Ops	185	Pressures have arisen from transporting LAC of £58k. Legal and professional fees have continued to cause pressures resulting in adverse variance of £109k. Other minor variances across the business area caused pressures of £18k.
Public Health	None	
Resources		
Financial Services	-300	The underspend is mainly on staffing costs following a restructure and delays in filling posts, and also in some contractual budgets and through income being higher than planned.
Capital Finance	-2,319	Approximately half of the underspend is due to savings on interest payments for new debt and savings put aside in order to repay debt as part of the Minimum Revenue Provision (MRP). Further savings arose from recharges to Invest to Save projects not previously forecast – MRP & Interest. There was also a small variance from the receipt of a dividend from ESPO.
Corporate Items	-332	This area includes the budgets for some pension payments and for any pay awards (prior to allocation to departments). Underspends in these areas have been partly offset by the costs of bad debt provision.
Peterborough Serco Strategic Partnership	536	The 2016/17 MTFS outlined a pressure against procurement savings due to a reduction in the level of spend available to achieve those savings. This represents the 2015/16 pressure for this issue.
ICT	598	It has not been possible to achieve a previous MTFS saving aimed at centralising some staff across the organisation. Also some costs of external ICT costs have been higher than predicted.
Amey Peterborough & Waste Management	353	Income from the ERF plant is lower than budgeted, partly due to the removal of the Climate Change Levy exemption for renewable energy sources, and because of lower energy prices. Repairs and Maintenance costs on some Council buildings were also higher than expected.
Energy	367	Income from the Councils energy performance contract with Honeywell has not reached the levels expected in the current year
Vivacity / Cultural Services	-102	Lower energy prices, have led to an underspend in this area and some savings have been made on repairs and maintenance costs.
Corporate Property	333	Commercial Lease income is lower than budgeted following a rent review, and there have been additional rent, rates and service charge costs.

Appendix B – Treasury Management Strategy – Prudential Indicators – 2015/16

1. The Prudential Code for Capital Finance in Local Authorities 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;
   (c) treasury management decisions are taken in accordance with professional good practice.

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

3. The Code requires the Council to set a range of Prudential Indicators for the next financial year and at least the following two financial years. The Council has set out indicators for the next 10 financial years in line with setting a 10 year budget. The indicators include the Invest to Save scheme however the costs of borrowing associated with the scheme will be offset by the income generated by these projects.

4. During 2015/16 the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy.

5. The Council's outturn performance position against the 2015/16 Prudential Indicators are shown below.

Indicator 1: Capital Expenditure

This indicator is the actual capital expenditure for the year based on the Capital Programme in 2015/16.

Capital Expenditure	2015/16 Indicator £m	2015/16 Actual £m
Capital Expenditure	86.6	72.5
Invest to Save	54.8	9.3
Total	**141.4**	**81.8**

Indicator 2: Capital Financing Requirement (CFR)

The CFR measures the Council's underlying need to borrow money in the long term for capital purposes. Any capital expenditure which has not immediately been paid for will increase the CFR.

Capital Financing Requirement	2015/16 Indicator £m	2015/16 Actual £m
CFR b/fwd	482.9	422.5
Underlying Need to Borrow	45.1	49.3
Underlying Need to Borrow - Invest to Save	54.8	9.3
Total CFR C/fwd	**582.8**	**481.1**

Indicator 3: Actuals and estimates of the ratio of financing costs to net revenue budget

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.

Ratio of net financing costs to net revenue stream	2015/16 Indicator	2015/16 Actual
Total Ratio	7.6%	4.8%

The difference between the Indicator and final ratio percentage is largely the result of the revised Minimum Revenue Provision (MRP) policy that was approved by Council as part of the 2016/17 Medium Term Financial Strategy (MTFS) process where debt repayment was rephased.

Indicator 4: Actuals and estimates of the incremental impact of capital investment 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 is financed from borrowing and the interest assumption for borrowing that was included in the capital financing budget for the MTFS. The revenue costs are divided by the estimated Council Tax base for the year, and the actual performance is shown in the table below.

Incremental impact on capital investment decisions on Council Tax	2015/16 Indicator £m	2015/16 Actual £m
A – Cap Fin Budget -Previous MTFS	29,275	29,275
B – Cap Fin Budget - Current	23,567	13,803
C - Incremental change (B-A)	(5,708)	(15,472)
D - Council Tax Base (1,000's)	52.75	52.75
Total Incremental Impact (C/D)	**(108.21)**	**(293.30)**

The incremental change of £15.5m shown in the table is largely the result of the 2016/17 MTFS where the Council agreed to revise the 2015/16 MRP policy. The impact of the policy amendment is also seen in the Grant Equalisation Reserve table earlier in this document, see point 6.1, and the explanation of departmental variances shown in Appendix A.

Indicator 5: Proportion of Gross Debt to the CFR

This indicator shows the proportion of the Council's external borrowings (Gross Debt) against the CFR.

Proportion of Gross Debt to the CFR	2015/16 Indicator £m	2015/16 Actual £m
CFR	582.9	481.1
Gross Debt	513.5	402.1
% of Gross Debt to CFR	**88.1%**	**83.6%**

Indicator 6: The Operational Boundary

The Operational Boundary is a measure of the day to day likely borrowing for the Council. 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.

This indicator takes into consideration the capital programme over the life of the MTFS and the ability to phase the borrowing over this period. The indicator provides flexibility for the Council to take advantage of favourable interest rates in advance of the timing of the actual capital expenditure.

Operational Boundary	2015/16 Indicator £m	2015/16 Actual £m
Borrowing	648.0	363.2
Other Long Term Liabilities	38.5	38.9
Total Operational Boundary	**686.5**	**402.1**

Indicator 7: The Authorised Limit

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.

Authorised Limit	2015/16 Indicator £m	2015/16 Actual £m
Borrowing	682.4	363.2
Other Long Term Liabilities	38.5	38.9
Total Authorised Limit	**720.9**	**402.1**

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. The actual outturn is lower than the indicator as the Council did not need to borrow in advance of need during 2015/16.

Indicator 8: Fixed Interest rate exposure

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 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 majority of borrowing was at fixed rates to provide budget certainty.

Upper limit for fixed rate exposure	2015/16 Indicator £m	2015/16 Actual £m
Upper Limit - Borrowing	682.4	363.2
Other Liabilities eg PFI/Leases	38.5	38.9
Total Upper Limit Fixed Rate Exposure	**720.9**	**402.1**
% of fixed interest rate exposure	100%	100%

Indicator 9: 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

Upper limit for variable rate exposure	2015/16 Indicator £m	2015/16 Actual £m
Upper Limit	180.2	0.0
% of variable interest rate exposure	25%	25%

The indicator for actual outturn is zero due to the current borrowing strategy of borrowing only at a fixed interest rate in the current economic climate of volatile interest rates and also provides budget certainty for the Council.

Indicator 10: Maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council's borrowing, and reflects the beneficial long term rates that are available to the Council.

Period	Upper Limit Indicator	Actual Borrowing	Actual Borrowing £m
Under 12 months*	40%	10.9%	40.3
1 – 2 years	40%	7.1%	25.0
2 – 5 years	80%	5.4%	19.5
5 – 10 years	80%	4.4%	16.1
Over 10 years	100%	72.2%	262.3
		Total 'Market' Borrowing	**363.2**

** The borrowing for under 12 months includes £17.5m of Lenders Option Borrowers Option (LOBO) loans. Although the loans are due to mature in 30-40 years' time, they are classified as loans repayable within the financial year due to LOBO's having a call-in date every 6 months.*

Although this table is not a Prudential Indicator it gives a breakdown of the types of borrowing held by the Council and the average interest rates for each:

Borrowing	31 March 2015		31 March 2016	
	Amount £m	Average Interest Rate	Amount £m	Average Interest Rate
Long Term:				
Public Works Loan Board	234.4	4.09%	282.4	3.90%
Market Loans	17.5	4.53%	17.5	4.53%
Short Term:				
Local Authorities	51.0	1.58%	59.5	1.44%
Other Borrowing:				
Local Enterprise Partnership	3.1	0.00%	3.8	0.00%
Total 'Market' Borrowing	**306.0**		**363.2**	
Public Finance Initiative & Leases	40.4		38.9	
Total Borrowing	**346.4**		**402.1**	

Indicator 11: 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.

Interest Rate Exposure (Upper Limits)	2015/16 Indicator £m	2015/16 Actual £m
Principal sums invested >364 days	6.0	0.0

This indicator reflects the Council's current lending policy of keeping investments short term for liquidity purposes. Also the Council has run down its cash balances over the last three financial years as an alternative to new borrowing and does not have the available cash balances to invest for long periods.

The indicator was set at £6m to allow for the accounting treatment of the Local Authority Mortgage Scheme (LAMS). At present the Council has £2m deposited in the LAMS scheme with Lloyds TSB and this is treated as capital expenditure, as a loan to a third party, (see section 3.5 of the TMS). There is currently no plan to extend this initiative. The Council's external auditors highlighted in a previous Statement of Accounts report that there was some debate about the accounting treatment for LAMS. Whilst the Council is confident of its accounting treatment as a capital loan, if the accounting treatment changed for this deposit for to be classed as an investment then this indicator would cover this investment.

Appendix C – Performance Monitoring

1. Treasury Management Update – March 2015

1.1 Economic Update

The following paragraphs are based on information from the Council's Treasury Advisors (Capita Asset Services)

Economic forecasting remains difficult with so many external influences weighting on the UK. Capita Asset Services Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how the economic data and developments in financial markets transpire over the next year. Forecast for average earnings beyond the three year horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets or the safe haven of bonds.

The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013.

However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase.

However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

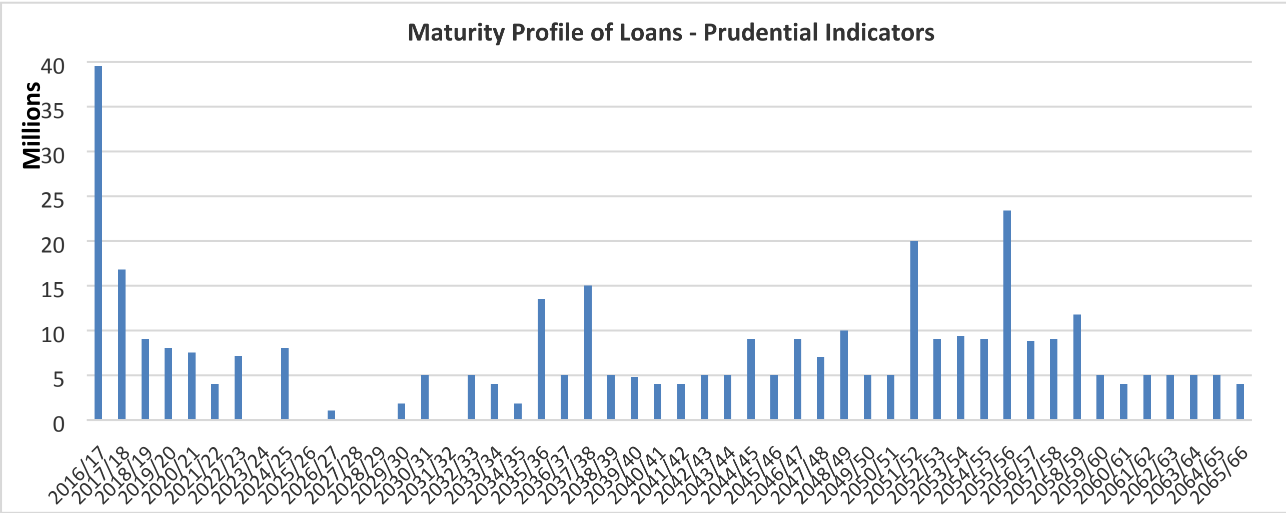
The UK are experiencing exceptional levels of volatility which are highly correlated to emerging market, geo-political and sovereign debt crisis developments.

2. Borrowing

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

2.2. The Council's borrowing as at 31 March 2016 was £402.1m. The actual total external debt is measured against the Council's Authorised Limit for borrowing of £720.9m, which must not be exceeded and the Operational Boundary (maximum working capital borrowing indicator) of £686.5m. The table in Appendix B, Indicator 10 shows a breakdown of the borrowing.

2.3. The following chart shows the maturity profile of the Council's debt as at 31 March 2016:



** 2016/17 includes £17.5m of market loans which are repayable in the long term but are classed as current year loans due to a callable option in the loan agreement.*

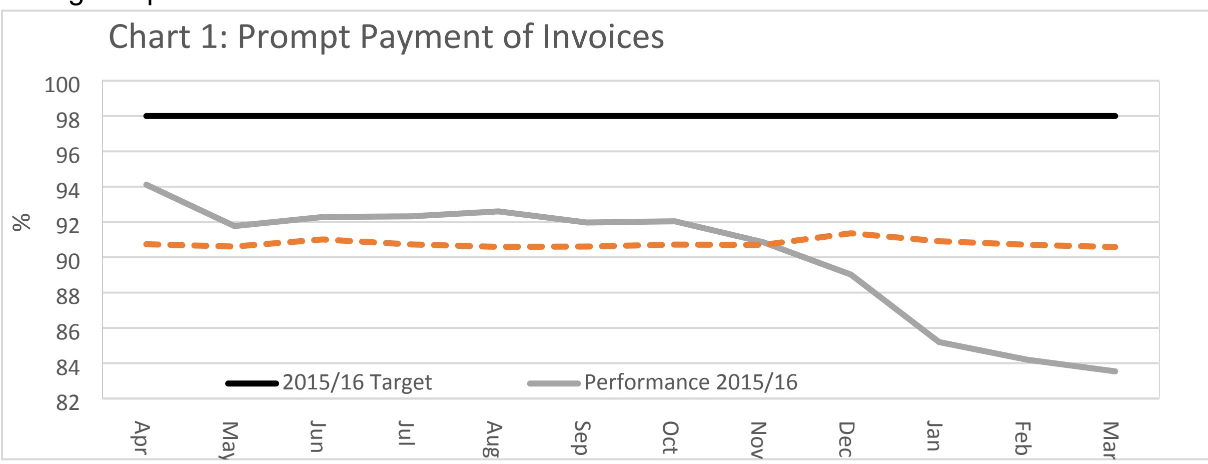
3. Investments

3.1. The Council aims 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 Barclays (the Council's banking provider), Bank of Scotland, the Debt Management Office and Local Authorities.

4. Prompt Payment of Invoices (Invoices paid within 30 Days)

4.1. The cumulative position on prompt payment of invoices as at 31 March 2016 was 83.54%, which is below the target of 98% and 7.04% below the previous year's performance (90.58%). Performance against the prompt payment of invoices indicator was adversely affected by the implementation of the Council's new finance system. Business processes are being reviewed and updated to reflect the new financial system and this coupled with additional temporary resource will drive performance during 2016/17. The current year performance is shown alongside the equivalent figures for 2014/15 in chart 1.

4.2. Regulation 113(7) of the Public Contracts Regulations 2015 has introduced a requirement that from March 2016, all in-scope organisations must publish, on an annual basis and covering the previous 12 months, the percentage of their invoices paid within 30-days and the amount of interest paid to suppliers due to late payment. For PCC, 71,377 invoices were paid during 2015/16 of which 83.54% were paid within 30 days. No interest was paid due to late payment during this period.



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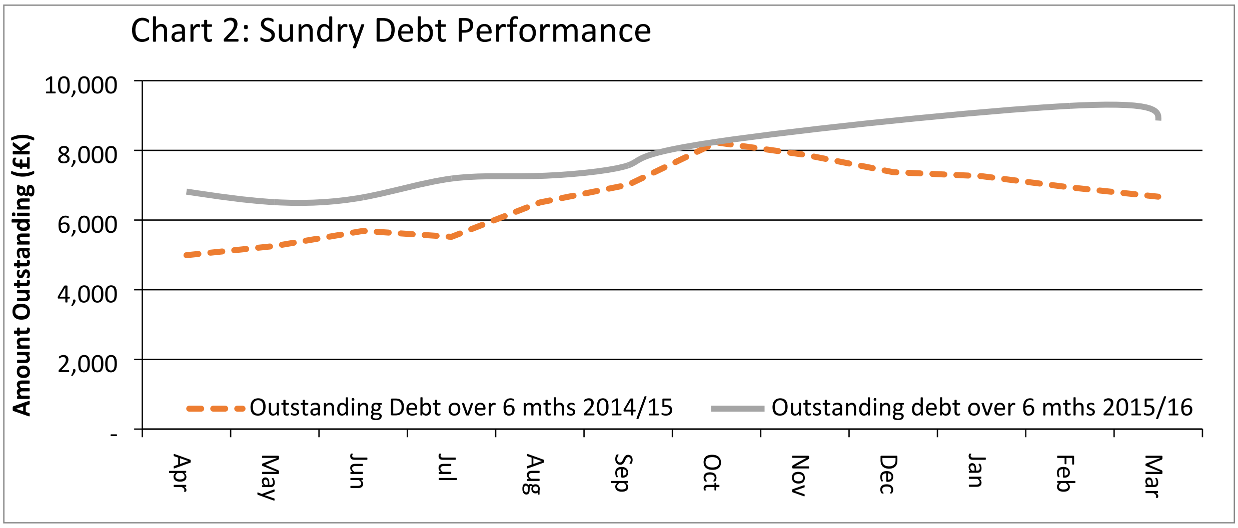
5. Sundry Debt Performance

5.1. The total outstanding sundry debt in excess of 6 months old as at March is £8.86m and is set out in Chart 2 alongside comparative figures for 2014/15. The top 20 debts owed to the Council of the sundry debt and commercial rents portfolio total £9.13m of which £7.79m is current debt (up to a month old). In order to progress action against these debts, bi-monthly review meetings have been set up with each Directorate Head of Finance to discuss issues, disputes and move forward with actions top recover income.

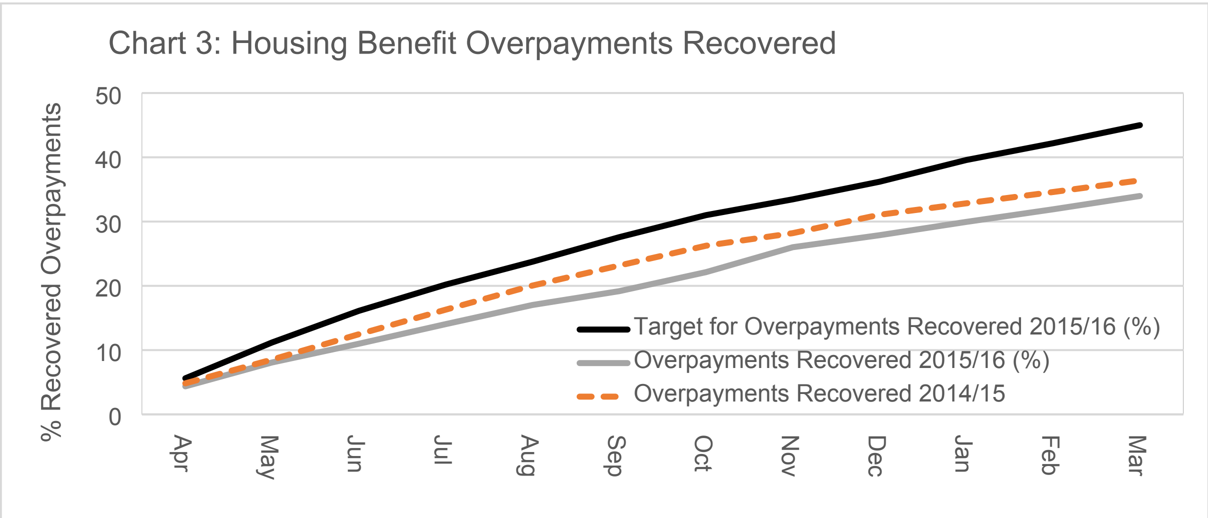


N.B. data is not available for the period Nov-Jan due to the implementation of Agresso.

6. Housing Benefit Overpayments

6.1. Chart 3 shows the total amount of housing benefit overpayments recovered against the cumulative target rate set for 2015/16 and the 2014/15 figures.

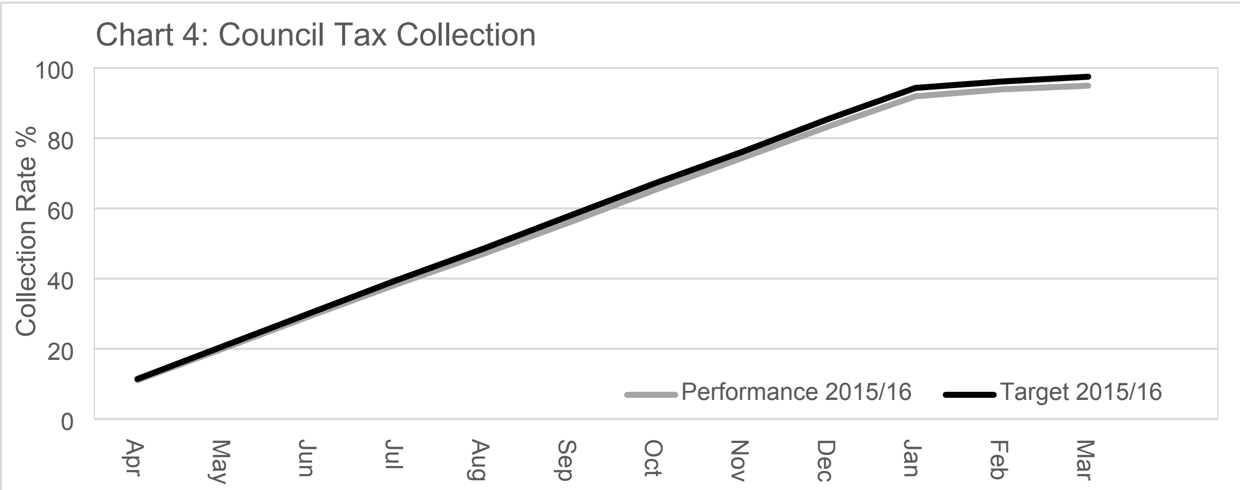
6.2. Housing benefit overpayment collection as at the 31 March 2016 was 33.98% which is below the target of 45.0% and 2.43% lower than the figure for March 2015 (36.41%). Due to the improved speed of processing claims for housing benefits the amount of new debt identified in-year reduced by 15% (down to just under £4m). This improvement had a negative effect on the percentage of overall debt recovered because much less was recent debt which is the easiest to recover. The actual value of debt collected during 2015/16 remained at the same level (£3.2m) as 2014/15.



7. Council Tax and Business Rates Collection

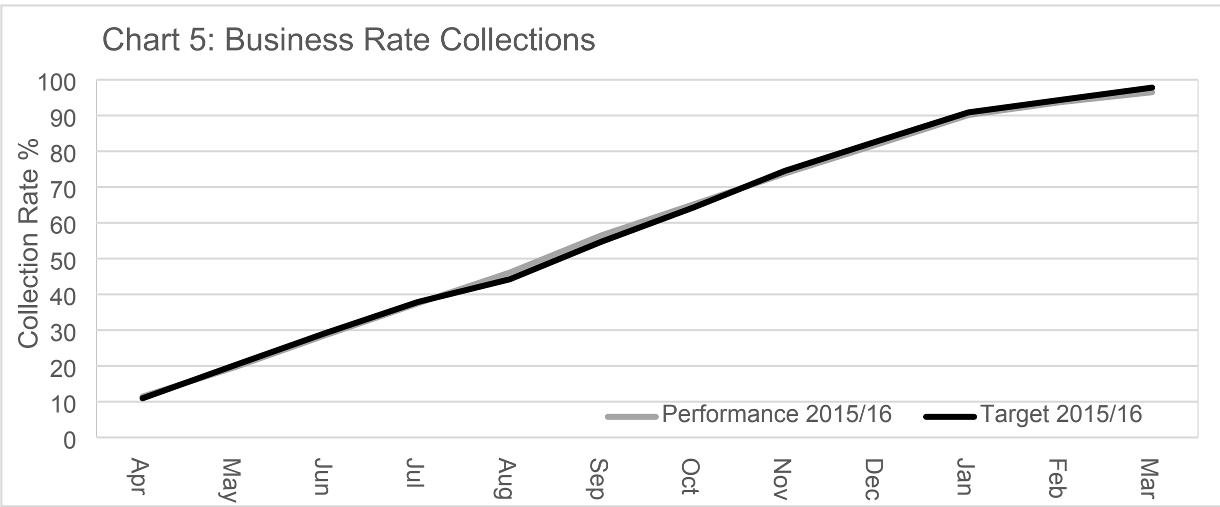
7.1. Charts 4 and 5 show the performance for the collection of Council Tax and Business Rates for the period to date. In year council tax collection at 31 March 2016 is 94.94%, which is 0.16% more than the amount collected by this stage in 2014/15.

7.2. The administration of the council's local council tax support scheme remains challenging and continues to impact overall council tax collected in the year. It has been recognised that greater resource needs to be directed to the recovery aspect of council tax collection and 4 new staff have been recruited to focus on this area. A third enforcement agent (bailiff) has also been appointed.



7.3. The in-year collection of business rates as at 31 March 2016 was 96.51%, which is 1.29% below the target set and a decrease of 1.27% compared with 2014/15.

7.4. The business rates liability usually reduces during March (the last 3 years has seen an average decrease of 0.61%). However, in 2015/16, it increased by 0.28%. Although this is positive for the City in terms of business growth it did adversely impact the percentage of business rates collected during the year. The remainder of the shortfall is explained by a single occupier that currently owes the equivalent of 0.44% of the total business rates due which has not been paid due to a dispute between them and the Valuation Office Agency.



AUDIT COMMITTEE	AGENDA ITEM NO: 6
29 JUNE 2016	PUBLIC REPORT

Cabinet Member(s) responsible:	Resources Portfolio Holder, Cllr Seaton	
Committee Member(s) responsible:	Councillor Fuller, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Corporate Director: Resources Steven Pilsworth, Service Director Financial Services	Tel. 452398 Tel. 384564

DRAFT STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2016

R E C O M M E N D A T I O N S	
FROM : Corporate Director: Resources	**Deadline date :** *30 June 2016; statutory deadline for CFO to approve Accounts*
1. For members to review and comment on the draft Statement of Accounts prior to the Chief Finance Officer's certification by the 30 June 2016.	

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 is required to prepare a Statement of Accounts each financial year, and it must be prepared in accordance with statutory timelines and accounting practices. Since 2010/11 those accounting practices have been based on International Financial Reporting Standards (IFRS) which facilitate the production of accounts in a standardised and consistent format across all industries, public and private sectors, providing greater transparency to all stakeholders.

2.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) set out the accounting practices in the 2015/16 Code of Practice (the Code) and are followed in the preparation of the 2015/16 Statement of Accounts.

2.3. The 2015/16 Statement of Accounts is the first set of accounts to meet the requirements and timeline for approval as contained in the Accounts and Audit Regulations 2015.

2.4. Legislation requires the Council to consider and approve its Accounts at a meeting of either full Council or a Committee of the Council. The Council's Constitution delegates this matter to the Audit Committee.

2.5. This is in accordance with the Committees Terms of Reference – 2.2.1.18 to review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

2.6. The Accounts must be signed and certified by 30 June 2016 by the Council's Section 151 officer / Chief Finance Officer (Corporate Director Resources), in accordance with the Accounts and Audit Regulations 2015. The Council's Section 151 officer has responsibility for certifying that the Accounts present fairly, the financial position of the Council at 31 March 2016.

2.7. The Audit Committee is required to approve the Accounts no later than 30 September 2016 following, and in the knowledge of, the audit findings.

2.8. The Finance team will continue to review the accounts after Committee agenda despatch, working towards the CFO certification. 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 2015/16 draft Statement of Accounts is shown in Appendix 1.

4.2. The presentation of the draft Statement of Accounts provides Audit Committee the opportunity to review the accounts and ask relevant questions so that they are better informed before being asked to formally approve the audited accounts at the September Audit Committee meeting.

4.3. Whilst under 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 (CFO) certification.

Format of the Accounts

4.4. The format of the Statement of Accounts differs from the Council's presentation of financial information for the purposes of managing both its revenue and capital budgets – see agenda item 'Budget Monitoring Report Final Outturn 2015 / 2016'. This is in order to conform to CIPFA's Service Reporting Code of Practice for Local Authority Accounts and 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.

4.5. The key contents of the various sections are as follows:

- *Narrative Report* - provides a fair, balanced and understandable guide (previously known as the Explanatory Foreword);
- *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 2016;
- *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 2015/16;
- *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 Non-Domestic Rates;
- *Statement of Accounting Policies* – outlines the accounting policies adopted by the Council; and
- *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 meeting agenda and therefore subject to change, consequently it will be included in the audited accounts, published by 30 September 2016, following its approval.

Comprehensive Income and Expenditure Statement

4.6. This statement shows the Council's activities and summarises the resources generated, consumed or set aside. It is presented in accordance with the Service Reporting Code of Practice (SeRCOP) to enable comparability between other local authorities and not the Council's organisational structure.

Balance Sheet at 31 March 2016

4.7. The Statement of Accounts includes a Balance Sheet that sets out the net worth of the Council at 31 March 2016 with the comparative figures for 31 March 2015. The Balance Sheet shows the assets and liabilities of the Council which are matched by the reserves held by the Council. The following paragraphs give a high level indication of the reason for movements between years.

4.8. Current assets have increased by £21.0m, the majority of this movement is the increase in Short Term Debtors (money owed to the Council) by £15.2m and Cash and Cash Equivalents of £11.6m. The former balance reflects the loans the Council has outstanding and are due to be repaid within the year, specifically loans with Empower Community Scheme of £5.6m and one of the loans as provided in the Local Authority Mortgage Scheme of £1.0m, as well as an increase in general debtors of £4.4m, and an increased balance for Section 106 of £1.9m. The balance movement relating to Cash and Cash Equivalents reflects the balance of cash at the 31 March 2016 and short term investments that are due to be repaid within three months of the 31 March 2016.

4.9. Long Term Liabilities have increased by £15.9m. This has resulted from a combination of additional borrowing undertaken to support the Council's capital investment programme, and to cover short term cash flow fluctuations only, of £51.4m. This has been offset by a reduction in the Pensions Liability of £39.7m. This is a result of a decrease in the assessed value of scheme liabilities as a lower value is placed on benefits that will be paid in the future.

Reserves and Balances

4.10. As reported to Council in March 2016, the Corporate Director 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 2015/16 remains at £6.0m which is consistent with Medium Term Financial Strategy (MTFS).

4.11. Reserves are split into two categories; unusable and useable reserves. Unusable reserves are those reserves that absorb the timing differences arising from different accounting arrangements eg Pensions Fund reserve. Useable reserves are those reserves that can be applied to fund expenditure or reduce local taxation. However, the Council is restricted in the use of some of the useable reserves such as school balances that can only be spent by schools and capital grants unapplied account which can only be used to finance the Capital Programme.

4.12. The total reserves have moved by £11.6m. The largest movement is in Unusable Reserves which contains both the Pensions Reserve and the Capital Adjustment Account.

4.13. 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. As a result this reserve matches the pension liability as detailed in 4.9 and thus this reserve has increased by the same £39.7m.

4.14. The Capital Adjustment Account, which has decreased by £34.1m, reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them. Charges such as depreciation and impairment were greater than the capital receipts and grants income for the year.

4.15. Earmarked Reserves are detailed in Note 17 and show the movements during the year and the balances at 31 March 2016. The Outturn report provides further detail of the movements in 2015/16, see other agenda item for this report.

Schools

4.16. Details on Schools Balances are shown in Note 16 to the Statements in the Accounts. This shows that there was a net decrease in School Balances during 2015/16 of £0.1m from £6.3m to £6.2m.

Next Steps - approval, signing, inspection and audit

4.17. The revised Accounts and Audit Regulations 2015, 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 2016;
- 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 2016; and
- the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given.

4.18. The Accounts and Audit Regulations 2015 also requires all Councils to have a common 30 day public inspection period which includes the first 10 working days in July. The aim of this is to ensure greater transparency and give stakeholders sufficient notice of the period in which they can inspect the accounts. For the Council period of public inspection, for the Council's accounts and supporting documentation, will run from the 1 July 2016 to 11 August 2016. The period of public inspection has increased from 20 to 30 working days and runs concurrently with the period whereby a local government elector may raise questions or objections to the External Auditor.

4.19. At the conclusion of the Audit, the Auditor will issue a report on the Financial Statements and will issue the Audit Certificate for 2015/16. This will be considered at the Audit Committee meeting on 22 September 2016.

5. CONSULTATION

No external consultation, other than with the Council's External Auditors, EY, is taking place. However, the accounts are open to public inspection, see point 4.18.

6. ANTICIPATED OUTCOMES

As set out in the report.

7. REASONS FOR RECOMMENDATIONS

The Accounts and Audit Regulations 2015 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 9 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

Financial implications are dealt with in the body of this report. There are no Human Resource, Legal, ICT, Procurement or Property issues arising directly from the recommendations in this report.

10. BACKGROUND DOCUMENTS

- Budgetary Monitoring Report Final Outturn 2015/16
- Council March 2015: Medium Term Financial Strategy
- The Accounts and Audit Regulations (England) 2015, Statutory Instrument

11. APPENDICES

- Appendix A - Statement of Accounts 2015/16

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PETERBOROUGH
CITY COUNCIL

Statement of Accounts

2015/16

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

Service Director Financial Services
Peterborough City Council
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email: FinanceManagementTeam@peterborough.gov.uk
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www.peterborough.gov.uk

Peterborough City Council
Statement of Accounts 2015/16

Contents **Page**

Narrative Report

1 The Council’s Vision and Strategic Priorities

A bigger and better Peterborough that grows the right way
- through truly sustainable development and growth

The Council’s core priorities within the Medium Term Financial Strategy (MTFS) to deliver this vision are:

- Growth, regeneration and economic development of the city to bring new investment and jobs. Supporting people into work and off benefits is vital to the city’s economy and to the wellbeing of the people concerned
- Improving educational attainment and skills for all children and young people, allowing them to seize the opportunities offered by new jobs and our university provision, thereby keeping their talent and skills in the city
- Safeguarding vulnerable children and adults
- Pursuing the Environmental Capital agenda to position Peterborough as a leading city in environmental matters, including reducing the city’s carbon footprint
- Supporting Peterborough’s culture and leisure trust, Vivacity, to continue to deliver arts and culture in the city
- Keeping our communities safe, cohesive and healthy
- To achieve the best health and wellbeing for the city

2 The Accounts

This Statement of Accounts has been prepared in accordance with statutory requirements, detailed in the Local Government Act 2003, the Accounts and Audit Regulations 2015 and The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code).

The Statement of Accounts brings together the major financial statements for the Council for the financial year 2015/16. 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:

- *Narrative Report* - this section
- *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.
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- *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.
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- *The Collection Fund and Notes* – shows the transactions of the Council in relation to Council Tax and Non-Domestic Rates.
- *Statement of Accounting Policies* – outlines the accounting policies adopted by the Council.

3 National and Local Context

Peterborough City Council is working in the context of the most challenging financial times that local government has ever faced.

The local government sector is experiencing increasing demands for services, whilst at the same time facing severe reductions to its funding. Over the course of this Parliament, Councils are expected to face additional funding cuts of 40% nationally in real terms (Source: LGA), meaning an extra £20bn of savings must be found nationally to meet this gap. When taken together with cuts experienced since 2010, the total reduction to Local Government funding by 2020 will hit 64%.

Furthermore, the final Local Government Finance Settlement confirmed significant changes to the way Councils will be funded going forward as a system of 100% business rates retention and different grant distribution methodologies are introduced. This is a huge challenge, and the Council must find new and innovative ways to deliver its services to ensure a sustainable financial future for the Council.

Peterborough is also the third fastest growing city in the UK. This increase in demographics brings with it substantial demands for Council services which need to be managed strategically and effectively.

4 Organisational Performance

The Council's priorities are embedded within the budget-setting process and alongside these the Council's strategy in dealing with the financial and organisational challenges it faces are to:

- Seek to vigorously pursue efficiency savings
- Seek out new forms of service delivery to reduce cost and generate income
- Seek to be increasingly entrepreneurial in the way it is managed and run
- Act in a measured way when examining options to balance further budgets
- Look to deliver in future years an efficiency plan to secure maximum grant funding
- Ensure the significant risks that the Council is likely to face are proactively managed

A copy of the Council's Medium Term Financial Strategy for 2016/17 – 2025/26 can be found via the following link: https://www.peterborough.gov.uk/council/budgets-spending-and-performance/our-finances/.

A summary of the budget position for the next five years is provided in the following table:

Summary Budget Position	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Opening budget gap	7,390	11,330	14,710	17,760	19,510
Total grant reductions	9,797	16,305	21,124	23,214	23,214
Total budget pressures	6,316	6,311	6,219	6,957	8,484
Total Investments	640	660	650	640	640
Overall budget gap	**24,143**	**34,606**	**42,703**	**48,571**	**51,848**
Overall savings proposed	(23,194)	(19,317)	(18,356)	(17,401)	(18,041)
Savings delivered in 2015/16	(12,137)	-	-	-	-
To / (from) Grant Equalisation reserve	11,188	(11,188)	-	-	-
Final budget position	**-**	**4,101**	**24,347**	**31,170**	**33,807**

The Council continues to have robust arrangements in place to ensure that it achieves economy, efficiency and effectiveness. It monitors its spending against budget regularly throughout the financial year and reports the forecast outturn position to Cabinet. These reports are based on the Council's organisational structure.

Budget managers receive detailed budgetary control information each month and 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 and also the Corporate Management Team (CMT). This ensures that pressures and risks are managed and are factored into the development of budget proposals for 2016/17 and beyond. The Council's budget planning process requires items to be scrutinised by CMT, the Cabinet Policy Forum and a Cross-Party Budget Working Group before they become part of the formal budget proposals. A focus on pursuing value for money has been embedded in the Council's approach to setting future budgets and financial plans.

Any budget risks are reported to CMT during the year in order that swift management action is taken to mitigate them. The budget monitoring process supports CMT to make informed decisions, ensuring planned, sustainable outcomes.

The Council has a robust risk management framework which is embedded within the Council's budget monitoring process. Further details on the Council's risk management arrangements are contained within the Annual Governance Statement, see Annex 1.

Management of the capital programme and treasury activities are monitored through the Prudential Indicators, which are reported to members on a half-yearly basis as an indication of performance against the Council's Treasury Management Strategy (TMS), and are included in the Council's outturn report which is presented to Cabinet and the Audit Committee.

The Council also has its own performance indicators for monitoring items such as time taken to pay suppliers (creditors) and collection times for customers that owe the Council (debtors), council tax and business rates, and any benefit overpayments against specific targets, see Notes 32 and 35, pages 62 and 64.

Further information on progress against Key Performance Indicators and other organisational objectives can be found in the outturn report, which is presented to Cabinet and the Audit Committee in June each year.

5 Revenue Position

The Comprehensive Income and Expenditure Statement (CIES), page 14, shows the gross revenue expenditure and income together with net expenditure for 2015/16 compared with 2014/15 equivalents. The CIES 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. Note 15, page 35, demonstrates the presentational differences between these reporting requirements.

The departments of the Council are shown in the following Net Revenue Expenditure table which compares the budget to the actual net expenditure. Figures in brackets indicate a favourable variance.

The final outturn position shows a surplus of £1.0m. This position is primarily a result of underspends in the Growth & Regeneration and Resources directorates. Further detail on departmental underspends is provided in the outturn report presented to Cabinet and Audit Committee in June.

This surplus has been added to the Grant Equalisation Reserve which will be fully utilised by 2017/18. This underspend is incorporated within the transfer to and from reserves within Earmarked General Fund Reserves in the Movement in Reserves Statement on page 15, and Note 17, page 46.

The revenue cost of financing the Council's prudential borrowing totalled £15.1m in the year ending 31 March 2016, compared to £13.2m in the year ending 31 March 2015, see Note 10, page 29 and Note 28, page 57

Net Revenue Expenditure	Budget £000	Actual £000	Variance £000
Chief Executive	365	310	(55)
Governance	5,557	5,051	(506)
Growth & Regeneration	12,729	11,462	(1,267)
People & Communities	73,562	75,253	1,691
Public Health	(159)	(159)	-
Resources	58,954	58,105	(849)
Total Council Expenditure	**151,008**	**150,022**	**(986)**
Financing Adjustment			(42)
Revised Underspend			**(1,028)**
Transfer to Grant Equalisation Reserve			1,028
Contribution to General Fund Balance			**-**
General Fund Balance Brought Forward			6,000
General Fund Balance Carried Forward			**6,000**

Balances

As at 31 March 2016, the balance on the General Fund was £6.0m, which is in line with the Medium Term Financial Strategy.

In addition, the Schools balances totalled £6.2m to 31 March 2016, compared with £6.3m at 31 March 2015.

During the year, the Council transferred £11.9m to the Grant Equalisation Reserve. Contributions to this reserve comprise of £1.0m departmental underspends and £10.9m from planned one-off savings. This reserve was established as part of the

MTFS agreed in March 2016 to manage the timing of the impact of transformational change required to mitigate future grant reductions. The variance between the year-end balance on this reserve and the forecast MTFS balance is a result of cash flow timing differences, over-achievement of planned savings and departmental underspends.

6 Capital and Treasury Position

The revised Capital Programme's budget as at November 2015 was £156.5m which includes £61.9m for invest to save schemes. The outturn of £81.8m results from planned changes including removing, reducing or delaying projects. The main elements of capital expenditure, compared with the revised November 2015 budget (after slippage) are shown in the following table:

Capital Expenditure	Budget 01/04/2015 £000	Revised Budget £000	Actual £000
Governance	540	447	-
Growth & Regeneration	17,850	22,152	18,499
People & Communities	4,947	32,188	22,550
Resources	63,227	39,821	31,466
Invest to Save	54,791	61,930	9,252
Total	**141,355**	**156,538**	**81,767**
Financed by:			
External Sources	16,920	25,384	17,096
Capital Receipts	11,820	1,583	1
Prudential Borrowing	112,615	129,571	64,670
Total	**141,355**	**156,538**	**81,767**

Major projects which progressed during 2015/16 and included in the expenditure figures in the previous table are:

- Energy Recovery Facility £20.7m
- A1 Junction 17 - Fletton Parkway A1139 Junction 2 £6.1m
- Invest to Save – Empower Loan £5.6m
- Invest to Save – Energy Related Projects £3.7m
- Hampton Leys School £3.8m
- Southfields Primary £3.5m

Capital expenditure has been financed through a mixture of grants, third party contributions and prudential borrowing. Further information on capital financing can be found in the Borrowing and Investments section following and also in Notes 10 and 25, pages 29 and 52.

The process to regenerate large areas of the city centre have progressed during 2015/16 with the transfer of two Council owned sites to the Peterborough Investment Partnership LLP (PIP), see Note 14, page 34. This transaction has resulted in a deferred capital receipt of £1.7m, payable upon disposal of the loan notes only and does not reflect any of the anticipated additional receipt brought about by the value added to the sites by the work completed by the PiP.

In December 2015 the Council's energy recovery facility became operational, and is the most efficient plant of its size in the UK. The facility, close to the power station in Fengate, has been designed to meet the city's needs for waste disposal for the next 30 years. The facility uses heat to turn any waste that cannot be recycled, into ash and is expected to save over 10,000 tonnes of CO_2 every year compared to sending the city's waste to landfill.

As well as being used to dispose of waste, it will generate power that can be sold.

The Council entered into a strategic partnership with Empower Community Management LLP (EC), a social enterprise that delivers the installation of solar PV on residential properties in the city and delivers a community benefit scheme to Peterborough. This delivery commenced in 2015/16, see Note 14, page 34 for additional information.

Borrowing and Investments

The Capital and Treasury Management Strategy, approved as part of the Council's MTFS in March 2015, details the framework within which the Council's capital investment plans are to be delivered. The reduction in Government grants available in recent years has influenced the size of the capital programme and has meant that prudential borrowing is the primary source of financing for capital projects.

The following table shows that at 31 March 2016 the Council had net borrowings including cash and outstanding interest of £354.7m (£299.8m in 2014/15).

2014/15 *£m*		**2015/16** **£m**
37.5	Short Term Borrowing	43.5
271.3	Long Term Borrowing	322.7
(9.0)	Investments	(11.5)
299.8	**Net Borrowing**	**354.7**

The Council's TMS outlines the Council's approach to borrowing. The main sources of borrowing for the Council are the Public Works Loan Board (a branch of the Debt Management Office) and other Local Authorities, along with some bank debt. The Council is reviewing arrangements to access borrowing through the newly-established Municipal Bonds Agency.

The Council has a PFI scheme relating to the building of one school and the refurbishment of two others. Further information on this scheme is provided in Note 26, page 53.

The Council's cash flow position is closely monitored on a daily basis to ensure sufficient funding is available to meet its obligations and to maximise return on surplus balances. Although the Capital Programme required borrowing of £64.7m, actual gross borrowing increased by £57.4m (net £54.9m) during the year.

7 Non-Financial Performance of the Council 2015/16

Key achievements over the past 12 months include:

- Providing services for 188,400 Peterborough residents
- Unemployment at lowest levels since the 1990s
- Fourth highest housing stock growth of any UK city
- More schools than ever before rated as Good or Outstanding
- Launched an energy tariff in partnership with Ovo Energy with more than 2,800 residents having switched providers with collective savings £700k
- Launch of a residential solar photo voltaic panels scheme with an average saving of £200 per installation of generated free energy
- Commencement of a £120m regeneration scheme, Fletton Quays in partnership with Lucent Strategic Land Fund

- The first Gigabit City, with some of fastest broadband speeds in the UK
- World Smart City 2015, beating Dubai and Moscow
- Using the latest pot-hole patching technology a 'fire breathing dragon' on the Council's roads
- Award winning teams with the Planning, Legal, and Trading Standards teams
- Nominations in National Recycling Awards, including recognition of partnership working with Amey and Viridor
- LGC Awards for the use of Open^{+} technology in libraries
- Awarded Green Flag status for the seventh consecutive year for publicly accessible parks and green spaces

8 Changes to Service Delivery and Operations

The restructure of the Council's directorates has now been completed. This action has resulted in the merger of Adult Social Care, Communities and Children's Services into a single People and Communities directorate. A Public Health directorate has also been created to manage the Council's new responsibilities in this area. Where figures are given for comparison purposes from the 2014/15 financial year, they have been restated to reflect the new directorate structure, which ensures that the users of accounts are comparing 'like with like'.

In October 2015, the Council became responsible for 0-5 year-olds public health commissioning. This transfer of function joins up with those responsibilities already held by the Council for 5-19 year-old commissioning. Income and expenditure for this service is reflected under the Public Health directorate heading.

Also in October 2015 Councillors approved plans to share a chief executive between Peterborough City and Cambridgeshire County Councils on a temporary basis. This is the first shared chief executive role between unitary and county authorities nationally and will be in place for an initial period of 12 months, see Note 8, page 25. Further examples of closer partnership working which have developed during the year with neighbouring Council's includes the merger of three Coronial areas across Cambridgeshire and Peterborough to be served by one Senior Coroner, and the Council's planning team to work together with their counterparts in Fenland to deliver an improved and more cost-effective service.

In the Autumn Statement, the Chancellor announced that the Government would make 'Local Authorities running schools a thing of the past'. This statement has not yet been clarified, however, it is noted that there could be a risk to some services that the Council provides regarding schools and there may be particular risk to the levels of Education Services Grant that the Council receives. In addition, as schools convert to Academy status, assets linked to the school are removed from the Council's balance sheet at nil consideration. The Government's recent announcement to convert all remaining maintained schools to Academy status would have a significant impact on the Council's balance sheet. There is now uncertainty as to whether this change will actually progress, and officers continue to monitor developments and will report risks to Members as they become known.

The Council is part of a business rates retention pilot with Central Government. This scheme enables the Council to retain 100% of business rates growth beyond a set baseline. Additional income to the Council from this scheme in 2015/16 totalled £1.4m. The scheme is due to continue until 2017/18, and the Council is lobbying to extend the growth pilot period.

9 Changes to Accounting Policy

For 2015/16 the accounting policy relating to measurement of the Councils assets and liabilities has been amended to reflect the changes brought about by IFRS 13 Fair Value Measurement, see Notes 19 and 29, pages 49 and 57, for further information.

10 Pension Fund

The main statements include entries to show the financial position of the Council's share of the Cambridgeshire Local Government Pension Fund. Based on the information supplied by the actuary in compliance with IAS19, the calculated deficit on the Fund has decreased during 2015/16, from £279.0m in 2014/15 to £239.4m, a decrease of £39.6m. The deficit has reduced due to an increase in the net discount rate used by the actuary. When this rate is increased the assessed value of the schemes liabilities decreases, as a lower value is placed on benefits that will be paid in the future. The positive impact of this rate change has outweighed the likely lower than expected asset returns, see Note 45, page 70, for further details on assumptions.

The Council's contribution to the fund is independently determined by the fund actuary. The actuary undertook the triennial valuation of the fund during 2013, and their recommendations have been implemented from April 2014. The actuary has recommended a combination of a lower employer contribution percentage (from 17.6% to 16.3%) along with a cash lump sum into the fund, though contribution rates relating to the schools element have increased to 21.6% as no lump sum payment has been made for their element. This approach helps maintain pension contributions as payrolls decline. These contributions were provided for in the Council's MTFS. 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 21.

11 External Auditors

The 2015/16 Statement of Accounts is the first year to be audited by Ernst & Young LLP. In December 2014 the Audit Commission wrote to the Council to confirm that Ernst & Young LLP will audit the Council's accounts for two years from 2015/16. The Commission's contracts with audit firms are extendable by three years. Public Sector Audit Appointments (PSAA) have extended the audit contracts by one year for local government to include audits of the 2017/18 accounts. See Note 3, page 19, for further information on external audit fees.

12 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 be controlled or influenced by the Council. These disclosures can be found in Notes 13 and 14, pages 30 and 34, and also on the Council's website in the Register of Interests for each Councillor.

13 Challenges Ahead

The Council continues to face significant challenges, both in terms of the amount of funding available and the increased levels of demand for its services. The Council's MTFS for 2016/17 identifies an additional £23.2m of savings.

Whilst this does present a challenge for the Council, the key message is that the Council expects that there will be no reduction to service levels in 2016/17. This is made possible through sound strategic financial planning and the hard work of Council staff, who are committed to work more efficiently and generate additional income as an alternative to reducing levels of service for the City's residents.

As part of the 2016/17 budget round, the Council created a Grant Equalisation Reserve, as previously mentioned. This reserve serves to defer the impact of Government funding reductions in order to allow a strategic and measured approach to the financial challenges faced in order to protect services as far as possible. It has been agreed in the MTFS that this reserve will be fully utilised by 2017/18.

Uncertainties remain in the level of funding that will be available to the Council over the medium term. During the 2015/16 financial year, the Council required £25.0m of savings to balance the budget, comprising of £12.5m Government funding reductions and £12.5m of demographic pressures.

As part of its recent Budget, the Government confirmed its offer of a four year Finance Settlement. This could provide clarity over the level of funding the Council can expect over this period, and could potentially aid financial planning. The Council will need to approve an 'Efficiency Plan' by the 14 October 2016 in order to qualify for this offer. However, details of what this offer includes have yet to be released. The situation is being closely monitored and Members will be kept informed of any developments before a final decision is required.

Like the vast majority of other Councils, Peterborough has levied the Adult Social Care precept for 2016/17 in order to relieve pressure on Adult Social Care budgets and to protect vulnerable adults in the community. Whilst the introduction of the precept is welcomed, the Council remains concerned that demand for services will surpass the amounts that can be raised through this mechanism. Officers are focused on ensuring that demand for services is monitored and that management action is taken where necessary to remain within budget.

Over the next few years, there will be fundamental changes to the way that Local Government is funded. By 2020, a system of 100% Business Rates retention will have been implemented, replacing the system of partial retention and Revenue Support Grant. It is not currently known what the financial impact will be on Peterborough, however, it is anticipated that there will be increased volatility in income as the Council becomes the sole owner of Business Rate cash flows, particularly with regard to appeals.

New Homes Bonus is set to be significantly reduced, with a partial redistribution via the Improved Better Care Fund. As different funding methodologies are used for the reallocation of this funding, the Council's income is likely to reduce as cash will no longer be allocated relative to housing growth as previously forecast.

The government is talking to councils across the UK about devolution, where certain powers and responsibilities are transferred from central government to a particular region. At the time of publication, Councillors are to debate a proposal for a Combined Authority for Peterborough and Cambridgeshire which would include a new £20million annual fund for the next 30 years to support economic growth, development of local infrastructure and jobs; a new £170million housing fund to be invested over the next five years to build more and a wider mix of homes; to work with government to secure a Peterborough Enterprise Zone; and investment in a Peterborough University to name but a few areas. City councillors will decide at an extraordinary meeting of Council on 27 June 2016 whether to endorse this proposed deal, if they do a formal public consultation would follow.

14 Summary

The Council continues to provide services that matter to the residents of Peterborough against the challenges of reduced funding and growing population. This is being achieved through finding innovative ways of working, and adopting an 'invest to save' approach, so that services are improved and drastic cuts to services are avoided. The Council is working towards becoming a self-sufficient council through greater levels of commercialisation being applied to all activities it undertakes.

The Council approved the revenue and capital budget requirement for 2015/16 in its MTFS. The budget supported the Council's key priorities and included £25.0m of savings, comprising £12.5m of pressures and £12.5m of grant reductions.

The Council's earmarked reserves have improved in the year but the majority of these balances will be required during 2016/17 and 2017/18. The Council's new Grant Equalisation Reserve will serve to mitigate the impact of significant funding cuts and will allow officers the time to address future financial issues in a measured and strategic manner.

The Council has successfully managed the financial challenges during 2015/16 by being proactive in balancing the demands of local circumstances with the financial constraints of the national economic climate. This action has resulted in a contribution to reserves to meet future year's challenges.

The Council remains committed to its strategy of 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.

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 and performance of the Council.

John Harrison

Corporate Director - Resources

Independent Auditors’ Report to the Members of Peterborough City Council

This page will be updated with the audit report following completion of the external audit – September 2016.

Signed:

Date:

Janet Dawson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Chartered Accountants and Statutory Auditors
London

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 has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director: 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 2016 was approved at the meeting of the Audit Committee on 22 September 2016.

Signed on behalf of Peterborough City Council:

Chairperson of meeting approving the accounts:

Note – not to be signed until September 2016

Howard Fuller

Date: September 2016

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 Authority 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 14 to 91 present a true and fair view of the financial position of the Council at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

Corporate Director: Resources:

John Harrison

Date: June 2016

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.

2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000	**Comprehensive Income & Expenditure Statement (CIES)**	**Notes (From Page 18)**	**2015/16 Gross Expenditure £000**	**2015/16 Gross Income £000**	**2015/16 Net Expenditure £000**
1,702	*(732)*	*970*	Central Services to the Public		4,501	(1,167)	3,334
442	*-*	*442*	Court Services		456	-	456
10,691	*(2,157)*	*8,534*	Cultural & Related Services		11,699	(2,155)	9,544
229,262	*(165,183)*	*64,079*	Education & Children's Services	1, 6	234,463	(174,899)	59,564
18,805	*(6,596)*	*12,209*	Environmental & Regulatory Services		20,383	(7,292)	13,091
24,811	*(5,975)*	*18,836*	Highways & Transport Services		26,354	(6,499)	19,855
85,192	*(78,382)*	*6,810*	Other Housing Services		83,337	(78,517)	4,820
10,121	*(4,437)*	*5,684*	Planning Services		11,912	(4,859)	7,053
66,699	*(16,390)*	*50,309*	Adult Social Care	2, 6	64,483	(20,032)	44,451
8,991	*(9,466)*	*(475)*	Public Health		9,864	(10,218)	(354)
1,716	*(59)*	*1,657*	Corporate & Democratic Core	3, 4	5,332	(1,891)	3,441
-	*(6,627)*	*(6,627)*	Non Distributed Costs		-	(1,755)	(1,755)
458,432	*(296,004)*	*162,428*	**Cost of Services**	15	**472,784**	**(309,284)**	**163,500**
2,943	*(2,916)*	*27*	Other Operating Income & Expenditure	9	5,820	(3,718)	2,102
63,087	*(6,585)*	*56,502*	Financing & Investment Income & Expenditure	10,11	33,584	(6,211)	27,373
6,792	*(186,857)*	*(180,065)*	Taxation & Non-Specific Grant Income & Expenditure	12	7,126	(164,234)	(157,108)
531,254	*(492,362)*	*38,892*	**(Surplus) / Deficit on Provision of Services**	15	**519,314**	**(483,447)**	**35,867**
		(19,343)	(Surplus) / Deficit on Revaluation of Non-Current Assets	16,18			3,320
		51,438	Actuarial (Gains) / Losses on Pension Assets / Liabilities	7			(50,758)
		32,095	**Other Comprehensive Income & Expenditure**				**(47,438)**
		70,987	**Total Comprehensive Income & Expenditure**				**(11,571)**

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 14. 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 more detailed movements, see Note 16, page 39.

Movement in Reserves during 2014/15 and 2015/16	**Note**	**General Fund Balance**	**Schools’ Balances**	**Earmarked General Fund Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied Account**	**Total Usable Reserves**	**Unusable Reserves**	**Total Council Reserves**
	16	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2014		*(6,000)*	*(7,119)*	*(21,452)*	*-*	*(1,319)*	*(35,890)*	*17,965*	*(17,925)*
Deficit / (Surplus) on Provision of Services		*38,062*	*830*	*-*	*-*	*-*	*38,892*	*-*	*38,892*
Other Comprehensive Income & Expenditure		*-*	*-*	*-*	*-*	*-*	*-*	*32,095*	*32,095*
Total Comprehensive Income & Expenditure		*38,062*	*830*	*-*	*-*	*-*	*38,892*	*32,095*	*70,987*
Adjustments between accounting basis & funding basis under regulations		*(39,808)*	*-*	*-*	*-*	*(127)*	*(39,935)*	*39,935*	*-*
Net Increase / Decrease before Transfers to Earmarked Reserves		*(1,746)*	*830*	*-*	*-*	*(127)*	*(1,043)*	*72,030*	*70,987*
Transfers to / (from) Earmarked Reserves		*1,746*	*-*	*(1,746)*	*-*	*-*	*-*	*-*	*-*
Increase /(Decrease) in 2014/15		*-*	*830*	*(1,746)*	*-*	*(127)*	*(1,043)*	*72,030*	*70,987*
Restated Balance at 31 March 2015 Carried Forward		*(6,000)*	*(6,289)*	*(23,198)*	*-*	*(1,446)*	*(36,933)*	*89,995*	*53,062*
Balance at 1 April 2015		**(6,000)**	**(6,289)**	**(23,198)**	**-**	**(1,446)**	**(36,933)**	**89,995**	**53,062**
Deficit / (Surplus) on Provision of Services		35,761	106	-	-	-	35,867	-	35,867
Other Comprehensive Income & Expenditure		-	-	-	-	-	-	(47,438)	(47,438)
Total Comprehensive Income & Expenditure		**35,761**	**106**	**-**	**-**	**-**	**35,867**	**(47,438)**	**(11,571)**
Adjustments between accounting basis & funding basis under regulations		(42,770)	-	-	(1,251)	440	(43,581)	43,581	-
Net Increase before Transfers to Earmarked Reserves		(7,009)	106	-	(1,251)	440	(7,714)	(3,857)	(11,571)
Transfers to / (from) Reserves		7,009	-	(7,009)	-	-	-	-	-
Increase / (Decrease) in 2015/16		**-**	**106**	**(7,009)**	**(1,251)**	**440**	**(7,714)**	**(3,857)**	**(11,571)**
Balance at 31 March 2016 Carried Forward		**(6,000)**	**(6,183)**	**(30,207)**	**(1,251)**	**(1,006)**	**(44,647)**	**86,138**	**41,491**

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 15, line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2015	**Balance Sheet**	**Notes**	**31 March 2016**
£000			**£000**
575,128	Property, Plant & Equipment	18	584,428
33,031	Investment Property	19	31,770
6,758	Intangible Assets	20	10,989
45	Long Term Investments	28, 29	-
2,993	Long term Debtors	28, 29	1,780
617,955	**Long Term Assets**		**628,967**
59	Short Term Investments	28	1,730
296	Inventories	31	301
50,084	Short Term Debtors	32	65,318
7,870	Cash & Cash Equivalents	29, 40	11,634
-	Current Intangible Asset	33	218
221	Assets Held for Sale	21	298
58,530	**Current Assets**		**79,499**
(37,524)	Short Term Borrowing	28	(43,482)
(78,367)	Short Term Creditors	35	(76,036)
(6,835)	Provisions	34	(7,761)
(122,726)	**Current Liabilities**		**(127,279)**
(279,022)	Long Term Creditors	7	(239,364)
(419)	Provisions	34	(303)
(271,254)	Long Term Borrowing	28	(322,717)
(38,376)	Other Long Term Liabilities	26, 27, 28, 29	(36,664)
(17,750)	Capital Grants Receipts in Advance	36	(23,630)
(606,821)	**Long Term Liabilities**		**(622,678)**
(53,062)	**Net (Liabilities) / Assets**		**(41,491)**
(36,933)	Usable Reserves	16	(44,647)
89,995	Unusable Reserves	16	86,138
53,062	**Total Reserves**		**41,491**

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. 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.

2014/15 *£000*	**Cash Flow Statement**	**Notes**	**2015/16** **£000**
38,892	Net (Surplus) / Deficit on the Provision of Services		35,867
(22,122)	Adjust net (Surplus) / Deficit on the Provision of Services for Non Cash Movements		(35,069)
(36,619)	Adjust for Items Included in the Net (Surplus) / Deficit on the Provision of Services that are Investing & Financing Activities		(17,837)
(19,849)	**Net Cash Flows from Operating Activities**		**(17,039)**
107,672	Investing Activities	38	76,091
(92,904)	Financing Activities	39	(62,816)
(5,081)	**Net (Increase) / Decrease in Cash & Cash Equivalents**		**(3,764)**
2,789	Cash & Cash Equivalents at the Beginning of the Reporting Period		7,870
5,081	Increase / (Decrease) in Cash and Cash Equivalents		3,764
7,870	**Cash & Cash Equivalents at the end of the Reporting Period**	40	**11,634**

Notes to the Accounts

1 Dedicated Schools Grant (DSG)

Details of the deployment of DSG receivable for 2015/16 and for the previous financial year 2014/15 follows:

Schools Budget Funded by Dedicated Schools Grant	**Central Expenditure £000**	**ISB £000**	**Total £000**
Final DSG for 2015/16 before Academy recoupment			(180,606)
Academy figure recouped for 2015/16			63,681
Total DSG after Academy recoupment for 2015/16			(116,925)
Brought forward from 2014/15			(5,511)
Carry forward to 2016/17 agreed in advance			1,801
Agreed initial budgeted distribution in 2015/16	(37,432)	(83,203)	(120,635)
In year adjustments	59	-	59
Final budgeted distribution for 2015/16	(37,373)	(83,203)	(120,576)
Less actual central expenditure	33,427	-	33,427
Less actual ISB deployed to schools	-	83,203	83,203
Plus Council contribution for 2015/16	-	-	-
Carry Forward to 2016/17	**(3,946)**	**-**	**(3,946)**
Total amount carried forward			**(5,747)**

The Council's expenditure on running schools is funded primarily by grant monies provided by the Education Funding Agency, the DSG. An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2014. 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.

Schools Budget Funded by Dedicated Schools Grant	*Central Expenditure £000*	*ISB £000*	*Total £000*
Final DSG for 2014/15 before Academy recoupment			*(166,191)*
Academy figure recouped for 2014/15			*48,034*
Total DSG after Academy recoupment for 2014/15			*(118,157)*
Brought forward from 2013/14			*(1,826)*
Carry forward to 2015/16 agreed in advance			*3,710*
Agreed initial budgeted distribution in 2014/15	*(32,606)*	*(83,667)*	*(116,273)*
In year adjustments	*-*	*-*	*-*
Final budgeted distribution for 2014/15	*(32,606)*	*(83,667)*	*(116,273)*
Less actual central expenditure	*30,805*	*-*	*30,805*
Less actual ISB deployed to schools	*-*	*83,667*	*83,667*
Plus Council contribution for 2014/15	*-*	*-*	*-*
Carry Forward to 2015/16	*(1,801)*	*-*	*(1,801)*
Total amount carried forward			*(5,511)*

2 Pooled Funds

The Council has four Section 75 (S75) agreements with health partners. Three of the agreements, Better Care Fund, Learning Disability Services and Integrated Community Equipment Services are with Cambridgeshire and Peterborough Clinical Commissioning Group (CPCCG). The fourth agreement, for Mental Health Services, is with Cambridgeshire and Peterborough NHS Foundation Trust (CPFT).

Better Care Fund (BCF)

The Better Care Fund has been established by the Government to provide funds to local areas to support the integration of health and social care. It is a requirement of the BCF that the CCG and the Council establish a pooled fund for this purpose. The annual S75 agreement with Cambridgeshire and Peterborough Clinical Commissioning Group (CPCCG) sets out contribution levels and performance measurements. The BCF value for 2015/16 was £12.0m (2014/15 Nil) of which £6.4m is a pooled fund shown within the Adult Social Care line in the Comprehensive Income and Expenditure Statement (CIES). The remaining, non-pooled fund element, is made up of £1.3m directly received capital funding and £4.3m retained by CPCCG.

Learning Disability Services

The Council has a S75 agreement with CPCCG for the commissioning and provision of specialist health related learning disability services. The annual agreement for 2015/16 sets out the Council's contribution to the Pool, the level of performance that the Council aimed to deliver across a range of performance indicators and key service developments that the Council would take forward. Activity for this partnership is shown in the Adult Social Care line in the CIES of £0.9m (2014/15 £0.9m).

Integrated Community Equipment Services (ICES)

The annual agreement for 2015/16 agreed a pooled budget and monitoring process for the provision of a joint ICES store and associated expenditure in relation to Social Care. The Council's contribution of £0.3m (2014/15 £0.3m) to this pooled partnership is shown in the Adult Social Care line in the CIES.

Mental Health Services

The Council has a S75 agreement with CPFT which provides for the cost of staff and associated overheads providing mental health services. The Council's contribution to this pooled partnership of £1.2m (2014/15 £1.1m) is shown in the Adult Social Care line in the CIES.

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 for non-audit services provided by the Council's external auditors. PricewaterhouseCoopers LLP were the Council's external auditors for 2014/15, and Ernst and Young LLP (EY) are the Council's new external auditors for 2015/16 until at least 2017/18.

2014/15	**External Audit Costs**	**2015/16**
£000		**£000**
179	Fees payable with regard to external audit services carried out by the appointed auditor *	134
10	Other services provided by the previously appointed auditor PricewaterhouseCoopers (audit of Teachers Pensions return)	8
189	**Total**	**142**

** The fees for 2015/16 are the scale fees agreed by the Audit Commission of £108k for the audit, £14k for grant certification, and an additional amount of £12k in relation to extra work anticipated to be undertaken by EY.*

4 Member's Allowances

The following amounts were paid to members of the Council.

2014/15		**2015/16**
£000	**Member's Allowances**	**£000**
663	Allowances	664
4	Expenses	2
667	**Total**	**666**

5 Termination Benefits and Exit Packages

The Council terminated the contracts of a number of employees as part of the voluntary redundancy programme in 2015/16, incurring liabilities of £0.4m (£1.1m 2014/15). 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 34 for details of the redundancy provision). The costs were charged to the Comprehensive Income and Expenditure Statement as shown in the following table:

2014/15		**2015/16**
£000	**Termination Benefits**	**£000**
-	Central Services to the Public	15
285	Education & Children's Services	124
102	Environmental & Regulatory Services	24
43	Highways & Transport Services	-
146	Planning Services	16
105	Adult Social Care	188
171	Public Health	-
78	Corporate & Democratic Core	-
148	Support Services (*recharged to the services)*	59
1,078	**Total**	**426**

The number of packages agreed and the value of those packages are analysed in the following tables, in bands of £20k up to £80k.

Termination and Exit Packages 2015/16

Compulsory	**Voluntary**	**Total**	**Bands**	**Compulsory**	**Voluntary**	**Total**	Pension Strain inc. in total *
No.	**No.**	**No.**		**£000**	**£000**	**£000**	£000
1	8	9	£0 - £19,999	1	58	59	2
-	9	9	£20,000 - £39,999	-	260	260	24
-	1	1	£40,000 - £59,999	-	44	44	15
-	1	1	£60,000 - £79,999	-	63	63	-
-	**19**	**20**	**Total**	**1**	**425**	**426**	41

Termination and Exit Packages 2014/15

Compulsory	*Voluntary*	*Total*	*Bands*	*Compulsory*	*Voluntary*	*Total*	*Pension Strain inc. in total **
No.	*No.*	*No.*		*£000*	*£000*	*£000*	*£000*
1	*18*	*19*	*£0 - £19,999*	*2*	*192*	*194*	*1*
-	*18*	*18*	*£20,000 - £39,999*	*-*	*501*	*501*	*57*
-	*5*	*5*	*£40,000 - £59,999*	*-*	*239*	*239*	*84*
-	*2*	*2*	*£60,000 - £79,999*	*-*	*144*	*144*	*25*
1	*43*	*44*	*Total*	*2*	*1,076*	*1,078*	167

* *Pension Strain included 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 Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their 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 a multi-employer defined benefit scheme. The Scheme is unfunded and the DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The Scheme has in excess of 3,700 participating employers and consequently 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 2015/16 the Council paid £6.0m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 14.1% of pensionable pay up to 31 August 2015 and 16.5% thereafter. The figures for 2014/15 were £5.5m and 14.1%. 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 included in Note 7. The Council is not liable to the scheme for any other entities' obligations under the plan.

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 and the employees of the Public Health Service. 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.

In 2015/16 the Council paid £0.3m to NHS Pensions in respect of employee's retirement benefits, representing 14.0% of pensionable pay. The figures for 2014/15 were £0.3m and 14.0%.

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 (for those benefits) and to disclose them 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 pension's liabilities with investment assets. Employee contribution rates are tiered according to employee's pay band as set out below:

Pay Band 2015/16	**Contribution Rate 2015/16**	*Pay Band 2014/15*	*Contribution Rate 2014/15*
Up to £13,600	5.5%	*Up to £13,500*	*5.5%*
£13,601 - £21,200	5.8%	*£13,501 - £21,000*	*5.8%*
£21,201 - £34,400	6.5%	*£21,001 - £34,000*	*6.5%*
£34,401 - £43,500	6.8%	*£34,001 - £43,000*	*6.8%*
£43,501 - £60,700	8.5%	*£43,001 - £60,000*	*8.5%*
£60,701 - £86,000	9.9%		
£86,001 - £101,200	10.5%	*£85,001 - £100,000*	*10.5%*
£101,201 - £151,800	11.4%	*£100,001 - £150,000*	*11.4%*
Over £151,801	12.5%	*Over £150,000*	*12.5%*

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

Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following table outlines the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

2014/15 £000	**Comprehensive Income & Expenditure Statement**	**2015/16 £000**
	Cost of Services:	
12,748	Current service cost	17,319
64	Past service cost	1
(6,771)	Effect of settlements	(1,728)
	Financing & Investment Income & Expenditure	
(13,513)	Interest Income on Scheme Assets	(11,316)
22,879	Interest Cost on Defined Benefit Obligation	20,287
15,407	**Total post-employment benefit charged to the Deficit on the Provision of Services**	**24,563**
	Other employment benefit charged to the CIES	
(23,732)	Return on plan assets (excluding the amount included in the net interest expense)	16,953
85,805	Actuarial gains and losses arising on changes in financial assumptions	(61,133)
(10,535)	Other Experience	(6,467)
(100)	Adjustment to actuarial estimate contribution	(111)
51,438	Total Remeasurements Recognised in CIES	(50,758)
66,845	**Total post-employment benefit charged to the CIES**	**(26,195)**
	Movement in Reserves Statement	
(66,845)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	26,195
	Actual amount charged against the General Fund Balance for pensions in the year:	
12,105	Employer's contributions payable to scheme	13,463
(54,740)	**Total Movement in Reserves Statement**	**39,658**

31 March 2015 £000	Pensions Assets and Liabilities Recognised in the Balance Sheet	31 March 2016 £000
352,521	Fair Value of Employer Assets	349,105
(610,397)	Present Value of Funded Liabilities	(566,520)
(21,146)	Present Value of Unfunded Liabilities	(21,949)
(279,022)	**Total**	**(239,364)**

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £239.4m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, see Note 16, page 44. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

31 March 2015 £000	Reconciliation of the Fair Value of the Scheme Assets	31 March 2016 £000
314,791	Opening fair value of Scheme Assets	352,521
13,513	Interest Income	11,316
	Remeasurement gain / (loss)	
23,732	Return on plan assets, excluding the amount included in the net interest expense	(16,953)
(1,262)	Effect of Settlements	(203)
12,105	Contributions from Employer	13,463
100	Adjustment for Actuarial estimated Employer Contributions	111
3,308	Contributions from Employees	3,617
(13,766)	Benefits Paid	(14,767)
352,521	**Closing Fair Value of Scheme Assets**	**349,105**

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

31 March 2015 £000	Reconciliation of Present Value of Scheme Liabilities (defined benefit obligation)	31 March 2016 £000
539,073	Opening Liability at 1 April	631,543
-	Contribution Adjustment	-
12,748	Current Service Cost	17,319
22,879	Interest Cost	20,287
3,308	Contributions from Scheme Participants	3,617
85,805	Actuarial gains/losses arising from changes in financial assumptions	(61,133)
(10,535)	Other experience	(6,467)
(8,033)	Liabilities Extinguished on Settlements	(1,931)
64	Past Service Costs including curtailments	1
(13,766)	Benefits Paid	(14,767)
631,543	**Closing Liability at 31 March**	**588,469**

The following table details the composition of the Scheme Assets into classes that distinguish the nature and risks of those assets. All of the assets have quoted prices in active markets apart from the asset category Private Equity, Investment Funds and Unit Trusts.

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31 March 2015 £000	Local Government Pension Scheme Assets comprised	31 March 2016 £000
	Equity Securities	
34,915	Consumer	8,154
21,612	Manufacturing	6,822
9,932	Energy and Utilities	5,953
28,831	Financial Institutions	12,923
17,163	Health and Care	5,562
15,939	Information Technology	2,802
128,392	Sub-total equity	42,216
24,993	**Private Equity**:	27,141
	Investment Funds and Unit Trusts	
108,596	Equities	189,720
53,750	Bonds	52,826
26,227	Other	30,051
188,573	Sub-total Investment Funds and Unit Trusts	272,597
10,563	**Cash and Cash Equivalents**	7,151
352,521	**Total Assets**	**349,105**

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

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 2013.

The significant assumptions used by the actuary are shown in the following table.

31 March 2015	Long-term expected rate of return on assets in the scheme	31 March 2016
3.2%	Equity Investments	3.5%
3.2%	Bonds	3.5%
3.2%	Property	3.5%
3.2%	Cash	3.5%
	Mortality Assumptions	
	Longevity at 65 for Current Pensioners:	
22.5	Men (years)	22.5
24.5	Women (years)	24.5
	Longevity at 65 for Future Pensioners:	
24.4	Men (years)	24.4
26.9	Women (years)	26.9
	Financial Assumptions	
2.4%	Rate of inflation	2.2%
2.4%	Rate of increase in pensions	2.2%
4.3%	Rate of increase in salaries	4.2%
3.2%	Rate for discounting scheme liabilities	3.5%
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%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The impact of those assumptions are shown in Note 45 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty.

Impact on the Council's Cash Flows

The Council's contribution to the fund is independently determined by the fund actuary. The actuary undertook the triennial valuation of the fund during 2013, and their recommendations have been implemented from April 2014. The actuary has recommended a combination of a lower employer contribution percentage (from 17.6% in 2013/14 to 16.3%) along with a cash lump sum into the fund. The Council anticipates to pay £11.7m expected contributions to the scheme in 2016/17 along with a lump sum cash payment of £2.3m. This helps maintain contributions as payrolls decline. These contributions were provided for in the Council's Medium Term Financial Strategy (MTFS). Future contributions will depend on demographic factors, investment returns, and changes in the legislation which governs the scheme. The actuary will be carrying out the next triennial valuation of the fund during 2016 the results of which will be available in time for the 2017/18 financial year.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The weighted average duration of the defined benefit obligation for active members is 26.2 years, deferred members 23.7 years and pensioner members 12.4 years.

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 following table.

2014/15 Number of Employees	**Remuneration Band**	**2015/16 Number of Employees**
72	£50,000 - £54,999	62
37	£55,000 - £59,999	39
26	£60,000 - £64,999	22
22	£65,000 - £69,999	26
12	£70,000 - £74,999	15
8	£75,000 - £79,999	15
7	£80,000 - £84,999	8
7	£85,000 - £89,999	7
2	£90,000 - £94,999	3
3	£95,000 - £99,999	4
1	£100,000 - £104,999	1
2	£110,000 - £114,999	-
1	£115,000 - £119,999	1
2	£120,000 - £124,999	2
-	£130,000 - £134,999	1
1	£140,000 - £144,999	1
1	£145,000 - £149,999	-
1	£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 Council has a Pay Policy Statement approved by Council for each financial year setting out the policies relating to the remuneration of its chief officer, the remuneration of its lowest paid employees and the relationship between the remuneration of its chief officers and the remuneration of its employees who are not chief officers. The Pay Policy Statement for 2015/16 was approved on 4 March 2015.

Shared Senior Officers

The Council has two shared senior officer posts with Cambridgeshire County Council. The associated costs and income to the Council are detailed below. These reflect transactions between the two councils, including fees, and do not necessarily reflect amounts received by the individuals themselves. As the Chief Executive's employment contract is with the Council, their full salary for the shared post is disclosed in the Senior Employees Remuneration table on the next page.

- The Director of Public Health appointed on 1 March 2015 is a joint appointment with Cambridgeshire County Council and the Council pays a fixed contribution to Cambridgeshire County Council (CCC) for the salary. The cost to the service in 2015/16 was £52,332 (2014/15 £4,361).
- The Chief Executive is being seconded part time to CCC for a year from 19 October 2015, who contribute half the salary costs. The income to the Council for 2015/16 was £49,348 (2014/15 Nil).

Senior Employees Remuneration

In 2014/15 the second part of the senior management restructure was implemented, this followed on from the first senior management restructure of November 2013. Disclosure covers the full year, the following tables include information relating to the first phase of the senior management restructure, and the second phase of the restructure which was implemented in March 2015. The following table shows the remuneration paid to the Council's senior employees, the salary reflecting the actual amounts paid in the period and includes fees, allowances and basic arrears.

Post Holder	Year	Salary[1]	Arrears	Compensation for loss of Office	Election duties[2]	Total Remuneration (exc. Pension contributions)	Pension Contributions (employers)[3]	Total Remuneration (inc. Pension contributions)
Chief Executive	2015/16	£169,106	-	-	£4,447	**£173,553**	£27,514	**£201,067**
G Beasley	*2014/15*	*£169,265*	-	-	*£5,000*	*£174,265*	*£27,738*	*£202,003*
Corporate Director: Resources	2015/16	£140,058	-	-	£4,750	**£144,808**	£22,844	**£167,652**
• The post holder was Executive Director Resources until 1 March 2015	*2014/15*	*£140,217*	-	-	*£1,450*	*£141,667*	*£23,004*	*£164,671*
Corporate Director: People & Communities	2015/16	£134,081	-	-	-	**£134,081**	£21,868	**£155,949**
• 2014/15 the post holder was Director of Communities until 1 March 2015	*2014/15*	*£116,095*	-	-	*£200*	*£116,295*	*£19,060*	£135,355
Corporate Director: Growth & Regeneration	2015/16	£120,345	-	-	£200	**£120,545**	£19,616	**£140,161**
	2014/15	*£120,345*	-	-	-	*£120,345*	*£19,616*	£139,961
Director of Governance	2015/16	£96,844	-	-	£3,450	**£100,294**	£15,795	**£116,089**
	2014/15	*£95,475*	-	-	*£2,270*	*£97,745*	*£15,562*	£113,307

1. Salary reflects actual amounts paid in the relevant period, and includes fees & allowances plus basic arrears. It reflects any deductions from pay, eg car parking charges which are deducted directly from earnings

2. Payment for election duties depend on the elections overseen in the year. During 2014/15 there were European Elections as well as local elections, during 15/16 there was a General Election as well as local elections.

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

N.B There were no Bonuses, Expenses Allowances, or Benefits in Kind payable during the 2015/16 or 2014/15.

The previous table reflects the current senior management structure. The following table includes senior employees no longer with the Council, but paid during 2014/15 or 2015/16.

Post Holder	Year	Salary[1]	Arrears	Compensation for loss of Office	Election duties[2]	Total Remuneration (exc. Pension contributions)	Pension Contributions (employers)[3]	Total Remuneration (inc. Pension contributions)
Executive Director: Children's Services	2015/16	-	-	-	-	**-**	-	**-**
• The post holder was Executive Director: Children's services until 1 March 2015	*2014/15*	*£113,818*	-	-	*£200*	*£114,018*	*£18,677*	*£132,695*
Executive Director of Adult Social Care, Health and Well Being	2015/16	-	-	-	-	**-**	-	**-**
• 2014/15 The post holder was Executive Director of Adult Social Care Health and Well Being until 15 March 2015	*2014/15*	*£128,653*	-	*£49,929*	*£200*	*£178,782*	*£21,112*	*£199,894*

1. Salary reflects actual amounts paid in the relevant period, and includes fees & allowances plus basic arrears. It reflects any deductions from pay, eg car parking charges which are deducted directly from earnings

2. Payment for election duties depend on the elections overseen in the year. During 2014/15 there were European Elections as well as local elections, during 15/16 there was a General Election as well as local elections.

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

N.B There were no Bonuses, Expenses Allowances, or Benefits in Kind payable during the 2015/16 or 2014/15.

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9 Comprehensive Income and Expenditure Statement – Other Operating Income and Expenditure

2014/15	**Other Operating Income & Expenditure**	**2015/16**
£000		**£000**
445	Parish Council Precepts	514
593	Drainage & Flood Levies	601
2	Payments to the Government Housing Capital Receipts Pool (Note 16)	3
9	Net Losses on Disposal of Non-Current Assets	2,103
(1,022)	Gains on Right To Buy Receipts	(1,119)
27	**Total**	**2,102**

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

2014/15 *£000*	Financing & Investment Income & Expenditure	2015/16 £000
13,233	Interest Payable & Similar Charges (Note 28)	15,053
(239)	Interest Receivable & Similar Income (Note 28)	(343)
9,366	Pension Interest Cost & Expected Return on Pension Assets (Note 7)	8,971
1,549	(Gains) / Losses on Trading Operations - (Note 11)	(888)
1,898	(Gains) / Losses in Fair Value of Investment Properties (Note 19)	564
614	Impairment of Current Assets and Long Term Debtors	873
30,081	De-recognition of Subsidiary Assets	3,143
56,502	**Total**	**27,373**

De-recognition of Subsidiary Assets represents the net Assets removed from the Council's balance sheet as a result of schools transferring to Academy status.

11 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.

The Environment Capital line incorporates a range of schemes which are designed to both generate a profit for the Council and deliver aspects of the Council's Environment Capital vision.

Trading Operations 2015/16	Expenditure £000	Income £000	Deficit / (Surplus) £000
Industrial Properties	369	(1,498)	(1,129)
Commercial Properties	654	(1,775)	(1,121)
Market Properties	356	(407)	(51)
Total for Properties	**1,379**	**(3,680)**	**(2,301)**
Westcombe Industries	1,130	(644)	486
Environment Capital	1,696	(1,606)	90
Other Traded Services	**2,826**	**(2,250)**	**576**
Sub Total	**4,205**	**(5,930)**	**(1,725)**
Capital Charges Adjustment	837	-	837
Total for Trading Units	**5,042**	**(5,930)**	**(888)**

Trading Operations 2014/15	*Expenditure £000*	*Income £000*	*Deficit / (Surplus) £000*
Industrial Properties	*529*	*(1,862)*	*(1,333)*
Commercial Properties	*793*	*(1,690)*	*(897)*
Market Properties	*327*	*(372)*	*(45)*
Total for Properties	*1,649*	*(3,924)*	*(2,275)*
Westcombe Industries	*1,188*	*(1,053)*	*135*
Environment Capital	*4,509*	*(1,369)*	*3,140*
Other Traded Services	*5,697*	*(2,422)*	*3,275*
Sub Total	*7,346*	*(6,346)*	*1,000*
Capital Charges Adjustment	*549*	*-*	*549*
Total for Trading Units	*7,895*	*(6,346)*	*1,549*

Westcombe Industries provides employment opportunities for disabled people. The remaining trading operations relate to the Council's property portfolio.

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

2014/15 *£000*	Taxation & Non-Specific Grant Income	2015/16 £000
(58,947)	Council Tax Income	(60,204)
237	NDR Levy Payment	446
6,555	NDR Tariff Payment	6,680
(45,098)	NDR Income	(47,141)
(97,253)	**Total Taxation Income**	**(100,219)**
	Non-Specific Government Grants	
(45,972)	Revenue Support Grant	(34,319)
(663)	Council Tax Freeze Grant	(677)
(4,869)	New Homes Bonus	(6,458)
(1,510)	Section 31 Grant	(1,979)
(70)	Local Services Support Grant	(41)
-	NDR Additional Growth Pilot	(1,412)
(53,084)	**Total Non-Specific Grants**	**(44,886)**
(29,728)	Capital Grants & Contributions (Note 25)	(12,003)
(180,065)	**Total Income**	**(157,108)**

13 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 15 on reporting for resources allocation decisions.

The current Register of Members' Interest is open to public inspection at the Town Hall during office hours (2015/16 Register of Members Interests is also available) and the details of Members Interests are disclosed in the Council area by Member on the Council's website.

Of the 57 Councillors seven declarations of related party interests were not received by 21 June 2016. Of these, one is still a councillor after the May 2016 elections.

Members of the Council have direct control over the Council's financial and operating policies. The total members' allowances paid in 2015/16 is shown in Note 4. Members have been consulted over potential related parties and five Councillors are directors of companies that have transacted with the Council in the last financial year. These are normal business transactions and the Councillors have not been involved in the decision to award the contracts. These companies include a construction company, a property company, two media companies, a training company and Peterborough Environmental City Trust. The transactions with all these companies are included in the following table.

Organisation	Member	Cost to / (Receipt to) the Council £000	Balance Outstanding £000
Nadeem Construction Ltd	Cllr M Nadeem	160	14
Peterborough Environmental City Trust	Cllr N Sandford	66	15
Broadway Properties	Cllr J Peach	13	-
Worldwide Training Partnership	Cllr S Scott	30	-
Cap Radio Production and Media Buying Services Ltd	Cllr W Fitzgerald	2	-
Peterborough Community Radio Ltd	Cllr W Fitzgerald	(2)	-

As part of its normal business operations the Council has relationships with other local authorities, these include the provision of legal services and regulatory services to Rutland County Council, legal services to Fenland District Council and a shared internal audit service with Cambridge City Council and South Cambridgeshire District Council. It provides planning policy services to Fenland District Council, North Kesteven District Council and East Cambridgeshire District Council and neighbourhood planning services to North Kesteven District Council and West Lindsey District Council. In January 2012 the Council entered into a framework agreement for solar panels installations which in 2015/16 was accessed by Colchester Borough Council, Leicester City Council and Luton Borough Council. The Council also has the joint school broadband regional consortia E2BN with other East of England Authorities and other services with Cambridgeshire County Council including Ecological Services, Flood and Water Services and 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 the 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.

The Mayor of Peterborough's Charity Fund has been registered with the Charity Commission in this financial year as an unincorporated association. The charity has a long established tradition involving the Mayor and Mayor's charity committee in organising and participating in a wide range of fundraising events during the Mayoral year. The proceeds are gifted to a charity or charities of the Mayor's choice. In 2015/16 the amount raised was £35k.

Where the Council has substantial interest in companies and relevant transactions and balances these are detailed in Note 14.

Members and officers are appointed by the council as representatives to various local and national bodies where related party transactions could arise. The complete List of Outside Bodies is in the Council area of the Council's website (http://democracy.peterborough.gov.uk/mgListOutsideBodiesByCategory.aspx?bcr=1) and is also available for public inspection at the Town Hall during office hours. The following tables detail the expenditure, included in the cost of services in the Comprehensive Income and Expenditure Statement, made by the Council to those organisations.

Related Parties Expenditure - 2015/16

Organisation	Council Representative	Cost to the Council £000	Balance Outstanding £000
Local Government Association (LGA)	Cllr J Holdich Cllr W Fitzgerald Cllr M Jamil Cllr G Elsey	44	-
Eastern Shires Purchasing Organisation	Cllr J Holdich Cllr D Seaton	184	-
Cross Keys Homes	Cllr W Fitzgerald Cllr J Holdich	472	89
Greater Cambridgeshire & Greater Peterborough Local Enterprise Partnership	Cllr J Holdich	33	-
Opportunity Peterborough	Cllr J Holdich Cllr W Fitzgerald Cllr P Hillier	991	87
P'boro and Stamford NHS Foundation Trust	Cllr W Fitzgerald	64	-
Vivacity	Cllr L Serluca Cllr G Casey	2,605	32
North Level Drainage Board	Cllr J Holdich Cllr P Hillier Cllr J Okonkowski Cllr J Stokes Cllr R Brown	286	-
Peterborough Association for the Blind	Cllr J Fox	6	-
Welland and Deeping Internal Drainage Board	Cllr J Holdich	156	-
Italian Community Assn.	Cllr B Rush M D'Andrea	14	-
Youth Justice Board	no representative listed	18	1
London Stanstead Cambridge Consortium	Cllr J Holdich	8	-
Woodston Community Association	Cllr L Serluca	8	-
Cambridgeshire and Peterborough Fire Authority	Cllr D Over Cllr J Peach Cllr M Jamil Cllr C Swift	5	-

Related Parties Expenditure - 2014/15 Comparators

Organisation	*Council Representative*	*Cost to the Council £000*	*Balance Outstanding £000*
Local Government Association (LGA)	*Cllr M Cereste Cllr M Lee Cllr G Elsey Cllr M Jamil*	*82*	*2*
Eastern Shires Purchasing Organisation	*Cllr J Holdich Cllr D Seaton*	*222*	*33*
Cross Keys Homes	*Cllr W Fitzgerald Cllr J Holdich*	*361*	*43*
Greater Cambridgeshire & Greater Peterborough Local Enterprise Partnership	*Cllr M Cereste*	*33*	*-*
Opportunity Peterborough	*Cllr M Cereste*	*1,112*	*25*

Organisation	*Council Representative*	*Cost to the Council £000*	*Balance Outstanding £000*
	Cllr G Elsey *Cllr J Holdich*		
P'boro and Stamford NHS Foundation Trust	*Cllr D Lamb*	*246*	*-*
Vivacity	*Cllr L Serluca* *Cllr G Casey*	*3,352*	*16*
North Level Drainage Board	*Cllr J Fox* *Cllr P Hiller* *Cllr J Holdich*	*284*	*-*
Peterborough Association for the Blind	*No current representative*	*4*	*-*
Welland and Deeping Internal Drainage Board	*Cllr J Holdich*	*153*	*-*
Italian Community Assn.	*Cllr B Rush* *Cllr C Swift* *M D'Andrea*	*18*	*-*

The Council also received income from some of the organisations. The following tables detail the amounts included in the Comprehensive Income and Expenditure Statement.

Related Parties – Income – 2015/16

Organisation	**Council Representative**	**Receipt to the Council £000**	**Balance Outstanding £000**
Cross Keys Homes	Cllr W Fitzgerald Cllr J Holdich	1,372	816
Opportunity Peterborough	Cllr J Holdich Cllr W Fitzgerald Cllr P Hillier	9	-
P'boro and Stamford NHS Foundation Trust	Cllr W Fitzgerald	99	-
Vivacity	Cllr L Serluca Cllr G Casey	1,230	46
Safer Peterborough Partnership	no representative listed	13	-
Peterborough Investment Partnership	Cllr P Hillier Cllr J Holdich	1,700	-*
Empower Community Interest Company Limited	Cllr G Elsey	28	5
Peterborough Cathedral Trust	Cllr D Over	6	6

Loan notes due to the Council, accounted for as Deferred Capital Receipts, see Note 16, page 44, and Note 28 page 56.

Related Parties – Income – 2014/15 Comparators

Organisation	*Council Representative*	*Receipt to the Council £000*	*Balance Outstanding £000*
Cross Keys Homes	*Cllr W Fitzgerald* *Cllr J Holdich*	*2,874*	*248*
Opportunity Peterborough	*Cllr M Cereste* *Cllr G Elsey* *Cllr J Goodwin*	*49*	*34*
P'boro and Stamford NHS Foundation Trust	*Cllr D Lamb*	*67*	*164*
Vivacity	*Cllr L Serluca* *Cllr G Casey*	*1,196*	*424*

14 Interest in Companies and Partnerships

Opportunity Peterborough Limited

The registered name of the company is Opportunity Peterborough Limited and is a wholly owned subsidiary of Peterborough City Council.

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 for 2015/16 was £197,000 (£330,000 2014/15). There was no additional funding for seconded staff in 2015/16 (£12,440 2014/15). These contributions are included within the Council's Net Cost of Services. During the year the Council provided office space with a rental value of £36,266 on a rent free basis.

The net assets of the Company at 31 March 2016 are £221,363 (31 March 2015, £195,794), and the Company made a net surplus of £25,569 in 2015/16 (2014/15, surplus of £37,374). The accounts can be obtained from Opportunity Peterborough, Eco Innovation Centre, City Road, Peterborough, Cambridgeshire PE1 1SA

Blue Sky Peterborough Limited

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. As at 31 March 2016 there have been no transactions through the company.

Peterborough Investment Partnership LLP (PIP)

The registered name of the limited liability partnership is Peterborough Investment Partnership LLP and the members of the limited liability partnership are Peterborough City Council and Lucent Peterborough Partnership SARL. The Partnership is 50:50 controlled by the Council and Lucent Peterborough Partnership SARL and was incorporated on 24 December 2014 The Partnership exists to secure regeneration of key city centre sites with capital market investors. The net liabilities of the Partnership at 31 March 2016 are £305,037 (no assets at 31 March 2015) and the Partnership made a net loss in year of £305,237 (no transactions at 31 March 2015), in accordance with its business plan. The accounts can be obtained from Peterborough Investment Partnership LLP Eversheds House, 70 Great Bridgewater Street, Manchester, M1 5ES.

Empower Community Interest Company (CIC)

The registered name of the company is Empower Peterborough Community Interest Company and the members are Empower Community Management LLP and Peterborough City Council. The company is 50:50 controlled by the Council and Empower Community Management LLP and was incorporated on the 21 July 2015. The company was incorporated as part of the strategic partnership to deliver solar panel on residential properties and it acts as an agent to ECS Peterborough 1 LLP with the responsibility of marketing the solar panel programme. The net assets of the company are £27,432 and it made a profit in year of £27,430. The accounts can be obtained from Empower Peterborough Community Interest Company, Norose Company Secretarial Services Ltd, 3 More London Riverside, London, SE1 2AQ.

15 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement (CIES) is that specified by the Service Reporting Code of Practice. However, the Council monitors its spending against budget regularly throughout the financial year and reports forecasts to the Cabinet. These reports are based on the Council's organisational structure. 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 CIES)
- 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 2015/16	**Public Health £000**	**Chief Executives £000**	**People & Communities £000**	**Governance £000**	**Growth & Regeneration £000**	**Resources £000**	**2015/16 Total £000**
Fees, charges & other service income	(2)	(48)	(56,417)	(7,756)	(4,366)	(29,225)	(97,814)
Government Grants	(10,215)	-	(141,682)	(538)	(1,181)	(75,183)	(228,799)
Total Income	(10,217)	(48)	(198,099)	(8,294)	(5,547)	(104,408)	(326,613)
Employee expenses	660	261	125,206	7,538	4,229	6,582	144,476
Other service expenses	9,398	97	148,146	5,807	12,780	155,931	332,159
Total Expenditure	10,058	358	273,352	13,345	17,009	162,513	476,635
Net Expenditure	(159)	310	75,253	5,051	11,462	58,105	150,022

Reconciliation of Portfolio Income & Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

Net Expenditure in the Portfolio Analysis	150,022
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	44,452
Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement	(30,974)
Cost of Services in Comprehensive Income and Expenditure Statement	163,500

*Restated Portfolio Income & Expenditure for 2014/15**	*Public Health £000*	*Chief Executives £000*	*People & Communities £000*	*Governance £000*	*Growth & Regeneration £000*	*Resources £000*	*2014/15 Total £000*
Fees, charges & other service income	*(22)*	-	*(28,496)*	*(7,199)*	*(3,097)*	*(30,304)*	*(69,118)*
Government Grants	*(9,445)*	-	*(157,232)*	*(275)*	*(1,655)*	*(82,047)*	*(250,654)*
Total Income	*(9,467)*	-	*(185,728)*	*(7,474)*	*(4,752)*	*(112,351)*	*(319,772)*
Employee expenses	*1,033*	*275*	*121,760*	*7,743*	*4,375*	*5,572*	*140,758*
Other service expenses	*7,873*	*196*	*139,437*	*5,960*	*13,793*	*169,794*	*337,053*
Total Expenditure	*8,906*	*471*	*261,197*	*13,703*	*18,168*	*175,366*	*477,811*
Net Expenditure	*(561)*	*471*	*75,469*	*6,229*	*13,416*	*63,015*	*158,039*

Reconciliation of Portfolio Income & Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

Net Expenditure in the Portfolio Analysis	*158,039*
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	*40,519*
Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement	*(36,130)*
Cost of Services in Comprehensive Income and Expenditure Statement	*162,428*

**2014/15 figures have been restated to reflect the organisational structure in place in 2015/16*

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 2015/16	**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	(97,533)	(27,941)	8,469	36,520	**(80,485)**	(9,588)	(90,073)
Interest & Investment Income	(281)	-	281	-	**-**	(343)	(343)
Income from Council Tax	-	-	-	-	**-**	(60,204)	(60,204)
NDR Income	-	-	-	-	**-**	(47,141)	(47,141)
Government Grants & Contributions	(228,799)	-	-	-	**(228,799)**	(56,887)	(285,686)
Total Income	**(326,613)**	**(27,941)**	**8,750**	**36,520**	**(309,284)**	**(174,163)**	**(483,447)**
Employee Expenses	144,476	1,439	(599)	-	**145,316**	9,570	154,886
Other Service Expenses	320,751	(4,142)	(27,717)	-	**288,892**	11,131	300,023
Support Services Recharges	-	28,001	-	(36,520)	**(8,519)**	446	(8,073)
Depreciation, Amortisation & Impairment	-	47,095	-	-	**47,095**	4,510	51,605
Interest Payments	11,408	-	(11,408)	-	**-**	15,053	15,053
Precepts & Levies	-	-	-	-	**-**	1,115	1,115
Payments to Housing Capital Receipts Pool	-	-	-	-	**-**	3	3
Loss on Disposal of Non-Current Assets	-	-	-	-	**-**	4,702	4,702
Total Expenditure	**476,635**	**72,393**	**(39,724)**	**(36,520)**	**472,784**	**46,530**	**519,314**
Deficit / (Surplus) on the Provision of Services	**150,022**	**44,452**	**(30,974)**	**-**	**163,500**	**(127,633)**	**35,867**

[1] Amounts not reported to Management are accounting entries over which the Management have no control ie IAS19 pension adjustment the accumulated compensated absences adjustment, capital charges and capital grants.

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

Reconciliation to Subjective Analysis 2014/15 – Comparative Figures Table	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	(68,920)	6,637	6,360	9,320	(46,603)	(9,262)	(55,865)
Interest & Investment Income	(198)	-	198	-	-	(239)	(239)
Income from Council Tax	-	-	-	-	-	(58,947)	(58,947)
NDR Income	-	-	-	-	-	(45,098)	(45,098)
Government Grants & Contributions	(250,654)	(5,859)	7,112	-	(249,401)	(82,812)	(332,213)
Total Income	(319,772)	778	13,670	9,320	(296,004)	(196,358)	(492,362)
Employee Expenses	140,758	(6,316)	(471)	-	133,971	9,836	143,807
Other Service Expenses	323,909	(5,807)	(36,185)	-	281,917	14,521	296,438
Support Services Recharges	-	-	-	(9,320)	(9,320)	-	(9,320)
Depreciation, Amortisation & Impairment	-	51,864	-	-	51,864	2,448	54,312
Interest Payments	13,144	-	(13,144)	-	-	13,233	13,233
Precepts & Levies	-	-	-	-	-	1,038	1,038
Payments to Housing Capital Receipts Pool	-	-	-	-	-	2	2
Loss on Disposal of Non-Current Assets	-	-	-	-	-	31,744	31,744
Total Expenditure	477,811	39,741	(49,800)	(9,320)	458,432	72,822	531,254
Deficit / (Surplus) on the Provision of Services	158,039	40,519	(36,130)	-	162,428	(123,536)	38,892

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16 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.

- General Fund Balance - is the statutory fund into which all the receipts of the Council are required to paid in, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.
- Capital Receipts Reserve – holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure.
- Capital Grants Unapplied Account – holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is not restricted by grant terms as to the capital expenditure against which it can be applied and / or the financial year in which this can take place.

Usable Reserves are those reserves that can be applied to fund expenditure or reduce local taxation, however the Council is restricted in the use of these as the schools balances are held by schools and can only be spent by schools. The Capital Grants Unapplied Account can only be used to finance the Capital Programme and the General Fund is used by the Council to maintain a prudent level of reserves.

Unusable Reserves are those reserves that absorb the timing differences arising from different accounting arrangements.

Adjustments between Accounting Basis and Funding Basis under Regulations 2015/16	Usable Reserves General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the CIES:				
Depreciation & impairment of non-current assets	(26,400)	-	-	26,400
Revaluation losses on Property Plant and Equipment	(13,153)	-	-	13,153
Movements in the fair value of Investment Properties	(564)	-	-	564
Amortisation of intangible assets	(4,475)	-	-	4,475
Capital grants and contributions	16,656	-	-	(16,656)
Revenue expenditure funded from capital under statute	(7,969)	-	-	7,969
Impairment of Financial Asset (Loans)	(71)			71
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(7,845)	-	-	7,845
Insertion of items not debited or credited to the CIES:				
Statutory provision for the financing of capital investment	5,378	-	-	(5,378)
Capital expenditure charged against the General Fund	-	-	-	-
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants & contributions unapplied from the CIES	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	440	(440)
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES	2,010	(2,010)	-	-
Use of the reserve to finance new capital expenditure	-	1	-	(1)
Capital Receipts used for the repayment of loans		759		(759)
Contribution from the reserve to finance the payments to the Government capital receipts pool.	(3)	3	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	(4)	-	4
Adjustments involving the Deferred Capital Receipts Reserve				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	1,700	-	-	(1,700)
Adjustments involving the Financial Instruments Adjustment Account:				
Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements.	193	-	-	(193)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES	(24,563)	-	-	24,563
Employer's pensions contributions & direct payments to pensioners payable in the year	13,463	-	-	(13,463)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	689	-	-	(689)
Amount by which NDR income credited to the CIES is different from NDR income calculated for the year in accordance with statutory requirements	1,494	-	-	(1,494)
Adjustment involving the Accumulating Compensated Absences Adjustment Account:				
Adjustments for short-term compensated absences	690	-	-	(690)
Total Adjustments	**(42,770)**	**(1,251)**	**440**	**43,581**

Adjustments between Accounting Basis and Funding Basis under Regulations 2014/15	*Usable Reserves* General Fund Balance	*Usable Reserves* Capital Receipts Reserve	*Usable Reserves* Capital Grants Unapplied	*Movement in Unusable Reserves*
	£000	*£000*	*£000*	*£000*
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the CIES:				
Depreciation & impairment of non-current assets	*(23,340)*	*-*	*-*	*23,340*
Revaluation losses on Property Plant and Equipment	*(19,194)*	*-*	*-*	*19,194*
Movements in the fair value of Investment Properties	*(1,898)*	*-*	*-*	*1,898*
Amortisation of intangible assets	*(1,384)*	*-*	*-*	*1,384*
Capital grants and contributions	*35,019*	*-*	*-*	*(35,019)*
Revenue expenditure funded from capital under statute	*(8,597)*	*-*	*-*	*8,597*
Impairment of Financial Asset (Loans)	*-*			*-*
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	*(31,984)*	*-*	*-*	*31,984*
Insertion of items not debited or credited to the CIES:				
Statutory provision for the financing of capital investment	*10,916*	*-*	*-*	*(10,916)*
Capital expenditure charged against the General Fund	*-*	*-*	*-*	*-*
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants & contributions unapplied from the CIES	*669*	*-*	*(669)*	*-*
Application of grants to capital financing transferred to the Capital Adjustment Account	*-*	*-*	*542*	*(542)*
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES	*2,903*	*(2,903)*	*-*	*-*
Use of the reserve to finance new capital expenditure	*-*	*2,905*	*-*	*(2,905)*
Capital Receipts used for the repayment of loans		*-*		*-*
Contribution from the reserve to finance the payments to the Government capital receipts pool.	*(2)*	*2*	*-*	*-*
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	*-*	*(4)*	*-*	*4*
Adjustments involving the Deferred Capital Receipts Reserve				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	*-*	*-*	*-*	*-*
Adjustments involving the Financial Instruments Adjustment Account:				
Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements.	*7*	*-*	*-*	*(7)*
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES	*(15,407)*	*-*	*-*	*15,407*
Employer's pensions contributions & direct payments to pensioners payable in the year	*12,105*	*-*	*-*	*(12,105)*
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	*911*	*-*	*-*	*(911)*
Amount by which NDR income credited to the CIES is different from NDR income calculated for the year in accordance with statutory requirements	*(785)*	*-*	*-*	*785*
Adjustment involving the Accumulating Compensated Absences Adjustment Account:				
Adjustments for short-term compensated absences	*253*	*-*	*-*	*(253)*
Total Adjustments	*(39,808)*	*-*	*(127)*	*39,935*

- **Summary of Usable and Unusable Reserves**

The table below shows the movement on each reserve to give total balances as at 31 March for usable and unusable reserves.

1 April 2014 £000	*Movement £000*	*31 March 2015 £000*	**Summary of Usable and Unusable Reserves**	**1 April 2015 £000**	**Movement £000**	**31 March 2016 £000**
			Usable Reserves			
(6,000)	*-*	*(6,000)*	General Fund Balance	(6,000)	-	(6,000)
(7,119)	*830*	*(6,289)*	School's Balances	(6,289)	106	(6,183)
(21,452)	*(1,746)*	*(23,198)*	Specific Earmarked Reserves (Note 17)	(23,198)	(7,009)	(30,207)
-	*-*	*-*	Capital Receipts Reserve	-	(1,251)	(1,251)
(1,319)	*(127)*	*(1,446)*	Capital Grants Unapplied Account	(1,446)	440	(1,006)
(35,890)	*(1,043)*	*(36,933)*	**Total Usable Reserves**	**(36,933)**	**(7,714)**	**(44,647)**
			Unusable Reserves			
(110,466)	*(8,410)*	*(118,876)*	Revaluation Reserve	(118,876)	6,487	(112,389)
(101,884)	*26,082*	*(75,802)*	Capital Adjustment Account	(75,802)	34,076	(41,726)
(23)	*4*	*(19)*	Deferred Capital Receipts Reserve	(19)	(1,696)	(1,715)
481	*(7)*	*474*	Financial Instruments Adjustment Account	474	(193)	281
224,282	*54,740*	*279,022*	Pension Reserve	279,022	(39,658)	239,364
2,086	*(126)*	*1,960*	Collection Fund Adjustment Account	1,960	(2,183)	(223)
3,489	*(253)*	*3,236*	Accumulating Compensated Absences Adjustment Account	3,236	(690)	2,546
17,965	*72,030*	*89,995*	**Total Unusable Reserves**	**89,995**	**(3,857)**	**86,138**
(17,925)	*70,987*	*53,062*	**Total Usable and Unusable Reserves**	**53,062**	**(11,571)**	**41,491**

- **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.

2014/15 £000	Revaluation Reserve:	2015/16 £000
(110,466)	Balance at start of year	(118,876)
(25,089)	Upward revaluation of assets	(21,569)
5,746	Downward revaluation of assets & impairment losses not charged to the (Surplus) / Deficit on the Provision of services	24,889
1,924	Difference between fair value depreciation & historical cost depreciation	1,947
9,009	Release of revaluation gains on disposal	1,220
(118,876)	Balance at end of the year	**(112,389)**

- **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.

2014/15 £000	Capital Adjustment Account:	2015/16 £000
(101,884)	Balance at start of year	(75,802)
23,340	Charges for depreciation & Impairment	26,400
19,194	Revaluation (gains) / losses on Property, Plant & Equipment	13,153
1,898	Movement in fair market value of Investment Properties	564
1,384	Amortisation of Intangible Assets	4,475
(35,019)	Capital Grants & Contributions that have been applied to Capital Financing	(16,656)
8,597	Revenue Expenditure Funded from Capital under Statue (REFCUS)	7,969
31,984	Amounts of non-current assets written off on disposal or sales as part of the Gains / Losses on Disposal in the CIES	7,845
(10,916)	Provision for the Repayment of Debt (MRP)	(5,378)
-	Use of Capital Receipts to Repay Loans	(759)
-	Impairment of Financial Asset (Loans)	71
(542)	Application of Grants to Capital Financing from the Capital Grants Unapplied Account	(440)
(1,924)	Depreciation & Impairment written down to Revaluation Reserve	(1,947)
(9,009)	Transfer of Revaluation Reserve on disposal	(1,220)
(2,905)	Transfer from Useable Capital Receipts	(1)
(75,802)	Balance at end of the year	**(41,726)**

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- **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 settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2014/15 £000	**Deferred Capital Receipts Reserve:**	**2015/16 £000**
(23)	Balance at start of year	(19)
-	Contribution to Deferred Capital Receipts Reserve – Fletton Quays Loan Notes	(1,700)
4	Transfer to the Capital Receipts Reserve upon receipt of cash	4
(19)	Balance at end of the year	**(1,715)**

- **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.

2014/15 £000	**Financial Instruments Adjustment Account:**	**2015/16 £000**
481	Balance at start of year	474
-	Gains from Interest Not Paid on Loans Below Market Rate	(231)
(7)	Interest Paid on Short Term Loans	38
474	Balance at end of the year	**281**

- **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 resources the Council has set aside to meet benefits earned by past and current employees. 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.

2014/15 £000	**Pensions Reserve:**	**2015/16 £000**
224,282	Balance at start of year	279,022
51,438	Actuarial gains / losses on pension assets & liabilities (Note 7)	(50,758)
15,407	Reversal of items relating to Post Employment Benefits Debited / Credited to the Surplus / Deficit on the provision of Services line in the CIES (Note 7)	24,563
(12,105)	Employer's Pension Contributions & Direct Payments to Pensioners Payable in Year (Note 7)	(13,463)
279,022	Balance at end of the Year	**239,364**

- **Collection Fund Adjustment Account**

  The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and NDR income in the Comprehensive Income and Expenditure Statement as it falls due compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. For further details on the Collection Fund, see page 73.

2014/15 £000	**Collection Fund Adjustment Account:**	**2015/16 £000**
2,086	Balance at start of year	1,960
(911)	Amount by which Council Tax Income credited to the CIES is different from Council Tax Income calculated for the year in accordance with statutory requirements	(689)
785	Amount by which NDR income credited to the CIES is different from NDR income calculated for the year in accordance with statutory requirements	(1,494)
1,960	Balance at end of the Year	**(223)**

- **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.

2014/15 £000	**Accumulating Compensated Absences Adjustment Account:**	**2015/16 £000**
3,489	Balance at start of year	3,236
(253)	Amount by which officer remunerations charged to the CIES on an accruals basis is different from the remuneration chargeable in year	(690)
3,236	Balance at end of the Year (Note 35)	**2,546**

17 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 2015 £000	Transfers Out £000	Transfers In £000	Movement between Reserves £000	31 March 2016 £000	Purpose of the Earmarked Reserve
Departmental Reserves	6,717	(3,974)	1,882	(241)	4,384	These have been identified by Cabinet or Corporate Management Team and are incorporated within the Medium Term Financial Strategy for Departmental use.
Insurance	3,601	-	346	-	3,947	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	1,150	(417)	693	-	1,426	School revenue reserves put aside for funding future school capital schemes.
Future Cities	2,074	(801)	-	-	1,273	Grant funding from The Technology Strategy Board to support the 'Connected Peterborough' Future Cities Demonstrator project.
Capacity Building	8,894	(3,970)	944	241	6,109	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.
Public Health	254	(240)	510	-	524	The Public Health Grant received by the Council is ring-fenced for use on public health services only. This reserve is for any amounts of grant not spent in year due to timing difference in service delivery.
Grant Equalisation Reserve	-	(98)	12,023	-	11,925	A reserve created to defer the impact of Central Government funding reductions in order to allow a strategic approach to the realisation of savings.
Other	508	(46)	157	-	619	These include the Local Authority Mortgage Scheme, Building Control, Hackney Carriage Accounts, Salix Carbon Reduction and Parish Burial Reserves.
Total Reserves	**23,198**	**(9,546)**	**16,555**	**-**	**30,207**	

18 Property, Plant and Equipment

Property, Plant & Equipment (PPE) – 2015/16	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Heritage Assets	Surplus Assets	Assets under Construction	Total PPE
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2015 Gross Book Value	**357,852**	**34,780**	**216,964**	**4,304**	**653**	**21,529**	**82409**	**718,491**
Additions	9,720	6,389	11,270	294	-	1	36,854	64,528
Revaluation increase / (decrease) recognised in the Revaluation Reserve	6,807	-	-	(79)	35	(16,520)	-	(9,757)
Revaluation increase / (decrease) recognised in the (Surplus) / Deficit on Provision of Services	(11,223)	-	-	-	-	(2,206)	-	(13,429)
Derecognition - Disposals	(6,928)	(5,961)	-	-	-	(98)	-	(12,987)
Reclassified Assets	202	-	-	-		-	(127)	75
Assets Under Construction Completed In Year	84,853	5,707	9,200	2	-	4	(107,406)	(7,640)
At 31 March 2016	**441,283**	**40,915**	**237,434**	**4,521**	**688**	**2,710**	**11,730**	**739,281**
Accumulated Depreciation and Impairment								
At 1 April 2015	**(30,479)**	**(21,668)**	**(83,326)**	**(3,322)**	**-**	**(1,556)**	**(3,012)**	**(143,363)**
Depreciation Charge	(6,982)	(4,958)	(11,369)	-	-	-	-	(23,309)
Depreciation written out to the Revaluation Reserve	4,145	-	-	-	-	-	-	4,145
Depreciation written out to the (Surplus) / Deficit on Provision of Services	276	-	-	-	-	-	-	276
Impairment (losses) /reversals recognised in the Revaluation Reserve	597	-	-	(10)	-	1,550	-	2,137
Impairment (losses) /reversals recognised in the (Surplus) / Deficit on Provision of Services	(2,801)	-	-	(288)	-	(2)	-	(3,091)
Derecognition – Movement on Transfers	-	-	-	-	-	-	-	-
Derecognition - Disposals	2,451	5,901	-	-	-	-	-	8,352
At 31 March 2016	**(32,793)**	**(20,725)**	**(94,695)**	**(3,620)**	**-**	**(8)**	**(3,012)**	**(154,853)**
Net Book Value - At 31 March 2016	**408,490**	**20,190**	**142,739**	**901**	**688**	**2,702**	**8,718**	**584,428**
Net Book Value - At 31 March 2015	*327,375*	*13,122*	*133,638*	*983*	*653*	*19,972*	*79,395*	*575,128*

Comparative Movements in 2014/15

Property, Plant & Equipment (PPE) – 2014/15	*Other Land & Buildings*	*Vehicles, Plant & Equipment*	*Infra-structure Assets*	*Community Assets*	*Heritage Assets*	*Surplus Assets*	*Assets under Construction*	*Total PPE*
Cost or Valuation	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 April 2014 Gross Book Value	*363,955*	*29,791*	*197,596*	*4,160*	*570*	*23,132*	*46,036*	*665,240*
Additions	*6,146*	*3,610*	*19,368*	*53*	*-*	*32*	*67,658*	*96,867*
Revaluation increase / (decrease) recognised in the Revaluation Reserve	*12,766*	*-*	*-*	*92*	*83*	*-*	*-*	*12,941*
Revaluation increase / (decrease) recognised in the (Surplus) / Deficit on Provision of Services	*(19,705)*	*-*	*-*	*-*	*-*	*-*	*-*	*(19,705)*
Derecognition - Disposals	*(31,770)*	*(90)*	*-*	*-*	*-*	*(878)*	*(36)*	*(32,774)*
Reclassified Assets	*(176)*	*(237)*	*-*	*-*		*(758)*	*-*	*(1,171)*
Assets Under Construction Completed In Year	*26,638*	*1,706*	*-*	*-*	*-*	*-*	*(31,251)*	*(2,907)*
At 31 March 2015	*357,854*	*34,780*	*216,964*	*4,305*	*653*	*21,528*	*82,407*	*718,491*
Accumulated Depreciation and Impairment								
At 1 April 2014	*(29,871)*	*(17,245)*	*(73,216)*	*(3,264)*	*-*	*(2,255)*	*(352)*	*(126,203)*
Depreciation Charge	*(7,185)*	*(4,475)*	*(10,110)*	*-*	*-*	*-*	*-*	*(21,770)*
Depreciation written out to the Revaluation Reserve	*3,918*	*20*	*-*	*-*	*-*	*-*	*-*	*3,938*
Depreciation written out to the (Surplus) / Deficit on Provision of Services	*484*	*27*	*-*	*-*	*-*	*-*	*-*	*511*
Impairment (losses) /reversals recognised in the Revaluation Reserve	*2,503*	*-*	*-*	*-*	*-*	*(39)*	*-*	*2,464*
Impairment (losses) /reversals recognised in the (Surplus) / Deficit on Provision of Services	*(1,255)*	*(204)*	*-*	*(58)*	*-*	*(47)*	*(6)*	*(1,570)*
Derecognition – Movement on Transfers	*-*	*150*	*-*	*-*	*-*	*741*	*(2,688)*	*(1,797)*
Derecognition - Disposals	*927*	*59*	*-*	*-*	*-*	*44*	*34*	*1,064*
At 31 March 2015	*(30,479)*	*(21,668)*	*(83,326)*	*(3,322)*	*-*	*(1,556)*	*(3,012)*	*(143,363)*
Net Book Value - At 31 March 2015	*327,375*	*13,112*	*133,638*	*983*	*653*	*19,972*	*79,395*	*575,128*
Net Book Value - At 31 March 2014	*334,084*	*12,546*	*124,380*	*896*	*570*	*20,877*	*45,684*	*539,037*

19 Investment Properties

The rental income and operating expenses from the Council's investment properties are disclosed within the Trading Operations Note 11. 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.

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

2014/15 £000	**Investment Properties**	**2015/16 £000**
35,047	Balance at start of year	33,031
157	Subsequent Expenditure (Note 25)	1,497
(275)	Disposals	(3,040)
(1,898)	Revaluations (Note 10)	(564)
-	To / from Property, Plant and Equipment	846
66,062	Balance at end of the Year	**63,540**

The fair value of the Council's investment properties is measured annually at each reporting date. All valuations are carried out by the Council's external valuers, Wilks Head & Eve, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. There have been no change in the valuation techniques used during the year for investment properties.

The Council's investment properties are valued in accordance with the 'Fair Value Hierarchy', as follows:

- Level One – quoted prices in active markets for identical assets
- Level Two – other significant observable inputs
- Level Three – significant unobservable inputs

The fair value for investment properties (commercial units) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level Two in the fair value hierarchy.

There have been no transfers between levels one and two, and levels two and three during the year.

20 Intangible Assets

There are four items of capitalised intangibles that are individually material to the financial statements in the last financial year. These are listed below:

31 March 2015 £000	**Intangible Assets**	**Remaining Amortisation Period Years**	**31 March 2016 £000**
2,003	E-Service Software	1	835
2,335	Energy Performance Contract	5	1,807
-	Lot 3 Amey Contract	18	2,629
-	Lot 1 Viridor Contract	29	2,201
4,338	**Total**		**7,472**

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.

The carrying amount of intangible assets is amortised on a straight-line basis. The movement on Intangible Assets balances during the year is shown in the following table:

31 March 2015	Intangible Assets	31 March 2016
£000	Balance at 1 April:	**£000**
9,125	Gross Carrying Amounts	12,383
(7,183)	Accumulated Amortisation	(5,625)
1,942	**Net Carrying Amount at Start of the Year**	6,758
	Additions	
3,234	Purchases (Note 25)	2,172
2,907	Assets Under Construction Completed in Year	6,651
-	Impairment Losses Recognised in the (Surplus) / Deficit on the Provision of Services	-
(1,384)	Amortisation for the period	(4,475)
	Disposals	
(2,943)	De-recognition - Disposals	(296)
2,943	De-recognition - Disposals (Accumulated Amortisation)	179
237	Other Changes – Gross Carrying Amount	-
(178)	Other Changes - Amortisation	-
6,758	**Net Carrying Amount at the End of Year**	**10,989**
12,383	Gross Carrying Amounts	20,910
(5,625)	Accumulated Amortisation	(9,921)
6,758	**Net Carrying Amount at the End of Year**	**10,989**

21 Assets Held for Sale

The following note details assets which are surplus to the Council's service needs and classified as 'Assets Held for Sale'. Qualifying assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sales transaction rather than continued use and meet the strict 'Assets Held for Sale' criteria outlined in the Code of Practice on Local Authority Accounting.

2014/15 £000	Assets Held for Sale - Current Assets	2015/16 £000
-	Balance at 1 April:	221
221	Property, Plant and Equipment Newly Classified as Assets Held Sale - Current Asset	155
-	Revaluation Losses	-
-	Impairment Losses	-
-	Property, Plant and Equipment Declassified as Held for Sale	(201)
-	Assets Sold	(53)
	Other movements:	
-	Additions (Note 25)	33
-	Assets Under Construction Completed In Year	143
221	**Balance Outstanding**	**298**

22 Capital Commitments

As at 31 March 2016 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment. These contracts, at a budgeted cost of £32.9m, are part of the approved capital programme within the MTFS. The major commitments are:

Description of Contract / Capital Scheme	Value of contract £000	Value outstanding at 31/3/16 £000
Customer Experience Programme	350	280
Google Project	215	208
Broadband Infrastructure	2,064	670
Cardea Pavilion	1,058	514
Hampton Leys (Gardens) – Free School	21,844	18,952
St Michaels Primary School	4,052	3,172
Jack Hunt Secondary School Expansion	408	236
Infrastructure:		
Street Column Replacement	484	426
Wheel Yard – Public Realm	469	369
Bourges Boulevard Phase 2:		
Traffic Signals Works	453	317
Footpath Works	195	186
Roundabout Junction 20 Signalisation	528	265
Fengate Highway Improvements	158	158
Fletton Quays	207	155
Congestion Hotspot Improvements	121	101
Westwood Footbridge Parapet Replacements	200	113
Surface Dressing	104	102
Total	**32,910**	**26,224**

23 Revaluations

The Council has a rolling programme that ensures that all Property, Plant and Equipment is measured at current value and is revalued at least every four years. The valuations in 2015/16 were carried out by Peterborough Serco Strategic Partnership (PSSP) and Wilks Head & Eve (WHE). 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 current 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.

The table below shows the movement on the Revaluation Reserve over the last five years split over the three asset types which may be revalued during the assets life.

Revaluation Reserve see Note 16	**Other Land & Buildings**	**Vehicles, Plant & Equipment**	**Assets Held for Sale***	**Total**
Valued at current value as at:	**£000**	**£000**	**£000**	**£000**
31 March 2016	8,100	(21)	(14,566)	(6,487)
31 March 2015	8,424	16	(30)	8,410
31 March 2014	10,037	(6)	(2,920)	7,111
31 March 2013	(4,801)	(6)	(292)	(5,099)
Prior 31 March 2012	88,354	16	20,084	108,454
Total Valuation	**110,114**	**(1)**	**2,276**	**112,389**

* *Assets Held for Sale includes values relating to Surplus Assets*

24 Impairment Losses

Impairment losses and impairment reversals charged to the Surplus / Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure are disclosed in Note 18 which reconcile the movement over the year for Property, Plant, and Equipment (PPE) and Intangible Asset balances respectively.

During 2015/16 £3.1m of impairment losses have been charged to the Cost of Services in the Comprehensive Income and Expenditure Statement. This capital expenditure has been spent on improving the Council's assets which has not significantly increased the value of each individual building, under the current valuation methodology.

25 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table (including the value of assets acquired under finance leases), together with the resources that have been used to finance the expenditure.

2014/15 £000		**2015/16 £000**
365,748	**Opening Capital Financing Requirement**	422,532
29,208	Property, Plant and Equipment (Note 18)	27,674
67,658	Assets Under Construction (Note 18)	36,854
157	Investment Properties (Note 19)	1,497
-	Assets Held for Sale (Note 21)	33
3,234	Intangible Assets (Note 20)	2,172
8,597	Revenue Expenditure Funded from Capital under Statute (REFCUS)	7,969
-	Loans to Third Parties (Note 32)	5,569
(2,688)	Abortive costs of Wind & Solar Project	-
	Sources of Finance	
(35,561)	Capital Grants & Contributions	(17,096)
(10,916)	Sums set aside from revenue (inc.direct revenue financing & Minimum Revenue Provision (MRP))	(5,378)
-	Capital Receipts used to repay MRP	(759)
(2,905)	Capital Receipts	(1)
422,532	**Closing Capital Financing Requirement**	**481,066**
	Explanation of movements in year	
70,105	Increase in underlying need to borrow:	64,562
284	Assets acquired under finance leases	109
	Decrease in underlying need to borrow:	
(10,916)	MRP	(5,378)
-	Capital Receipts used to repay MRP	(759)
(2,688)	Abortive costs of Wind & Solar Project	-
56,785	**Increase in Capital Financing Requirement**	**58,534**

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.

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure incurred during the year that may be classified as capital for funding purposes. As this expenditure does not form an asset to be carried on the Council's balance sheet it is charged to the relevant service line in the Comprehensive Income and Expenditure Statement. For 2015/16 this expenditure is £8.0m compared with £8.6m in 2014/15. Academies are the responsibility of Government and as such do not form part of the Council's asset base, and therefore expenditure is treated as 'REFCUS'.

2014/15 £000	**Reconciliation of Grant Funding Applied to Capital Financing**	**2015/16 £000**
29,728	Grants Received in year (Note 12)	12,003
(669)	Grants Received in year not applied in year	(250)
539	Grants Applied from Capital Grants Unapplied Account	440
	Grants used to Fund Revenue Expenditure Funded from Capital under Statute:	
5,960	In Year	4,903
3	Applied from Capital Grants Unapplied Account	-
35,561	**Total Grants & Contributions applied**	**17,096**

2014/15 £000	**Body of Grant Funding Applied**	**2015/16 £000**
728	Department for Communities & Local Government	1,099
11,507	Department for Transport	4,513
20,135	Department of Education	5,342
530	Department of Health	255
59	English Partnerships	-
1,268	Greater Cambridge Greater Peterborough Partnership (GCCPP) Local Enterprise	3,391
34,227	**Total Grants Applied**	**14,600**
669	Section 106 Contributions	1,337
665	Third Party Contributions	1,159
1,334	**Total Contributions applied**	**2,496**
35,561	**Total Grants & Contributions applied**	**17,096**

26 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 required 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. The Council only has rights to terminate the contract if it compensates the contractor in full for costs incurred.

One of the three schools has transferred to Academy status therefore in line with CIPFA guidance the associated assets are not recognised on the Council's Balance Sheet. The value of the two schools which are recognised on the Council's Balance Sheet is £29.9m (£25.1m 2014/15).

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 2016 (excluding any estimation of inflation and availability/performance deductions) are shown in the following table:

Repayment of:	Finance Lease Liability	Interest	Service Charges	Total
Payable:	**£000**	**£000**	**£000**	**£000**
In 2016/17	1,233	2,544	4,347	8,124
Within two to five years	4,001	8,655	20,708	33,364
Within six to ten years	5,486	8,684	29,661	43,831
Within 11 to 15 years	9,011	7,662	29,805	46,478
Within 16 to 20 years	11,312	3,678	34,486	49,476
Within 21 to 25 years*	3,079	(455)	11,818	14,442
Total	**34,122**	**30,768**	**130,825**	**195,715**

**The positive interest in years 21 to 25 is a product of the calculation within the model of the contingent rents that are charged to interest. In practice the contingent rents are higher than calculated within the model and there will be a net payable for those years.*

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 2015		**31 March 2016**
£000		**£000**
(37,018)	Balance brought forward	(35,530)
1,488	Lease liability redemption in the year	1,408
(35,530)	**Value of Total Liability carried forward**	**(34,122)**
(1,408)	Short Term Liability	(1,233)
(34,122)	Long Term Liability	(32,889)
(35,530)	**Value of Total Liability carried forward**	**(34,122)**

27 Council Leasing Arrangements

Council as Lessee - Finance Leases

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

31 March 2015		**31 March 2016**
£000	**Council as Lessee - Finance Leases**	**£000**
2,303	Other Land & Buildings	2,303
2,376	Vehicles, Plant Furniture & Equipment	1,906
4,679	**Total**	**4,209**

Two land leases held on 999 year leases, two school leases for 125 years, a retail property held on a 99 year lease, a pavilion and a bus shelter 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 table above.

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 2015		31 March 2016
£000	**Finance Lease Liabilities (net present value of minimum lease payments)**	**£000**
583	Current	526
4,077	Non-current	3,627
20,219	Finance costs payable in future years*	19,850
24,879	**Minimum lease payments**	**24,003**

** Non-Peppercorn leases range from one to 104 years*

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

31 March 2015			31 March 2016	
Min. Lease Payment	*Finance Lease Liabilities*	**Minimum lease payments**	**Min. Lease Payment**	**Finance Lease Liabilities**
£000	*£000*		**£000**	**£000**
965	*583*	Not later than one year	887	526
2,841	*1,556*	Later than one year & not later than five years	2,329	1,107
21,073	*2,521*	Later than five years *	20,787	2,520
24,879	*4,660*	**Total**	**24,003**	**4,153**

** Non-Peppercorn leases range from one to 104 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.

Of the investment properties held under these finance leases, the Council has sub-let individual units. At 31 March 2016 the minimum payments expected to be received under these sub-leases was £243k (£274k in 2014/15).

Council as Lessee - Operating Leases

The majority of the Council's operating leases are for land and buildings, however there are 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 2015		31 March 2016
£000	**Council as Lessee - Operating Leases**	**£000**
877	Not later than one year	772
3,134	Later than one year & not later than five years	2,729
8,323	Later than five years	7,589
12,334	**Total**	**11,090**

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

31 March 2015		31 March 2016
£000	**Council as Lessee - Operating Leases**	**£000**
1,166	Minimum lease payments	899
-	Contingent rents	-
(185)	Sublease payment receivable	(207)
981	**Total**	**692**

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
- To provide lower service costs eg Viridor – Energy for Waste

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

31 March 2015		**31 March 2016**
£000	**Council as Lessor - Operating Leases**	**£000**
2,788	Not later than one year	2,644
11,895	Later than one year & not later than five years	11,082
44,775	Later than five years*	49,363
59,458	**Total**	**63,089**

** Above operating leases range from five to 112 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.

28 Financial Instruments

Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate (EIR) calculation) including accrued interest. Accrued interest is shown separately in current assets / liabilities where the payments / receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

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

2014/15		**2015/16**
£000	**Financial Assets**	**£000**
(198)	Interest income	(343)
(41)	Impairment adjustment	-
(239)	**Total for Financial Assets (Note 10)**	**(343)**
	Financial Liabilities	
3,321	Interest payable relating to PFI	3,133
9,912	Interest payable on borrowings	11,920
13,233	**Total for Financial Liabilities (Note 10)**	**15,053**
12,994	**Net expenditure for the year**	**14,710**

The borrowings and investments disclosed in the Balance Sheet include the following categories in the table below.

2015 Long Term £000	*2015 Current £000*	**Financial Instruments Balances**	**2016 Long Term £000**	**2016 Current £000**
45	*59*	Investments - Loans and receivables	-	30
-	*-*	Investments - Available for Sale Assets	-	1,700
2,000	*-*	Debtors – Local Authority Mortgage Scheme	1,000	1,000
-	*-*	Debtors – Empower CIC	-	5,569
993	*21,650*	Debtors - Loans and receivables	780	28,702
(271,254)	*(37,524)*	Borrowings - Financial liabilities at amortised cost	(322,717)	(43,482)
(36,941)	*-*	Other Long Term liabilities - PFI and finance lease liabilities	(36,664)	-
(27)	*(14,858)*	Creditor - Financial liabilities at amortised cost	-	(4,768)

Note: Accrued interest is not required for instruments measured at EIR as this adjustment covers a full year's interest.

The Available for Sale Asset noted in the table above relates to the Deferred Capital Receipt created by the Loan Notes raised as a result of transferring assets to the PIP, see Note 13.

The Loan to Empower CIC is shown in the Debtors section of the table above, see Note 14.

29 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 2016 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;
- where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The financial liabilities are held with PWLB and market lenders. All of these borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, the Council has used Level 2 valuations calculated using a financial model valuation provided by Capita Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector. Our accounting policy uses the effective rate of interest for the relevant instrument. The Council uses the new borrowing rates to discount the future cash flows.

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

2014/15		Financial Liabilities	**2015/16**	
Carrying Amount £000	*Fair Value £000*		**Carrying Amount £000**	**Fair Value £000**
(234,386)	*(282,258)*	PWLB debt	(282,388)	(335,042)
(36,867)	*(37,487)*	Non-PWLB debt	(40,329)	(41,266)
(34,500)	*(39,537)*	Short term borrowing	(40,272)	(45,387)
(15,892)	*(12,868)*	Short term creditors	(6,219)	(6,219)
(1,991)	*(1,991)*	Short term finance lease liability	(1,759)	(1,759)
(2,846)	*(2,846)*	Long term creditors	(3,774)	(3,774)
(34,122)	*(49,481)*	Long term finance lease liability*	(32,890)	(47,711)
(360,604)	*(426,468)*	**Total**	**(407,631)**	**(481,158)**

** in error the 2014/15 amount included £1.4m of short term finance lease liability that was also include in the short term finance lease liability line shown above.*

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss arising from a commitment to pay interest to lenders above current market rates, see Note 30 for explanation of Market Risk.

The fair value of Public Works Loan Board (PWLB) loans of £335.0m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

In December 2011 the Council advanced £1m with a further £1m in July 2013 to Lloyds Banking Group as part of the Local Authority Mortgage Scheme (LAMS). LAMS is aimed at supporting 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, interest is payable and received annually on the advance. As at 31 March 2016 the total mortgage approved against the £2m indemnity is £1,865,205 (£1,890,605 as at 31 March 2015).

2014/15		Financial Assets	**2015/16**	
Carrying Amount £000	*Fair Value £000*		**Carrying Amount £000**	**Fair Value £000**
59	*59*	Short Term Investments	30	30
-	-	Available for Sale Assets	1,700	1,700
-	-	Local Authority Mortgage Scheme - Short Term	1,000	1,000
-	-	Empower CIC Loan	5,569	5,569
7,870	*7,870*	Total Cash and bank	11,634	11,634
13,780	*13,780*	Trade Debtors	17,068	17,068
2,000	*2,000*	Local Authority Mortgage Scheme - Long Term	1,000	1,044
45	*45*	Long Term Investments	-	-
993	*993*	Other Long Term Loans & Receivables	780	780
24,747	*24,747*	**Total**	**38,781**	**38,825**

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

30 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 Policy, 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 & Poor's Credit Ratings Services. This Policy also imposes a maximum sum to be invested with a financial institution located within each category.

The 2015/16 Annual Investment Policy 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 (Barclays) and Bank of Scotland (part of the Lloyds Banking Group).

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

- Deposits could be made with banks and other financial institutions that have been rated by recognised independent credit rating agencies with a minimum score of “A”, with £100m of the total amounted deposited in the highest rated category. The main credit rating agencies have changed the methodology for assessing financial institutions during 2015/16. The credit element of the methodology focuses solely on the Short and Long Term investment ratings, therefore no longer including the viability and financial strength of the institution.
- 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 £50m in total.
- No more than £15m is held with any one banking institution, except for the Debt Management Office (DMO), regardless of standing or duration, and a range of counterparties that operate in different sectors in the UK 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 Conduct Authority.

- Creditworthiness advice and market intelligence is received from treasury advisors, Capita Asset Services.

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

The Council had a total of £11.5m deposited with the Debt Management Office (DMO) and UK banks at 31 March 2016. The full amount is potentially exposed to credit risk, although as the DMO is within the scope of HM Treasury it is less of a risk. There is a specific risk attached to amounts deposited with the individual institutions based on their ability to make interest payments and repay the principal outstanding, it is however more difficult to assess the risk in general terms. Recent experience has shown that it is rare for such entities to not meet their commitments. Whilst there is a risk of recoverability with regard to these deposits, there was no evidence that this was likely at 31 March 2016. The Council has had no experience of default over the last five years.

The Council continues to receive dividends relating to investments in two Icelandic institutions made in 2008/09. The expected recovery rate for the Kaupthing Singer & Friedlander (KSF) investment remains at 85p to 86.5p whilst the Heritable Bank (HB) recovery rate is expected to be 98p to 100p in the £. The total dividends received as at 31 March 2016 are £1.7m for KSF and £1.0m for HB. Further dividends are expected in 2016/17.

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.

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.

The aged debtors balance can be analysed by age as follows:

2014/15 £000	**Age of Trade Debt**	**2015/16 £000**
6,384	Less than three months	10,202
857	Three to six months	986
1,417	Six months to one year	1,189
5,122	More than one year	4,691
13,780	**Total**	**17,068**

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. In the unlikely event that unexpected movements happen, 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 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 across a period of 50 years, to ensure that a large 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 nine years.

The maturity analysis of financial liabilities is as follows:

2014/15 £000	**Maturity analysis of financial liabilities**	**2015/16 £000**
(52,382)	Less than one year	(48,250)
(11,616)	Between one and two years	(17,566)
(31,093)	Between two and five years	(28,813)
(265,513)	Between five and fifty years	(313,002)
(360,604)	**Total**	**(407,631)**

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

Market risk

Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its 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 Capital and Treasury Team assesses interest rate exposure which feeds into the setting of the annual budget and is used to update the forecasts 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 2016, 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 £59.7m, see Note 28, but this would have no impact on the (Surplus) / Deficit

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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 Limited. 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 has no exposure to loss arising from movements in exchange rates.

31 Inventories

31 March 2015 £000	**Inventories**	**31 March 2016 £000**
224	Westcombe Industries Stock	227
72	Other Stock Balances	74
296	**Total**	**301**

32 Debtors

31 March 2015 £000	**Debtors** (Each item is net of impairment)	**31 March 2016 £000**
4,950	Central Government Departments	6,545
2,090	Cross Keys Homes	2,203
7,708	Council Tax Arrears	8,026
9,584	NNDR Arrears	9,370
4,165	Payments in Advance	4,751
-	ECS Peterborough 1 LLP (Notes 14, 25)	5,569
-	Local Authority Mortgage Scheme Loan	1,000
517	Section 106 Debtors	2,377
21,062	General Debtors	25,469
50,076		65,310
	Outstanding Balances on Loans Granted	
8	Loans to Employees (Car Purchase)	8
50,084	**Total Debtors**	**65,318**

33 Current Intangible Assets

The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme is a mandatory UK energy-saving and carbon emissions reduction scheme which commenced in April 2010. The Council is holding CRC allowances with a value of £218k as at 31 March 2016 (31 March 2015 £207k).

The balance of £218k will be surrendered by 31 October 2016 to meet the Council's reported CO_2 emissions for 2015/16 in accordance with the requirements of the CRC Scheme. The Council has estimated its liability under the scheme to be £218k and has included a provision in the accounts for this, see Note 34.

34 Provisions

Provision Description	31 March 2015 £000	Additional Provision £000	Payment from Provision £000	Released back to CIES £000	31 March 2016 £000
Short Term Provisions					
Insurance Claims – 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.	(795)	(257)	254	-	(798)
Payroll - redundancy related payments, regarding decisions made in 2015/16 but which will paid in 2016/17	(75)	(88)	35	-	(128)
Charges from suppliers which are uncertain or in dispute - these represent charges from suppliers that are of an uncertain amount and timing	(569)	(80)	197	253	(199)
Legal – compensation claims against the council which may become dependent on a court decision.	-	(200)	-	-	(200)
Land Charges Litigation – following the Information Commission Ruling, personal search agencies are now able to reclaim the amounts paid for additional information on the land charges register	(155)	(29)	104	-	(80)
Carbon Reduction Commitment Scheme (CRC) - the obligation of the Council for the purchase of CRC allowances for 2015/16	-	(218)	-	-	(218)
Non Domestic Rate Appeals Provision – see Collection Fund for further details	(5,241)	(2,578)	1,681	-	(6,138)
Total Short Term Provisions	**(6,835)**	**(3,450)**	**2,271**	**253**	**(7,761)**
Long Term Provisions					
Insurance Claims – see above comments	(419)	-	116	-	(303)
Total Short and Long Term Provisions	**(7,254)**	**(3,450)**	**2,387**	**253**	**(8,064)**

35 Creditors

31 March 2015 £000	Creditors	31 March 2016 £000
(707)	Council Tax Overpaid	(762)
(1,166)	Council Tax Prepaid*	(818)
(1,674)	NDR Overpaid	(1,319)
(1,040)	NDR Prepaid	(796)
(10,512)	NDR Preceptors	(15,312)
(12,257)	Deposits / Receipts in Advance*	(12,316)
(3,236)	Accrual Accumulated Absences (Note 16)	(2,546)
(47,775)	General Creditors	(42,167)
(78,367)	**Total Creditors**	**(76,036)**

** In previous year's accounts, Council Tax Prepaid was included within the Deposits / Receipts in Advance figure.*

36 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 may require the monies or property to be returned to the giver. The balances at the year-end are as follows:

31 March 2015 £000	Capital Grants Receipts in Advance	31 March 2016 £000
(559)	Department of Education	(540)
(1,212)	Department for Transport	(1,437)
(576)	Homes and Communities Agency (HCA)	(576)
(103)	Other Third Party Contributions	(173)
(427)	Department of Health	(241)
-	Third Party contributions for Hampton Leys (Gardens)	(1,500)
(14,873)	Section 106 Contributions	(19,163)
(17,750)	**Total Capital Grants Receipts in Advance**	**(23,630)**

37 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2014/15 £000		2015/16 £000
(132)	Interest Received	(250)
12,930	Interest Paid	14,874

38 Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

2014/15 £000		2015/16 £000
99,068	Purchase of Property, Plant & Equipment, Investment Property & Intangible Assets	70,635
10,360	Other Payments for Investing Activities	7,938
(1,740)	Proceeds from the Sale of Property, Plant & Equipment, Investment Property	(2,419)
(16)	Proceeds from Short-Term Investments	(63)
107,672	**Net cash flows from investing activities**	**76,091**

39 Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

2014/15 £000		2015/16 £000
(94,000)	Cash Receipts of Short & Long Term Borrowing	(57,190)
1,668	Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and On-Balance Sheet PFI Contracts	2,023
(572)	Other Payments for Financing Activities	(7,649)
(92,904)	**Net cash flows from financing activities**	**(62,816)**

40 Cash Flow Statement – Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is shown in the following table. The 'Bank Current Accounts' line includes payments that have not yet cleared in the actual bank accounts.

2014/15		**2015/16**
£000		**£000**
8,900	Short Term Cash Investments	11,500
67	Petty Cash & Imprest	72
(1,097)	Bank Current Accounts	62
7,870	**Total Cash & Cash Equivalents**	**11,634**

41 Trust Funds

The Council administers six trust funds for the benefit of children in specific schools or in care. The total value invested as at 31 March 2016 was £17,352 (£37,465 at 31 March 2015). 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 £17,368 at 31 March 2016 (£63,224 at 31 March 2015) all invested internally. The Council was holding a larger balance as at 31 March 2015 due to temporarily holding funds from the sale of a property.

The Council also has the role of Corporate Appointee for Clients' monies where it is responsible for managing the financial affairs of 176 adults and older people (176 at 31 March 2015). The total Client funds at 31 March 2016 was £1.4m (£1.2m at 31 March 2015).

The Council acts as the sole trustee for the Peterborough Museum and Art Gallery, a registered charity. 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.

These Trust Funds are not included in the Council's balance sheet. The individual funds have not been subject to a separate audit. However, they have been considered in overall terms, in the context of those materiality levels which apply to the Council's financial statements.

42 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. These are identified as follows:

- 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. For example land

transferred to the Council from the Homes and Communities Agency (formerly known as the Housing Corporation).

- 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 was £316,000. The Council has twice been asked to repay a proportion of the above amount which were accounted for in the 2012/13 and 2015/16 accounts, but further amounts which cannot be quantified at this stage may be demanded from the Council in the future. There is an element of coverage for this within the Insurance Reserve.
- 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 terms 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 Accounting Standards that have been Issued but have Not Yet Been Adopted

The standards which have been introduced by the 2016/17 Code are not anticipated to have a material impact on the Council's financial statements, but rather disclosure narratives will be enhanced, and will be effective from 1 April 2016 are as follows:

- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative) and the impact of the CIPFA / LASAAC 'Telling the Story' review will change the way that the core financial statements are presented to make them more comparable to the Council's budget setting and monitoring reports.
- It is not anticipated that the following amendments will have a material impact on the Council's financial statements. Amendments include:
  - IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions),
  - IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations),
  - IAS 16 Property, Plant and Equipment,
  - IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation).
- Annual Improvements to IFRSs is a process to deal efficiently with a collection of narrow scope amendments to IFRSs and focus on areas of inconsistency in IFRSs or where clarification of wording is required. The amendments are clarifying or correcting in nature, and do not propose new principles or changes to existing ones. Annual Improvements to IFRSs 2010 - 2012 and 2012-2014 Cycles

will be effective from 1 April 2016. The issues included in these cycles will not have a material impact on the Council's financial statements.

The CIPFA Code of Practise on Transport Infrastructure Assets (the Infrastructure Code) takes effect from 1 April 2016. The Code confirms that the changes arising from the Infrastructure Code do not require retrospective adjustment to the accounts. Under the Infrastructure Code transport infrastructure assets will be recognised as a separate class of Property, Plant and Equipment measured at depreciated replacement cost. This will consist of seven components: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land.

The disclosure will require a transfer of assets between infrastructure and the new highways network asset categories. This is likely to result in a revaluation gain due to the change from depreciated historic cost to depreciated replacement cost basis. Thus the new valuation will reflect the current cost of replacement rather than the original cost of the works, which would have been built up over a significant time period. If the changes had been implemented in 2015/16, based on current estimates the value of infrastructure assets would increase from £31.8m to £2.3bn with a large increase in the annual depreciation charge.

44 Critical Judgement in Applying Accounting Policies

In applying the accounting policies, set out from page 75, 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:

- The Council continues to deal with substantial reductions to its funding. Whilst the Council has been able to balance its 2015/16 and 2016/17 budget, significant challenges remain and transformational change to service delivery is required. The Medium Term Financial Strategy 2016/17 to 2025/26 has been developed to seek to address these issues, however, it is acknowledged that there is still a risk of further cuts to funding. Government's offer of a four year Finance Settlement may serve to reduce some of this risk, but the contents of the offer has not yet been fully publicised. There also continues to be increasing demographic pressures and additional demand for services. The Council has determined that given the remaining level of uncertainty in these areas there is not sufficient indication of any additional impact on the accounts or accounting policies at this time.
- In June 2016 the Council is to debate a proposal for a devolution deal for a Combined Authority for Cambridgeshire and Peterborough worth more than £770million. The Council has determined that given the remaining level of uncertainty in these areas there is not sufficient indication of any additional impact on the accounts or accounting policies at this time.
- During 2010/11 the government invited all schools in England to become Academies and encouraged parents to set up their own 'free schools'. Within the Peterborough area some schools have Academy status, with a further school transferring status during 2015/16. Current government aspirations are to convert all remaining maintained schools to Academy status in future years. 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 as a disposal at nil consideration, rather than impairment. The Council also no longer consolidates the income and expenditure of that school into the Comprehensive Income

and Expenditure Statement. See table below for analysis of the type of schools in Peterborough and its surrounding area.

Type and number of Schools	Community	Controlled	Aided	Foundation Trust	Academies	Total
Nursery	1	-	-	-	-	**1**
Primary Schools	34	5	7	1	10	**57**
Secondary Schools	1	-	1	1	8	**11**
All through Schools	-	-	-	-	1	**1**
Special Schools	4	-	-	-	1	**5**
Total	**40**	**5**	**8**	**2**	**20**	**75**

Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council treats this expenditure as Revenue Expenditure Funded from Capital Under Statute (REFCUS). This results in the capital expenditure being shown in the Comprehensive Income and Expenditure Statement in the period in which it is incurred with a corresponding entry made from the Capital Adjustment Account, which is an unusable reserve, so there is no overall impact to the General Fund balance.

- The Council's accounting policy for the recognition of school-related assets is in line with the provisions of the Code, such that schools are recognised on the Council's balance sheet only if the future economic benefits or service potential associated with the school will flow to the Council. There are five schools (net book value at 31 March 2015 of £9.5m) which are classed as either voluntary aided or voluntary controlled schools where it is not clear that legal ownership of elements of the land and buildings of these schools resided with the governing bodies at the 31 March 2016. However, in order to provide a faithful presentation of the accounts, the Code requires the Council to consider the substance of an economic phenomenon rather than merely representing its legal form. As legal ownership should reside with, and is in the process of transferring to the governing bodies, the Council has determined that in this case substance should take precedence over form. Therefore the assets (apart from undeveloped land for voluntary aided and controlled schools) have not been incorporated into the Council's Balance Sheet.
- The Council participates in the Local Authority Mortgage Scheme (LAMS). In 2011/12 £1m was deposited with Lloyds and a further £1m was deposited during 2013/14. These deposits are treated as capital expenditure as a loan to a third party. This treatment has been determined by reference to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. The Council has also obtained legal advice from its own legal advisors and received Legal Counsel's advice via Capita, its Treasury Advisor, as to the validity of the accounting treatment. The Council recognises there are alternative accounting treatments and will keep its accounting treatment of LAMS under review to ensure that if statue or the CIPFA Code of Practice changes, its accounting treatment of the scheme will comply with those changes.
- The Council has a rolling programme that ensures that all Property, Plant and Equipment (PPE) is measured at current value and is revalued at least every four years by external valuers. In addition to this rolling programme each year the Councils external valuers assess the whole of the Council's property portfolio to consider if there would be any valuation changes as a result of the prevailing economic climate. Further information is detailed in Note 23, page 51.

- 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 19, page 49.
- The Council has applied its judgement in the classification of lease arrangements. Such arrangements are either classified as operational or finance leases following analysis of the transaction and judgement as to whether the arrangement transfers substantially all the risks and rewards incidental to ownership. Where a lease arrangement has been re-assessed the Council has estimated the implied interest rate within the lease to calculate interest and principal payments. Further information on lease arrangements in place can be found in Notes 26 and 27, pages 53 - 54.
- The Council has six 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 and when consolidated in total, the five entities are not material.
  - Peterborough Museum and Art Gallery – the Council is sole trustee of the trust set up to provide the City with access to 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 13.
  - 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 14.
  - Blue Sky Peterborough (BSP) – in 2011/12 the Council 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 the company has not started trading yet there have been no transactions through the company. Further information can be found in Note 14.
  - Peterborough Investment Partnership LLP – during 2014/15 the Council incorporated the Peterborough Investment Partnership LLP to secure the regeneration of key city centre sites with capital market investors. 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.
  - Empower Peterborough Community Interest Company – was incorporated during 2015/16 to install solar panels on homes in Peterborough free of charge with occupants benefitting from energy savings. As it is a Community Interest Company a percentage of the money generated is shared equally between a Local Community Fund and the Council. 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.

- The Mayor of Peterborough's Charity Fund – was registered with the Charity Commission during 2015/16 to facilitate the Mayor's fundraising events during the Mayoral year. 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.

- In common with many local authorities the Council has received an application for mandatory business rate relief from a NHS trust. The Council has considered this against its accounting policies and the reporting requirements of the Code. Initial advice from the Local Government Association and subsequent opinion from leading counsel has determined that the claim has no basis and therefore no disclosure is required, elsewhere in the Statement of Accounts.
- The Council is part of a 100% Additional Growth pilot for Non-Domestic Rates (NDR) retention. At present the accounting rules for this income are not finalised. The Council has recognised this income in 2015/16 in the Taxation and Non Specific Grant Income line of the Comprehensive Income and Expenditure Statement. This has been completed on the basis that the Department for Communities and Local Government are to write regulations to enable this accounting treatment, if it deems that this is necessary, and the advice from CIPFA to use this accounting treatment in advance of the regulations being finalised. .

45 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 2016 for which there is a risk of material adjustment in the forthcoming financial year are shown in the following table.

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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £659k for every year that useful life is reduced, which equates to a 2.91% increase in this year's depreciation charge.

Item	Uncertainties	Effect if Actual results Differ from Assumptions
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.	If an asset is impaired the carrying value of the asset is reduced. It is estimated that a 1% fall in market value would reduce the Council's Property, Plant and Equipment / Investment Properties balance by £548k, which is 0.08% of the Council's total asset base. 8% of the Councils asset base is valued at market value, so the impact of a change in market value is limited.
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. The sensitivity analysis has been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.	The effects on net pensions liability of changes in individual assumptions can be measured. For instance, • a 0.5% decrease in discount rate assumption would result in an increase in pension liability of 11% or £64m • a 1 year increase in member life expectancy would result in an increase in pension liability of 3% or £18m • a 0.5% increase in the salary increase rate would result in an increase in pension liability of 3% or £16m • a 0.5% increase in the pension increase rate would result in an increase in pension liability of 8% or £48m
Arrears	At 31 March 2016 the Council had a balance of £19.7m for sundry debtors. A review of balances suggested that an impairment of doubtful debts, based on age profile, of 18% or £3.5m was appropriate.	If collection rates were to deteriorate and sundry debt increased by 10% with the same age debt profile, an additional contribution of £350k would be set aside as allowance. If 10% of the debt portfolio was one year older, a contribution of £150k would be set aside as additional allowance.
Business Rates	The Business Rates Retention Scheme was introduced on 1 April 2013 and the Council is now liable for its proportionate share of successful business rate appeals. A provision has been recognised for an estimated amount that may be repaid as a result of successful appeals. The estimate has been calculated using the Valuation Office ratings list of appeals and an analysis of successful appeals to date.	There are different classes of business, each of which have had historically different success rates of appeal. If reduction in rateable value for each appeal class was 1% more than currently estimated the appeals provision would need to be increased by £655k. This equates to an 11% increase in the estimated provision held in the Council's Balance Sheet.

47 Authorisation of the Accounts

The Corporate Director: Resources authorises these accounts to be issued on 30 June 2016.

31 March 2015 £000	Collection Fund Statement	Notes	31 March 2016 Business Rates £000	Council Tax £000	Total £000
	Income				
(72,575)	Council Tax Receivable		-	(74,359)	(74,359)
(1)	Council Tax Annex Grant		-	-	-
(95,283)	Business Rates Receivable	3	(104,260)	-	(104,260)
(277)	Transitional Payment Protection		-	-	-
	Contribution to Previous Year's Deficit:				
-	Peterborough City Council	4	(1,522)	-	(1,522)
-	Cambridgeshire & Peterborough Fire Authority		(31)	-	(31)
-	Cambridgeshire Police Authority		(1,553)	-	(1,553)
(168,136)	Total Income		(107,366)	(74,359)	(181,725)
	Expenditure				
	Precepts:				
58,036	Peterborough City Council	4	-	59,515	59,515
3,280	Cambridgeshire & Peterborough Fire Authority		-	3,361	3,361
9,259	Cambridgeshire Police Authority		-	9,486	9,486
70,575	Total Precepts		-	72,362	72,362
	Business Rates Share:				
45,234	Peterborough City Council	4	47,129	-	47,129
922	Cambridgeshire & Peterborough Fire Authority		962	-	962
46,157	Central Government (Inc Pooled Fund)		48,091	-	48,091
92,313	Total Business Rates Shares		96,182	-	96,182
	Charges to Collection Fund:				
36	Written off Uncollectable Amounts		-	-	-
1,939	Increase / (Decrease) in Bad Debt Provision		1,108	1,156	2,264
2,166	Increase / (Decrease) in Provision for Appeals		1,830	-	1,830
277	Cost of Collection		275	-	275
-	Transitional Payment Protection		4,838	-	4,838
-	Interest on Overpayments		24	-	24
-	Renewable Energy Disregard	4	21	-	21
4,418	Total Charges to Collection Fund		8,096	1,156	9,252
	Contribution to Previous Year's Estimated Surplus:				
649	Peterborough City Council	4	-	-	-
13	Cambridgeshire & Peterborough Fire Authority		-	-	-
663	Central Government (Inc Pooled Fund)		-	-	-
1,325	Total Business Rates Shares		-	-	-
495	**(Surplus) / Deficit Arising During the Year**		**(3,088)**	**(841)**	**(3,929)**
	Collection Fund Balance				
4,326	(Surplus) / Deficit Brought Forward 1 April		6,020	(1,199)	4,821
495	(Surplus) / Deficit Arising During the Year		(3,088)	(841)	(3,929)
4,821	**(Surplus) / Deficit Carried Forward 31 March**		**2,932**	**(2,040)**	**892**
	Allocated to:				
1,964	Peterborough City Council		1,437	(1,679)	(242)
4	Cambridgeshire & Peterborough Fire Authority		29	(94)	(65)
(157)	Cambridgeshire Police Authority		-	(267)	(267)
3,010	Central Government (Inc Pooled Fund)		1,466	-	1,466
4,821	**Total**		**2,932**	**(2,040)**	**892**

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1 Collection Fund Overview

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and Non-Domestic Rates (NDR) and its distribution to local government bodies and the Government. The Council, as a billing authority, has a statutory requirement to operate a Collection Fund as a separate account to the General Fund.

There is no requirement for a separate Collection Fund balance sheet. Instead Collection Fund balances are distributed across the balance sheet of the billing authority, the Government and precepting authorities.

2 Calculation of Council Tax Base

Council Tax Band	Ratio to Band D	No. of Dwellings	Band D Equivalent
A	6/9	34,217	22,811
B	7/9	19,717	15,335
C	8/9	13,281	11,805
D	9/9	7,572	7,572
E	11/9	4,280	5,231
F	13/9	1,832	2,646
G	15/9	906	1,510
H	18/9	67	134
Total		81,872	67,044

The Band D equivalent shown above is calculated by applying the relevant 'ratio to band D' to the number of dwellings but is before any adjustments for statutory discounts, exemption etc.; and the Council Tax Support Scheme and non-payment which are at the discretion of each council. The Council Tax base used for Council Tax setting purposes after taking account of these adjustments was 52,749 (51,054 for 2014/15).

3 Non-Domestic Rates

The Council collects Non-Domestic Rates (NDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by the Government.

For 2015/16 the total non-domestic rateable value at the year-end is £233.3m (£231.7m in 2014/15). The national multipliers for 2015/16 were 48.0p for qualifying Small Businesses, with the standard multiplier being 49.3p for all other businesses (47.1p and 48.2p respectively in 2014/15).

4 Council Precept

Income from the Collection Fund reflected in Peterborough City Council Comprehensive Income and Expenditure Statement is shown below. Further details are also shown in Note 12 of the Notes to the Accounts.

2014/15	**Council Precept**	**NDR**	**Council Tax**	**2015/16 Total**
£000		**£000**	**£000**	**£000**
(103,270)	Precept / Share	(47,129)	(59,515)	(106,644)
-	Estimated Renewable Energy Disregard (RED)	(40)	-	(40)
-	Difference between actual & estimated RED	19	-	19
(649)	Share of Prior Year Estimated Deficit / (Surplus)	1,522	-	1,522
(2,086)	Reverse actual share prior year Deficit / (Surplus)	(2,950)	990	(1,960)
1,960	Share of Deficit / (Surplus)	1,437	(1,679)	(242)
(104,045)	**Total (Note 12)**	(47,141)	(60,204)	**(107,345)**

Statement of Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, 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 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

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

Accruals of Income and Expenditure

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

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

Acquisitions and Discontinued Operations

The Council is required to disclose the income and expenditure of any newly acquired functions on the face of the Comprehensive Income and Expenditure Statement.

Acquired operations are those which the Council has acquired during the accounting period. Examples of acquired operations are:

- Services and / or geographical areas for which responsibility has passed to the Council due to the reorganisation of local government, or

- Services acquired as a consequence of legislation, eg a new statutory responsibility transferred from another entity.

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

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

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 (Minimum Revenue Provision), by way of an adjusting transaction with 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 wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave and bonuses, 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 in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements 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 in exchange for those benefits and are charged on an accruals basis to the appropriate service or where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

Post-employment Benefits

Employees of the Council 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 provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' and NHS schemes 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 Education and Children's 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 Adult Social Care and Public Health lines for the NHS scheme.

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 pensions liability is analysed into the following components:
  - Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment 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
    - net interest on the net defined benefit liability – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) during the period as a result of contribution and benefit payments
  - Remeasurements comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
    - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - 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 transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (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

<u>Financial Liabilities</u>

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

For 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.

<u>Financial Assets</u>

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.

<u>Loans and Receivables</u>

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 techniques:

- 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

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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

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

Any gains and / 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. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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 and Expenditure (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 either the detailed insurance valuation (which are based on market values) or the valuation undertaken by the Council's property valuers. 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. With exception of the mayor's car license plate, in practice intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Income and 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.

Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures which require it to prepare group accounts if material. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. 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.

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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 are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services 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 Assets Held for Sale) is written off to the Other Operating Income and 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 Income and 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 principles of the CIPFA *Service Reporting Code of Practice 2015/16 (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 Continuing 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 administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. 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 current value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure 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 - depreciated historical cost. These assets, which include roads, bridges and streetlights, are classed as inalienable assets, expenditure on which is only recoverable by continued use of the asset created, ie there is no prospect of sale or alternative use. The balance in the Balance Sheet includes a lump sum which transferred to the Council when Peterborough City Council was formed – it is not broken down on an asset by asset basis. Since the Council’s inception, additions and enhancements, recorded at cost, have increased the balance – these have been recorded in the Council’s fixed asset register on a project basis rather than by asset, meaning additions / enhancements may relate to a number of infrastructure assets. The infrastructure balance has been reduced annually by depreciation, in line with the Council's depreciation policy as noted on page 88

- community assets and assets under construction – depreciated historical cost
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use value (EUV).
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current 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 current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the 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 an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

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.

<u>Impairment</u>

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 an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Income and 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 Assets Held for Sale) is written off to the Other Operating Income and 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 capital 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 remains within 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 various asset lives

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.

Property, plant and equipment assets and long term liabilities remain vested in the governing bodies of voluntary aided or controlled schools. Values and amounts relating to such bodies (other than undeveloped land for voluntary aided or controlled schools) have not been incorporated into the Council's Balance Sheet.

The Council transfers academy school assets on a 125-year lease in accordance with national guidelines, and as such they are subject to lessor finance lease policies (see leases policy).

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 the 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 the 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

<u>Provisions</u>

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.

Carbon Reduction Commitment Schemes and Other Trading Schemes

The Council is required to participate in the Carbon Reduction Scheme Energy Efficiency Scheme. 2015/16 was the second year of the Initial Phase of the scheme, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, ie carbon dioxide produced as energy is used. As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Councils services and is apportioned to services on the basis of energy consumption.

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 policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of

Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, 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 that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure 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.

Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

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.

Accumulating Compensated Absences Adjustment 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.

Authority – A shortened name for 'Local Council'.

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 (MTFS)) - A statement of a Council's plans for net revenue and capital expenditure over a specified period of time.

Business Rates Retention Scheme – the name given to the system of funding local authorities through the local government finance settlement. The local government sector retains 50% of the business rates they collect. In addition they also receive Revenue Support Grant to help support their services.

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, repay debt or fund transformational change that lead to future savings.

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Collection Fund - A statutory fund in which a Council records transactions for Council Tax, Non-Domestic 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 the 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 arm's 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.

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 – 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 now universally adopted across all sectors (public and private) for the inclusion and reporting of pension costs in the 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 – Those properties that are used solely to earn rentals or for capital appreciation.

Loan Notes – A form of vendor finance or deferred payment, in which the purchaser acts as a borrower, agreeing to make payments to the holder of the transferable loan note at a specified future date.

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 – 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'.

Long Term Asset - An asset which has value beyond one financial year.

Minimum Lease Payments – 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. MRP is charged in line with the life of the asset for which 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.

Non-Domestic Rates (NDR) - The rates payable by businesses on their properties are calculated by applying a nationally determined multiplier to the rateable value of the property.

NDR Levy Payment – the mechanism to limit disproportionate benefit from business rates.

NDR Tariff Payment – at the outset of the business rates retention scheme the Council was calculated as having a higher business rate baseline compared to its baseline funding level, leading to a tariff payment.

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 - 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.

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

Annual Governance Statement – 2015/16

Annual Governance Statement

The Annual Governance Statement is being discussed and approved by this Audit Committee on 29 June 2016. The Statement will be included in the final published Statement of Accounts in September 2016.

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 balanced 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.

Signed: ______________________

Gillian Beasley, Chief Executive

Date: ______________________

Signed: ______________________

Councillor John Holdich, Leader of the Council

Date: ______________________

AUDIT COMMITTEE	AGENDA ITEM No. 7
29 JUNE 2016	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources Councillor Fuller, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Corporate Director Resources	Tel. 452 398

FRAUD AND INVESTIGATIONS ANNUAL REPORT 2015 / 2016

R E C O M M E N D A T I O N S	
FROM :	**Deadline date : N/A**
Committee is asked to: 1. Endorse the attached annual report on the investigation of fraud and other issues during 2015 / 2016.	

1. ORIGIN OF REPORT

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

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 “2.2.1.13: *To monitor council policies on “raising concern at work” and the anti-fraud and anti-corruption strategy and the Council’s complaints process*”.

3. TIMESCALE*.*

Is this a Major Policy Item / Statutory Plan?	**NO**	If Yes, date for relevant Cabinet Meeting	**N/A**

4. BACKGROUND

4.1 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 with a dedicated Investigations team which is tasked with reviewing and investigating all allegations of fraud and impropriety, breaches in codes of conduct and high level complaints.

4.2 The attached report demonstrates the success of the team and provides an insight into how this service will continue to operate.

5. CONSULTATION

5.1 This report has been issued to the Director of Governance and Service Director Financial Services for consideration.

6. ANTICIPATED OUTCOMES

6.1 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.

7. REASONS FOR RECOMMENDATIONS

7.1 To enable the Audit Committee to continue to monitor the Council's approach to the areas dealt with by the team.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The option is not to present a report into fraud and the activities undertaken. This could result in a lack of awareness.

9. IMPLICATIONS

8.1 The Council will become more fraud aware and will continue to consider the risks and consequences. 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 across the Council.

10. BACKGROUND DOCUMENTS

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

- None

11. APPENDICES

Appendix A: Annual Fraud report 2015 / 2016

Appendix A

Peterborough City Council

Fraud & Investigations Annual Report

2015 / 2016

Growing the right way for
a bigger, better Peterborough

CITY COUNCIL

Contents

Introduction

The council is committed to providing an effective counter fraud service which is supported by efficient policies and sanctions for those that offend. Counter fraud is the responsibility of everyone in the council and by ensuring that effective measures are in place to prevent, detect, investigate and report fraud we can ensure that public money is spent where it should be, on services for the community.

Failure to investigate fraud will see money leaving the council by way of fraud or error and failure to tackle this effectively could lead to qualified subsidy claims and loss of revenue for the Council. It is therefore important to demonstrate that resources are focussed on fraud reduction and to identify, investigate and rectify administrative weaknesses in order to assure Members and the general public of the quality and integrity of investigations.

From 1 December 2014, 2 officers from the Compliance Team within the Governance Department transferred to Internal Audit. This brought together knowledge to investigate fraudulent activity and was a response to the separate transfer of officers to the Department for Works and Pensions (DWP) as part of its establishment of a Single Fraud Investigation Service (SFIS) to cover benefit fraud. The new team's remit also includes the investigations of disciplinary matters, blue badge misuse, Stage 2 corporate complaints against the Council and Member standards.

Peterborough City Council has policies and procedures in place which provide a framework to counter fraud work, which include:

- Employee code of conduct;
- Disciplinary Policy;
- Member's code of conduct;
- Standing Orders and Financial Regulations;
- Accounting procedures and records;
- Service specific requirements;
- Effective internal audit;
- Regulation of Investigatory Powers Act and procedures;
- Whistleblowing Policy;
- Anti-Bribery Policy; and
- Procurement rules which are all supported by the
- Data Protection Act 1998; and
- Fraud Act 2006.

This report sets out details of:

- The potential levels of fraud occurring in the public sector;
- Steps taken by Peterborough to reduce, identify and resolve these;
- The successes to date; and
- Actions proposed to continue these.

National Studies

Protecting the Public Purse

In October 2014 the Audit Commission issued its annual "Protecting the Public Purse" report. This highlighted emerging fraud risks and fraud trends based on information submitted to the Commission from local authorities across the country in its annual Fraud Survey. Key messages include:

- Local government bodies detected fewer cases of fraud in 2013 / 2014 compared with 2012 / 2013 but their value increased by six per cent to over £188 million;
- The value of detected cases of housing benefit and council tax benefit fraud rose by seven per cent to nearly £129 million;
- The value of detected cases of non-benefit fraud rose by two per cent to £59 million;
- Councils will need to focus on the non-benefit frauds that present the highest risk of losses; and
- Councils are detecting more housing tenancy fraud.

Key recommendations include:

- Local government bodies should assess themselves against the framework in CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption and engage fully with the new CIPFA Counter Fraud Centre;
- Councils should be alert to the risks from fraud particularly in growing risk areas;
- Councils should focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources;
- Councils should focus more on recovering losses from fraud, using legislation such as the Proceeds of Crime Act.

Internal Audit undertook a review of the Council against the above Code of Practice on Managing the Risk of Fraud and Corruption and has established a number of areas to improve. This will be developed during 2016.

Fighting Fraud and Corruption Locally

This is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. The strategy 2016 – 2019 was issued in March 2016, analysis now highlighted that:

- Local government estimated fraud losses totalled £2.1 bn. This covered frauds in order of magnitude: Procurement; Housing Tenancy; Payroll; Council Tax; Blue Badge Scheme misuse; Grants and Pensions.

The European Institute for Combatting Corruption and Fraud (TEICCAF)

Each year the Council participates in an annual survey operated last year by TEICCAF (replacing the Fraud Survey from the Audit Commission – see above). They gather data about fraud from the public sector and charity organisations and then provide analysis of this data which is then shared with participating organisations. The latest submission was completed in April 2016 and the results are awaited. A separate briefing will be provided to Audit Committee when they are released.

National Fraud Initiative

Systems underpinning public spending can be complex and errors can happen. Unfortunately, there are also individuals who seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled. Fraud does not recognise organisational or geographic boundaries. Data sharing enables bodies to match data internally and externally. Technology provides an efficient way to connect discrete data sets and therefore can limit gaps available to fraudsters to manipulate and help identify those that have. It also helps bodies to identify process improvements that can reduce future errors and the costs of correcting these errors.

The National Fraud Initiative (NFI) is an exercise which brings together datasets from across the public and private sectors. The provision of data for the purposes of NFI is a requirement of the Audit Commission Act 1998 and the output to date has been used by the Audit Commission to help them assess the arrangements that the Council has in place to prevent and detect fraud in accordance with the Code of Audit Practice.

The Council is required by law to participate in the NFI by providing a range of datasets to the Audit Commission[1] for matching, on receipt of the results the Council then has the responsibility to follow up and investigate the matches, and identify fraud, overpayment and error. The main NFI data matching is undertaken every 2 years, the results of these matches is fed into a national report at the end of each cycle.

The Council submitted data in October 2014 for the current year and matches for review were received in early 2015. Distinct datasets are prescribed by the Audit Commission, for PCC these are:

- Payroll
- Insurance claims (third party provision – Zurich Municipal)
- Housing benefits (third party provision – Department for Work and Pensions)
- Creditors
- Taxi licences
- Market licences
- Personal alcohol licences
- Travel permits
- Personal budgets

In February 2015 Electoral Registration and Council Tax data was submitted for data matching of Council Tax Single Person Discount and electoral registration data following publication of the Council's new electoral register on 1 December 2014.

Each dataset has specific fields which should be extracted from the various systems. The majority of these should be standard references which the Council is maintaining. Each data matching exercise usually has a number of additional fields requested so as to increase the potential quality of any subsequent match. The detection of errors can help to identify areas for improvement (e.g. data quality) and will increase the efficiency of the organisation (e.g. minimising financial risk). Any identified are reported back to departments to improve the data quality going forward.

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[1] Following abolition, this has been organised by the Cabinet Office

Where personal data was included in the submission, and in order to be compliant with the Data Protection Act, notices were sent to individuals to inform them that their personal data was being submitted as part of the NFI exercise e.g. information within payslips.

The initial results of the 2014 data matching exercise were released on 30 January 2015. The results highlighted various matches for each dataset (See table below). Each dataset is colour coding highlighting the quality of the match i.e. more fields the same such as name, address etc.

The 2014 results have now been investigated which may involve working with other bodies to ascertain the required information. In addition to clearing PCC matches, we will also be responding to information requests from other bodies in order to help with their matches.

TABLE 1: Matches Received to Various Datasets

	Student Loans	Payroll	Pensions	Home Office	Housing Benefit	Housing Tenants	Market Traders Licences	Taxi Drivers Licences	DWP Deceased	Personal Alcohol Licences	Insurance Claims	Creditors
Housing Benefits	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	-	-
Pensions	-	-	Yes	-	-	-	-	-	Yes	-	-	-
Payroll	-	Yes	-	Yes	-	-	-	-	-	Yes	-	Yes
Blue Badges	-	-	-	-	-	-	-	-	Yes	-	-	-
Concession Travel Passes	-	-	-	-	-	-	-	-	Yes	-	-	-
Residential Parking Permits	-	-	-	-	-	-	-	-	Yes	-	-	-
Private Residential Care Homes	-	-	-	-	-	-	-	-	Yes	-	-	-
Insurance Claims	-	-	-	-	-	-	-	-	-	-	Yes	-
Taxi Drivers	-	-	-	Yes	-	-	-	-	-	-	-	-
Personal Budgets	-	-	Yes	-	Yes	-	-	-	Yes	-	-	-

Matches are colour coded, with red being the best matches with the expectation that all these "recommended matches" are investigated. Other matches are to be sample tested. The key outcomes from this are outlined below:

Housing Benefits

- Matches were in place for each dataset. High quality matches have been reviewed and either highlighted that there was no live application in place (the data submitted from other sources may not correspond with our data downloads due to time differences in producing the data) or were there was suspicion of fraud these were referred through appropriate channels to the SFIS.

Payroll

- A number of records were matched with other authorities. Similarly, these were timing issues were current (or ex) employees were on the payroll at other organisations. Each were appropriate as employees moved employers.

Blue Badge and Concessionary Fares

- A number of matches were received against DWP Deceased records. It was determined that the updating of our records was behind schedule, causing a data match. Steps have been taken to speed up data input.

Creditors

- A full download of all creditor payments made during the 2 year period was provided. From all the potential fraudulent matches (263), one duplicate payment was identified - £2,301.30 – and steps have been taken to recover.
- Separate VAT overpayment discrepancies (169) were investigated and again all were found to be correct.

The next NFI exercise is planned for October 2016 and plans are in train to obtain the appropriate datasets for submission.

Investigations

Investigations have been delivered through the Compliance Team within the Governance Department. As referred to within the introduction, the resources were reduced within the team following the transfer of officers to the SFIS in December 2014 and two officers have been transferred to Internal Audit. Electoral integrity work has remained within the Governance department however the investigators remain involved in that work. Any potential matters arising from the electoral integrity work such as Council Tax discount are referred to the team.

The works of the team have covered the areas identified in the chart below.

Benefit Fraud / Council Tax Support

As of 1 April 2013, Council Tax Benefit ceased to exist and was replaced by Council Tax Support schemes. Benefit fraud will always be a risk faced by local authorities owing to the high volumes of payments and complexities of legislation. As mentioned in the introduction, Housing Benefit fraud and historical Council Tax Benefit investigations reverted to DWP from 1 December 2014.

There has been a steady decline in the number of investigations over the last three years, due to a number of factors such as better intelligence to stop claims before they are even set up, and this has mirrored a reduction in the size of the team over the same time period. In 2012 / 2013 the team had 3.0 FTE investigating benefit fraud which by the time of transfer had reduced to 1.5 FTE.

The Council has a dedicated "fraud" hotline. Information is received, recorded and initial sifting takes place. Some information may be malicious and cases are closed while others may have substance and these are referred to the appropriate organisations to investigate. In 2015 / 2016, 343 referrals were received – 88 following initial sift were referred through to visiting officers to verify information; 82 were rejected as there was no live claim; and a further 18 sent to DWP as housing benefit related only. The remaining 155 cases were investigated, or are in the process of being reviewed.

A separate exercise into single person discounts has been commissioned which could produce additional successes.

Investigation types are set out in table 2 below.

TABLE 2: Types of Investigations
Benefit Fraud / Council Tax Support - Contrived Tenancy; Living Together; Non-Residency; Undeclared Capital; Undeclared Income; Undeclared Non Dependency; Working and Claiming

In accordance with legislation, we are able to offer a financial penalty arising from the offence as an alternative to prosecution and in addition to the overpayment. This equates to 50% of the overpayment. If this is not accepted, the matter will be referred for prosecution. In some cases, it may be appropriate to offer a caution to the individual as an alternative to prosecution. Again, should this not be accepted, the matter will be referred for prosecution.

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. We continue to apply the appropriate evidential and public interest tests to matter before deciding to prosecute.

<u>Corporate Complaints</u>

Complaints received against the Council are initially investigated internally, and these cover Stage 2 Complaints.

Each complaint is followed up by a Head of Service and outcomes produced. If there is still dissatisfaction then it is referred through to the Chief Internal Auditor. This assessment will then determine, based on all the information available, if the process has been completed in full. If it has the complainant will informed of this and unless further mediation is undertaken, can then be referred through to Local Government Ombudsman. If gaps are identified, then a full review will be commissioned.

During 2015 / 2016, 8 cases have been completed at the end of the year, a further 5 are in progress.

<u>Disciplinary Cases</u>

13 cases of alleged disciplinary breaches were investigated. The results of these include dismissals, final written warnings, verbal warnings and resignations.

Blue Badge Misuse

Work is undertaken to look into Blue Badge abuse. 15 cases were reviewed in 2015 / 2016. Regular blue badge “drives” are undertaken by the Enforcement Team and a further 12 cases have been identified in the first 2 months of 2016 / 2017.

Conclusions / Going Forward

No local authority is immune from fraud. Acknowledging this fact is the most important part in developing an appropriate and effective anti-fraud response. Recognising fraud must also incorporate a thorough understanding and knowledge about what the fraud problem is, where it is likely to occur, and the scale of potential losses.

During 2016 / 2017, works planned to acknowledge and understand fraud risks include:

- Promote the Councils whistleblowing, anti-bribery policy and anti-money laundering policy, raising the awareness across the Council; and

- Undertake risk assessments of specific areas potentially susceptible to fraud led by Internal Audit involving individual service managers – this will form the basis of prioritising the Council’s anti-fraud response in future years. This will incorporate a separate fraud risk register.

Steve Crabtree
Chief Internal Auditor
June 2016

AUDIT COMMITTEE	AGENDA ITEM No. 8
29 JUNE 2016	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel. 384557

Annual Audit Opinion for the Year Ended 31 March 2016

R E C O M M E N D A T I O N S	
FROM : John Harrison, Corporate Director Resources	**Deadline date :** N/A
Audit Committee is asked to: 1. Consider and endorse the attached Chief Internal Auditor's annual report for the year ended 31 March 2016.	

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee and provides details of the performance of Internal Audit during 2015 / 2016 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 "2.2.1.1 To consider the annual audit report and opinion of the Executive Director (Strategic Resources) 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 purpose of this 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. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	**NO**	If Yes, date for relevant Cabinet Meeting	**N/A**

4. BACKGROUND AND OVERALL OPINION

4.1 The Internal Audit Opinion is based on review work undertaken during the period April 2015 to March 2016 and is set out in the attached **Appendix A**.

4.2 In preparing the opinion, the Chief Internal Auditor has reviewed all audit activity carried out relating to 2015 / 2016. Each individual audit undertaken contains an assurance opinion on the adequacy and effectiveness of controls in place to mitigate the risks identified. Where systems have fallen below expected standards, details of these have been identified within the report as well as throughout the year to Audit Committee.

Furthermore, ongoing internal performance indicators are monitored and their level of achievement, or otherwise, are included for information purposes.

4.3 **The overall conclusion based on our work 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 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.**

5. CONSULTATION

5.1 Summary committee reports are produced and discussed periodically through Audit Committee for information and challenge. All audit reports are issued 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 (last approved by Audit Committee March 2016).

6. ANTICIPATED OUTCOMES

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

7. REASONS FOR RECOMMENDATIONS

In accordance with the Accounts and Audit Regulations 2011; the CIPFA Code of Practice for Internal Audit in Local Government 2006 and the Public Sector Internal Audit Standards (2013), 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.

8. ALTERNATIVE OPTIONS CONSIDERED

No other options are appropriate.

9. IMPLICATIONS

There are no specific financial implications as a result of this report. Where control risk areas have been identified, each Directorate would be responsible for any financial resource implications as appropriate.

10. BACKGROUND DOCUMENTS

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

Internal Audit Plan 2015 / 2016
Internal Audit Reports

11. APPENDICES

Appendix A – Audit Opinion

APPENDIX A

PETERBOROUGH CITY COUNCIL

ANNUAL AUDIT OPINION

2015 / 2016

ANNUAL REPORT

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 Corporate Director 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. 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. The overall report will then feed into the Annual Governance Statement included in the Statement of Accounts.

2. ARRIVING AT AN OPINION

2.1 Background

The opinion is derived from work carried out by Internal Audit during the year, as part of the agreed Internal Audit Plan for 2015 / 2016. 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 but, where possible, we have considered the work of other assurance providers, such as External Audit.

2.2 Risk Based Planning

Internal Audit continues to embrace the risk assessment approach to audit. A risk based approach is used to develop the Internal Audit Annual Plan, allowing us to direct resources at areas key to the organisation's success and to provide an opinion on the control environment as a whole. During the course of the year the risks of the Authority are continually reviewed and used to update the plan. Each audit job also uses risk assessment to ensure that suitable audit time and resources are devoted to the more significant areas. 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.

2.3 The Audit Review

There are three elements to each internal audit review.

- Firstly, the control and risk 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 adequacy of the control framework in place.

- 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 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.

2.4 Reporting

Where appropriate, each report we issue during the year is given an overall opinion based on the criteria below. Certain pieces of work do not result in an audit report with an opinion – such as consultancy work, grant reviews, involvement in working groups, review of National Fraud Initiative (NFI) reports and follow-ups (unless further recommendations are made). However the certification of grant work should indicate that at the point of approval, information being submitted to external organisation meets required criteria. The assessment from each report, along with our consideration of other audit work, is used to formulate the overall Opinion.

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 / failure to achieve key objectives.

This is based upon the number and type of recommendations we make in each report. The prioritisation is established as follows:

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

3. **OPINION 2015 / 2016**

As Head of Internal Audit, in line with Public Sector Internal Audit Standards and prior best practice, I am required to provide an opinion on the overall adequacy and effectiveness of the Council's control environment. I have undertaken the following in order to form a basis for providing my assurance:

Assessed the quantity and coverage of internal audit work against the 2015 / 2016 internal audit plan to allow a reasonable conclusion as to the adequacy and effectiveness of the council's risk management control and governance processes;
Reviewed the reports from the reviews undertaken during the year by Internal Audit and other assurance providers where appropriate;
Considered any significant actions not accepted by management and the consequent risks, of which there were none;
Assessed the status of actions identified as not implemented as part of Internal Audit follow up reviews and subsequent progress tracking;
Considered the effects of significant changes in the Councils objectives or systems and the requirement for Internal Audit involvement;
Reviewed and considered matters arising from reports to Council committees; and
Considered whether there were any limitations which may have been placed on the scope of Internal Audit.

Following consideration of the above I am able to provide the following Head of Internal Audit Opinion for 2015 / 2016:

I am satisfied that sufficient quantity and coverage of internal audit work and other independent assurance work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes. In my opinion, the Council has adequate and effective systems of internal control in place to manage the achievement of its objectives. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.

Notwithstanding my overall opinion, Internal Audit's work identified a number of opportunities for improving control procedures which management has accepted and are documented in each individual audit report.

Chief Internal Auditor
June 2016

4. BASIS OF ANNUAL OPINION

4.1 The audit work that was completed for the year to 31 March 2015 is detailed at the end of the report and lists all the audits and their results in terms of the audit assurance levels provided and the number of recommendations made. A summary of assurance levels is detailed below. This shows that **76%** of the systems audited that were given an assurance opinion achieved an assurance level of significant or higher (2014/15: **44**% 2013/14: **43%**). The increased proportion of higher assurance levels in the year is likely to be the result of the change in focus and approach of audit work. This is particularly due to some areas of work being undertaken whilst services and systems were experiencing on going change and audit activity was real time rather than 'looking back' at historical events. This also reflects the reduction in recommendations being made during 2015/16.

AUDIT ASSURANCE						
Assurance Levels	**Issued**			**%**		
	2013/14	**2014/15**	**2015/16**	**2013/14**	**2014/5**	**2015/16**
Full	0	0	0	0	0	0
Significant	6	8	13	43	44	76
Limited	7	9	3	50	50	18
No	1	1	1	7	6	6
	14	**18**	**17**	**100**	**100**	**100**

RECOMMENDATIONS MADE			
	Numbers		
	2013/14	**2014/15**	**2015/16**
Low	31	38	39
Medium	45	68	65
High	40	67	37
Critical	1	0	0
	117	**173**	**141**

4.2 In addition to the audits detailed in the above table, further audit work was carried out, including 4 follow-ups, 9 grant reviews, 15 pieces of consultancy or unplanned work resulting in memos as well as 5 governance reports. At the year-end 11 audit reviews and 1 follow up were in various stages of completion and audit opinions relating to these will be reported during 2016 / 2017 as part of the agreed performance reporting timetable to the Audit Committee.

4.3 **Annual Governance Statement**

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.

4.4 Risk Management and Business Continuity

Progress continues to be made, where the risk management working group meets regularly to discuss emerging issues and changes in risk. Risk registers are updated in conjunction with the Corporate Management Team and reported to Audit Committee. The risk management team and working group continue to cascade the risk process throughout the authority in developing robust reporting mechanisms.

4.5 Key Financial Systems

One or more of the authority's key financial systems is reviewed every, based on an assessment of risk. This year, cash and banking controls were reviewed, with no major issues identified. Payroll and budgetary controls within a capital project are also nearing completion. Any major issues arising will be reported to audit committee as appropriate. Audit activities have also included reviewing and advising on the implementation of the new Human Resources system and Agresso. Whilst time was included in the plan for the Human Resources system this was not the case for Agresso due to a delay in the original system implementation date. The impact of this as that a significantly increased amount of time has been spent on the organisation's core financial system than originally planned. Any issues arising were addressed as the review progressed. This audit approach has resulted in the ability to give a significant assurance on the areas reviewed which included Data Migration, User Acceptance Testing, Interfaces, Authorisation Hierarchy and Access Rights.

4.6 External Activities

Internal Audit has undertaken a number of reviews under a Service Level Agreement with Vivacity Leisure Trust. The nature of the works undertaken are confidential between internal audit and the client and are not incorporated into or form part of the Head of Internal Audit Annual Opinion.

4.7 Allegations of Fraud / Irregularity and Breaches of Code of Conduct

Internal audit also includes the investigations team who are responsible for reviewing Benefit Fraud, corporate fraud, staff misconduct and Blue Badge fraud. A separate report covering their activity for the year is brought to the Audit Committee alongside this one. There is some crossover in the work of the investigations team and Internal Audit, particularly where control failures have resulted in alleged corporate fraud. In 2015 / 2016 Internal Audit have been involved in one investigations, which is ongoing.

The Public Sector Internal Audit Standards require Internal Audit to evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities. This includes a review against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014); an assessment of our current policies and procedures together with the establishment of a fraud and corruption risk register. Internal Audit has established a baseline assessment against the standards together with a potential action plan to move forward. This will be developed further during 2016 to review and update the necessary policies and procedures; provide appropriate training and raise awareness across the council.

4.8 **Limited and No Assurance reports**

The audits listed below have resulted in a limited or no assurance opinion. Where the resultant reports have been issued as a final, executive summaries are provided within Section 7.

Reports for 29 June 2016

- Mobile Phones
- Statutory Testing

Reports which have a limited opinion and are in draft at the year-end will be reported to subsequent Audit Committee meetings as they are finalised.

4.9 **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. One area that is worthy of note is:

Statutory Testing: This review was carried out in response to concerns raised around statutory testing and the required remedial work within Council properties. The audit found little evidence that the statutory testing programme was being actively managed or monitored. Issues were also identified around charging where it was found that PCC have been charged in excess of £19,000 for tests that could not be evidenced by supporting documentation and so it was unclear whether or not the testing had been delivered. Similarly it was found that PCC had been charged £1,066 for tests carried out at two sites where the testing had been done by independent contractors and payment had been made locally by the sites.

As a result of the issues found during this review the decision was taken to include a Statutory Asset Testing audit across a number of schools as part of the 2015/16 audit plan. The review is presently in draft and will be reported to the Audit Committee once it has been finalised.

5. RESOURCING AND PERFORMANCE

5.1 Resourcing

5.1.1 During 2015 / 2016, resources were made up as follows:

Chief Internal Auditor	1 post	0.40 FTE
Group Auditor	2 posts	1.46 FTE
Principal Auditor	1 post	0.60 FTE
Senior Auditor	2 posts	1.80 FTE
Auditor	1 post	1.00 FTE
TOTAL		5.26 FTE

Staffing levels for Senior Auditors were reduced in August 2016 by 20% for one post due to reduced hours being worked.

5.1.2 The shared service arrangement with Cambridge City Council and South Cambridgeshire District Council, which has delivered efficiency savings and improved performance, has continued. Under this arrangement the Chief Internal Auditor's full time post is split between the authorities with South Cambridgeshire District Council receiving 20% of the post and Peterborough and Cambridge both receiving 40%.

5.1.3 In addition to the Internal Audit shared service arrangement the Chief Internal Auditor has management responsibility for the Insurance Team and the Compliance Team.

5.1.4 The level of sickness within the Internal Audit team is low with 1.33 days per person (0.5%) reported during the year compared to 1.58 days per person at the same time last year. This is also below the corporate target of 3% for employees (8 days).

5.2 Performance

5.2.1 The team has delivered 828 direct audit days against the original plan of 810 days (adjusted by 30 days to encompass the reduction of FTE). Where reviews were not delivered, this was mainly due to changes in priority, resulting in reviews being replaced with other unplanned audits. This was particularly relevant in relation to our core systems work in relation to the Agresso activities undertaken. There was similarly an extended review in relation to Statutory Testing, an expansion of audit scope to the NFI initiative and an ongoing investigation which has diverted audit resources. As the organisation is continually going through a cycle of change, business needs will also change. Some of the previously requested or planned reviews were found to be no longer appropriate or a priority and have not therefore been undertaken in agreement with the business. Where reviews are still considered to be pertinent they have been rescheduled to be undertaken during 2015/16.

5.2.2 All reports, plans and progress reports have been produced in accordance with agreed timescales and presented to Members via the Audit Committee. The Annual Governance Statement was reviewed by External Audit without any adverse comments.

5.2.3 Customer feedback remains very positive with continued high levels of satisfaction demonstrated from our customer questionnaires in excess of our target. Additionally, Internal Audit has undertaken a customer survey which is due to be completed in the near future. Early indications are that feedback is very positive and this will be reported to audit committee in the future along with any management improvement plan as appropriate. Internal Audit have also provided services to external customers and positive comments have been received regarding the reviews undertaken. This work has generated additional funds for the Council.

5.2.4 96% of all recommendations made in 2015 / 2016 have been accepted by management (100% of high and critical recommendations), against a target of 90%.

5.2.5 Where we have conducted follow-ups, we found that 85% of high priority recommendations that were agreed have been implemented, against a target of 90%. High recommendations that haven't been implemented relate mainly to the Frameworki System. There are limitations with the system and plans are in place to replace it in the future. However, management have given assurance that mitigating controls are in place. One further follow-up review related to Electronic Call Monitoring, which had been previously reported to Audit Committee. A decision was made to not introduce mandatory electronic call monitoring, however following a restructuring exercise the Assistant Director who is now responsible for the service is reviewing what the position on this area of activity should be. Internal Audit will review the outcome of this process and undertake any audit work as considered appropriate.

5.2.6 Internal Audit has historically reported on the effectiveness of internal audit against the Public Sector Internal Audit Standards (PSIAS) as a separate report item to this agenda on an annual basis. This is no longer an annual requirement and is therefore not reported at this time. A review of Internal Audit processes against PSIAS is planned for 2016/17 and the outcomes will be reported to the audit committee accordingly.

6. ASSURANCE LEVELS AND RECOMMENDATIONS 2015 / 2016

Where audits are “shaded”, these represent those jobs not started at 31 March 2016.

Where audits are “shaded”, these represent those jobs not started at 31 March 2016.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
CORE SYSTEM ASSURANCE WORK	**Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority’s Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.**							
Budgetary Control	All							A risk based review concentrating on budget management within one or more directorates. – **IN PROGRESS**
Payroll	Serco / Resources							A cyclical review of key controls. – **IN PROGRESS**
Fixed Asset Accounting	Serco / Resources							A cyclical review of key controls. **Other higher priority audit activities replaced this review**
HR IT System	Serco / Resources	N/A	N/A	N/A	N/A	N/A	N/A	A review of the control framework during the design and implementation of a new HR IT system designed to enable self-serve processes. **– Audit consultancy advice activity has been undertaken on an on-going basis during the year. The project has recently been put on hold pending the appointment of a new project manager. Further implementation consultancy and post implementation testing will be undertaken during 2016/17 as appropriate.** - **COMPLETE**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
CORE SYSTEM ASSURANCE WORK	**Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.**							
Cash and Banking	Serco / Resources	Significant	0	1	4	6	11	Review of key controls – **FINAL**
Financial System Project Implementation (Agresso) (Unplanned work) Data Migration User Acceptance Testing Interfaces Authorisation Hierarchy Access Rights	Serco / Resources	 Significant Significant Significant Significant Significant	N/A	N/A	N/A	N/A	N/A	A review of the control framework during the design and implementation of a new Finance system, including Accounts Payable, Accounts Receivable and General Ledger. **Series of Memos and advice issued during the course of the review. The process was evolving throughout the consultancy audit work and suggested amendments were discussed and actioned within the review period. An overarching report will be produced detailing the work undertaken.**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK	**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, as well as high level governance reviews.**							
Annual Governance Statement Review	All	**COMPLETED.** Presented as draft to Audit Committee on 29 June 2015 and final agreed by Audit Committee on 21 September 2015						
Annual Audit Opinion / Progress Report	All	**COMPLETED**. Presented to Audit Committee on 29 June 2015. Progress report presented to Audit Committee on 9 November 2015						
Internal Audit Effectiveness / Audit Committee Effectiveness	All	**COMPLETED**. Presented to Audit Committee on 29 June 2015						
Investigations Team Annual Report	All	**COMPLETED**. Presented to Audit Committee on 29 June 2015						
Annual Audit Plan	All	**COMPLETED.** Presented to Audit Committee on 21 March 2016						
Anti-Fraud Culture	All	NFI Initiative – on-going review of data matches and liaison with 3rd parties where appropriate. Further data matches were released during the year for investigation. Additional work was undertaken by internal audit than previously planned due to restructure of the investigations team – **COMPLETED** Various memos were produced as appropriate to address the findings of the data matching exercise. Separate information is also provided in the Annual Fraud Report. (see Committee Agenda) Liaison with the Investigations Team and evaluation of controls resulting from frauds ongoing						
Assurance Framework	All	**IN PROGRESS**. Work is being undertaken in conjunction with the Governance Department in producing a Governance and Assurance Framework.						
Partnership Governance	Serco / Resources	**Deferred at the request of the Service Director due to structural changes within the organisation. The review has been agreed to roll forward into 2016/17.**						
Corporate Fraud Strategy and Development	All	**Anti-Fraud and Corruption Strategy, Fraud Response Plan, Prosecutions and Sanctions Policy. IN PROGRESS - A baseline assessment has been undertaken against the Code of Practice on Fraud and Corruption. An action plan has been identified and will be put in place in the future.**						
Working Groups	All	**Audit activities undertaken as part of working parties providing advice or acting as a critical friend.**						
Information Governance	All	Liaison and strategic overview as part of the Strategic Governance Board, Information Governance Group and liaison with the Compliance Team, Governance – **COMPLETED**						
Risk Management	All	Attendance at Risk Working Group. **COMPLETED**						

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
STRATEGIC AND OPERATIONAL RISKS	**Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks**							
Connecting Families-Phase 2	People	Significant	N/A	N/A	N/A	N/A	N/A	A review of the Connecting Families Outcome Plan as part of the phase 2 of the programme. – **FINAL**
Carbon Reduction	Growth and Regeneration	Significant	0	0	1	4	5	Review the arrangements for CRC reporting as a result of legislative changes and data validity. **FINAL**
Clare Lodge	People and Communities	Significant	0	0	3	0	3	A review of income arrangements to ensure that processes maximise receipts. – **IN DRAFT**
Commissioning and Procurement	People and Communities							Review new commissioning procedures, to include a look at whether all aspects of financial accountability / procurement have been appropriately incorporated into the new people and communities directorate. – **IN PROGRESS**
Better Care Fund	People and Communities							Review governance and risk management arrangements for the Better Care Fund pooled budgets. – **Replaced with prioritised unplanned audit work. Elements of the review will be incorporated into planned 2016/17 reviews.**
Care Act Compliance	People and Communities							Review of policy arrangements to ensure they are Care Act compliant and reflect working arrangements. – **Replaced with prioritised unplanned audit work. Elements of the review will be incorporated into planned 2016/17 reviews.**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
STRATEGIC AND OPERATIONAL RISKS	**Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks**							
Regulatory Services	Governance							A review of governance and process arrangements within Regulatory Services following reorganisation, Including outcomes for the customer experience. **– Originally identified as a Management Request. Discussions identified as no longer required.**
Coroner’s Office	Governance							Review of support services processes as a result of proposed centralisation of coroner’s services. To also include a general review of allowances. – **Initially deferred at service request and put on hold pending other audit activities.**
Schools	People and Communities	**Review of financial and governance arrangements in a selection of schools**						
Castor Primary – payroll f/up	People and Communities	Significant	0	0	1	2	3	Most recommendations had been implemented with a good demonstration of segregation of duties. **FINAL**
Winyates Primary	People and Communities							In Progress
Schools - Health and Safety Statutory Testing	Resources	Limited	0	1	2	2	5	A themed review across school establishments to ensure robust processes are in place to ensure that statutory requirements are met. **IN DRAFT**
Schools – Gifts and Hospitality	People and Communities	Significant	0	0	5	3	8	Review the effectiveness and implementation of the recently introduced schools gifts and hospitality policy. A themed review across school establishments. – **IN DRAFT**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
STRATEGIC AND OPERATIONAL RISKS	**Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks**							
Statutory Compliance Testing (Unplanned – c/fwd)	Resources	Limited	0	2	5	0	7	A review across establishments to ensure robust processes are in place to ensure that statutory requirements are met – **FINAL** Executive Summary reported to Audit Committee June 2016.
Cash Handling (Unplanned)	People and Communities / Resources							Investigation into cash handling and establishment procedures. Investigation is on-going with an external body. An internal audit report to be issued upon finalisation of the investigation. **ON-GOING**
Blue Badges (unplanned)	Governance / Resources	Significant	0	0	2	0	2	Additional audit work was undertaken as a result of a significant number of queries arising from the NFI Data. Matching Exercise. Scope included: • Eligibility of applications • Collection of badges • Documentation held in BBIS and info@work. **FINAL**
Local Offer (Unplanned)	People and Communities / Governance							Service request to undertake an independent self-assessment of PCC's approach to the Open Offer Scheme using the recommended toolkit and feed into an action plan for improvements as appropriate. - **ONGOING**
Concessionary Bus Passes (unplanned)	Growth and Regeneration	Significant	N/A	N/A	N/A	N/A	N/A	Additional audit work was undertaken as a result of a significant number of queries arising from the NFI Data. Information was provided by Internal Audit to enable system data to be validated. Follow on work undertaken by Internal Audit confirmed corrective action and new controls had been implemented. - **FINAL**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
STRATEGIC AND OPERATIONAL RISKS	**Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks**							
Resources - RECAP	Resources							Review the project management of the expanding Material Recycling Facility. Possibility for a joint audit with our shared service partners. **Review with other authorities was deemed not to be required in the current year.**
Data Security – Mobile / Technology	Resources							Review the control of data security on mobile/remote technology and the proposed move to cloud based servers. **Alternative mobile device audit/consultancy work undertaken, see Mobile consultancy, FOI memos.**
IT Strategy	Resources							A review of selected projects which support and form part of the overall IT Digital Strategy – **On hold due to an external review being undertaken. This will be revisited in 2016/17 post external review.**
Pensions	Governance							A review to ensure that tier bandings have been applied appropriately following pension changes in April 2014. **– IN PROGRESS**
Strategic Housing	People and Communities							A review of governance and process arrangements within Strategic Housing to include consideration for outcomes such as the customer experience. – **Replaced with prioritised unplanned audit work.**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
Projects	All	**Reviews of project framework or specific projects, either across the life of a project or concentrating on particular stages such as governance, feasibility, delivery or post-implementation review**						
Capital Project Management	Resources							Act as a critical friend during the implementation of a project management governance framework. – **IN PROGRESS**
Value For Money Reviews	All							To be undertaken subject to resources. Not undertaken during the year.

EXTERNAL WORKS	**Work which generates income for the council**
Vivacity	4 rolled forward reviews completed 8 reviews completed 2 reviews in progress

<table>
<tr><th rowspan="2">AUDIT ACTIVITY</th><th rowspan="2">Department</th><th rowspan="2">ASSURANCE LEVEL</th><th colspan="5">RECOMMENDATIONS MADE</th><th rowspan="2">COMMENTARY</th></tr>
<tr><th>Critical</th><th>High</th><th>Medium</th><th>Low</th><th>Total</th></tr>
<tr><td>GRANT CLAIM CERTIFICATION</td><td colspan="8">Certification of claims in relation to UK and European funding requirements</td></tr>
<tr><td>Bus Service Operators 2014/15</td><td>Growth and Regeneration</td><td>Certified</td><td colspan="6">A grant to support bus services, including community transport services.</td></tr>
<tr><td>Local Transport Funding Grant 2014/15.</td><td>Growth and Regeneration</td><td>Certified</td><td colspan="6">This grant is used by local authorities for small transport improvement schemes costing less than £5 million and also for planning and managing the road networks.</td></tr>
<tr><td>Local Transport Funding – Additional Highways Grant</td><td>Growth and Regeneration</td><td>Certified</td><td colspan="6">A grant to support local authorities in funding capital costs for integrated transport measures and highway maintenance schemes.</td></tr>
<tr><td>Pinch Point Grant 2014/15</td><td>Growth and Regeneration</td><td>Certified</td><td colspan="6">A fund to help local authorities keep traffic moving and remove bottlenecks on the local highways network.</td></tr>
<tr><td>Severe Weather Grant 2014/15</td><td>Growth and Regeneration</td><td>Certified</td><td colspan="6">A scheme to support local authorities with costs in dealing with pothole repairs.</td></tr>
<tr><td>Local Sustainable Transport Grant</td><td>Growth and Regeneration</td><td>Certified</td><td colspan="6">A scheme to help local authorities to cut carbon emissions and create local growth.</td></tr>
<tr><td>Heritage Woodland in Action</td><td>Growth and Regeneration</td><td>No further action</td><td colspan="6">A grant to support the restoration of ancient urban woodland. – Confirmation that Internal Audit certification is no longer required. No further action</td></tr>
<tr><td>Disabled Facilities Grant 2014/15</td><td>People and Communities</td><td>Certified</td><td colspan="6">Non ring-fenced capital funding towards Disabled Facilities grants that PCC can award to disabled clients for necessary housing alterations.</td></tr>
<tr><td>Troubled Families</td><td>People and Communities</td><td>Certified</td><td colspan="6">Results based funding to support families meeting certain criteria.</td></tr>
</table>

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
OTHER RESOURCE PROVISION	**Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.**							
Carry Forward Provision	**Provision for the completion of 2014-15 audits**							
Budgetary Control	People and Communities	Significant	0	0	3	0	3	**FINAL** - An overall assurance can be given on the processes in place to manage Adult Social Care and Health & Wellbeing budgets, including the monitoring of savings.
Liquid Logic IT system	Governance	Significant	0	0	1	1	2	**FINAL** - The granting of access and change of access for staff/users to either LCS or EHM is considered to be well controlled.
Payroll Overpayments follow up	Serco / Resources	Significant	0	0	3	1	4	**FINAL –** Outstanding balances were found to have reduced since the previous review, however there were still some areas where Managers were slow to advise of staffing changes.
Travel and Subsistence follow up	Serco / Resources	N/A	N/A	N/A	N/A	N/A	N/A	**MEMO ISSUED** – All previous recommendations had been implemented
Translation Services follow up	People and Communities	N/A	N/A	N/A	N/A	N/A	N/A	A review of supplier payments in relation to translation and interpretation services. **MEMO ISSUED**
Petty Cash – St Georges	People and Communities	Limited	0	3	3	3	9	**DRAFT ISSUED** awaiting response
Petty Cash – Childrens Services	People and Communities	Limited	0	9	7	8	24	**DRAFT ISSUED** awaiting response
Fuel Cards	Serco / Resources	Limited	0	1	6	2	9	**DRAFT ISSUED** awaiting response

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	**High**	**Medium**	**Low**	**Total**	
OTHER RESOURCE PROVISION	**Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.**							
Carry Forward Provision	**Provision for the completion of 2014-15 audits**							
School C	People and Communities	No Assurance	0	14	10	4	28	**FINAL**–Executive Summary reported to Audit Committee November 2015
Mobile Phones – Value For Money Review`	All	Limited	0	6	9	3	18	**FINAL REPORT AND MEMOS** issued. Executive Summary reported to Audit Committee June 2016.
Follow–up Provision:	**Revisiting audits after 6 months to monitor the implementation of recommendations**							
Frameworki – follow up	People and Communities	N/A	N/A	N/A	N/A	N/A	N/A	**COMPLETE –** Limitations within the system have restricted the implementation of recommendations. Management have introduced mitigating controls.
Electronic Call monitoring follow up	People and Communities	N/A	N/A	N/A	N/A	N/A	N/A	**MEMO ISSUED** - A change in focus since the original report was issued to outcome based monitoring of care services delivery means that use of the ECM system is no longer considered mandatory.
Parking Services follow up	Governance							**In progress**
Quality Assurance in Children's Services Follow up	People and Communities	N/A	N/A	N/A	N/A	N/A	N/A	**MEMO ISSUED –** All recommendations had been implemented.

AUDIT ACTIVITY	Department	COMMENTARY
Provision for unplanned activities:	**Internal Audit provides control and risk advice to officers/management/members as a result of changing risks. This audit activity covers review work that is additional and was not specified as part of the original audit plan**	
The Beeches Primary School	People and Communities	Control advice in relation to procedures for purchasing cards. **COMPLETE**
Care Services Complaint	People and Communities / Governance	A joint exercise undertaken. Audit activities included review of electronic call monitoring information, invoicing along with information within the care management system for a specific supplier and service user. **COMPLETE**
School A	People and Communities / Resources	Investigation into allegations of inappropriate spending. Undertaken jointly with fraud team. Investigation is on-going with an external body. **ON-GOING**
School B	People and Communities / Resources	Assistance provided to an external organisation as a result of internal audit activities historically undertaken. **COMPLETE**
Parking Charges PCN's	Governance	Management request – A review of cancellation processes. Memo issued. **COMPLETE**
Mobile Phone Usage	People and Communities	Management request for data analysis in relation to specific users. **COMPLETE**
Mobile Phone - FOI	Governance	Management request for data analysis in relation to a FOI in relation to Councillors mobile phone usage and expenditure. **COMPLETE**
Mobile Phone Invoicing and Portal Information	Governance	Consultancy advice regarding mobile phone data and reporting information via the telephone supplier portal. **COMPLETE**
Schools	Resources	Advice on selling unwanted items. Guidance on the use of purchasing cards. Control guidance with regards to segregation of processes for BACs payments **COMPLETE**
Procurement	Resources	Guidance and advice regarding Supplierforce Guidance and advice regarding a supplier in Liquidation COMPLETE
Carer Payments	People and Communities / Resources / Serco	A review of processes following the delay of a payment run. COMPLETE

7. AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE

AUDIT ACTIVITY		ASSURANCE RATING	DATE TO AUDIT COMMITTEE
1.	School C	Limited	09 November 2015
2.	Statutory Compliance Testing	Limited	29 June 2016
3.	Mobile Phones	Limited	29 June 2016

Audit Title 1	**Statutory Testing**
Objectives	The purpose of the audit was to review processes and procedures to establish whether statutory required controls are in place for the identification, undertaking, documenting and performance monitoring of statutory asset testing
Findings	• Little evidence was found to suggest the statutory testing programme is being actively or adequately managed. It is clear Amey are responsible for the delivery of the programme and Serco for the management and reporting on delivery, however this is not the case regarding who within Peterborough City Council is responsible for overseeing the Amey/Serco relationship ensuring the programme is delivered on a daily basis. • The Property Masterfile (PDM08) has not been regularly maintained and Technology Forge does not hold all current test documentation. Both situations make it difficult to establish and confirm whether the testing programme is being delivered. • Issues were identified around charging where it was found that PCC have been charged in excess of £19,000 for tests that could not be evidenced by supporting documentation and so it was unclear whether or not the testing had been delivered. Similarly it was found that PCC had been charged £1,066 for tests carried out at two sites where the testing had been done by independent contractors and payment had been made locally by the sites.
Opinion and Conclusions	The audit reviewed statutory testing at a sample of local authority sites, during the audit a number of control issues around delivery, performance and monitoring of the programme were identified. Evidence was found during the audit to suggest that statutory testing is being undertaken within Peterborough City Council however, approximately 6% (15 out of 262) of the test population could not be evidenced and so it was unclear whether or not the testing had been completed. It is our view that until the delivery and performance improve and the monitoring role is filled there continues to be a risk that PCC is not meeting their statutory responsibility. As a result of the issues found during this review the decision was taken to include a Statutory Asset Testing audit across a number of schools as part of the 2015/16 audit plan. Limited Assurance

Audit Title 2	**Mobile Phone Utilisation**

Objectives	The purpose of the audit was to establish whether mobile phones are being utilised in the most cost effective way. The scope covered: • Efficiency in the use of the T-Mobile contract (including periods with no usage, call recipients, and officers with multiple devices which perform the same function) • Personal usage, and whether this is declared and paid for
Findings	• When a T-Mobile SIM has been activated, the City Council is tied into a 36 month minimum contract from the date of activation. Applications for devices are made via an ICT helpdesk call. Although Serco generally require a second officer to approve the application, this is not always the budget holder. It is understood that Serco explain the minimum contract term when a quotation is sought, but there is no explicit acceptance of the term by the budget holder, and therefore there is a risk that budget holders are unaware that the costs are committed to their budget for this term. • No central monitoring takes place to ensure that devices are being used sufficiently to justify having them; that officers only have the devices that they actually need; and that personal usage is being declared and paid for. This responsibility is left to departmental managers. However the billing information provided to managers is not sufficient to allow any meaningful monitoring • Each directorate has at least one Mobile Phone Administrator (MPA). However the scope of this role has not been formally agreed, and MPAs' understanding of their role does not match that expected by Strategic Commissioning / Transformation and Serco ICT • Analysis found that 51.6% of phones allocated to PCC billing units had either no, or de minimis, chargeable use between a six month period. Bills for 27 out of 29 laptop dongles showed no evidence of 3G internet browsing over the same period. This calls into question whether devices are genuinely needed. • 73 officers had declared personal usage in the T-Mobile portal for a six month period totalling £856, but examination of Oracle budget codes could only identify payments from 20 of these officers, totalling £278 (32.5%). • 33.2% of City Council phone users have not been granted access to the T-Mobile portal, and thus cannot check their bills, or declare and quantify personal usage. • Analysis of bills found evidence of some premium rate numbers, international usage, picture text messages, and significant usage during unsocial hours, all of which may be indicators of undeclared personal usage. 280 different phone numbers were identified which had been contacted overnight at least once during a one month period from corporate T-Mobile numbers. If extrapolated, the estimated annual cost of calls to those numbers would be in the region of £7000.

Conclusions	Lack of central monitoring means that the City Council cannot form a holistic view of device usage, or identify areas of non-compliance. It is important that key roles and responsibilities are agreed, documented, and circulated, and that budget holders are provided with sufficient information to allow them to challenge the use or non-use of devices within their teams. Audit testing and analysis suggest that for a significant proportion of its SIM devices on T-Mobile contracts, the City Council may not be getting VFM. This is not because contract terms seem unfavourable, but because billing analysis indicates these devices do not seem to be used sufficiently to justify having them. However, it may be that some of these devices are being used predominantly for purposes that would not result in bill entries (e.g. incoming calls and Wi-Fi internet browsing), and this could affect management's opinion on whether each device is providing VFM. Some officers have multiple devices where there are duplication of functions, and a cheaper option might still have satisfied their needs. For example, 91 individuals have iPads and iPhones, but if the cheaper Nokia handset had been obtained in each case instead of an iPhone, the annual saving would have been approximately £11k across the authority. The minimum contract term commits each activated SIM to three years' worth of line rental charges, and early cancellation will require full payment of the remaining contract period. As the City Council's digital strategy unfolds, careful consideration will need to be given to the devices required by officers to ensure that value for money is obtained. Personal usage is permitted in the Mobile Phone Policy, on the proviso that any costs are reimbursed to the City Council. However this relies on the honesty of individuals, and also on sufficient administration within the T-Mobile portal. It is therefore a concern that a third of phone users cannot actually access the portal. Chargeable personal usage has been declared in the T-Mobile portal by some individuals, but it has not been possible to trace corresponding reimbursements for the majority of these. It is suspected there may be also significant undeclared personal usage, but this cannot easily be proven. Serco have recently re-let the contract. It is understood that line rental will be slightly higher than before, but domestic calls and texts will be free under the new contract. Foreign and premium rate usage will continue to be chargeable. New three year minimum contract terms began from the point of transfer. Where users' personal calls and texts are significant, HMRC may interpret this as a benefit-in-kind. Tax implications should be considered before deciding how personal usage should be administered under the new contract arrangements. Limited Assurance

AUDIT COMMITTEE	AGENDA ITEM No. 9
29 JUNE 2016	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Contact Officer(s):	John Harrison, Corporate Director: Resources	Tel. 452 398

DRAFT ANNUAL GOVERNANCE STATEMENT 2015 / 2016

R E C O M M E N D A T I O N S	
From: John Harrison, Corporate Director: Resources	**Deadline date : 29 June 2016**
Committee is asked to: 1. Note the arrangements for compiling, reporting on and signing the Annual Governance Statement; 2. Review and comment on the Annual Governance Statement including any areas which should be amended; 3. Subject to changes identified above, agree and approve the draft statement for inclusion in the audited statement of accounts, published by 30 September 2016; and 4. Note the changes proposed for the 2016 / 2017 Annual Governance Statement preparation and production.	

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee following referral from the s151 Finance Officer as part of the annual closure of accounts process and is included in the Audit Committee annual work programme.

2. PURPOSE AND REASON FOR REPORT

2.1 The production of the Annual Governance Statement (AGS) 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.

2.2 The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following “2.2.1.14: To oversee the production of the authority’s Annual Governance Statement and to recommend its adoption”.

3. TIMESCALE.

Is this a Major Policy Item/Statutory Plan?	**NO**	If Yes, date for relevant Cabinet Meeting	**N/A**

4. BACKGROUND

4.1 The preparation of an AGS is necessary to meet the statutory requirements as set out in Regulation 4(3) of the Accounts and Audit (England) Regulations 2011. The AGS covers the Council's governance arrangements for the 2015 / 2016 reporting year.

4.2 Historically, the AGS has been published as *part of* the annual Statement of Accounts. Regulation 4 (4) in the Accounts and Audit Regulations 2011 now state that the AGS 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*.' It is up to the organisation concerned to decide whether the AGS 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 AGS as part of the Statement of Accounts.

4.3 This report includes the draft AGS for Audit Committee to review, challenge and advise the Leader and Chief Executive upon accordingly that will allow the Council as a whole to ensure that the AGS is produced in accordance with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and therefore meet External Audit requirements.

5. SCOPE OF THE ANNUAL GOVERNANCE STATEMENT

5.1 Internal control and risk management are recognised as important elements of good corporate governance. The scope of governance, as covered in the AGS, 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.

6. ARRANGEMENTS FOR COMPILING THE ANNUAL GOVERNANCE STATEMENT

6.1 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 AGS for 2015 / 2016 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 the Chief Internal Auditor. 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 on-going capacity issues this has remained with the Chief Internal Auditor. Nevertheless, there are additional review mechanisms in place with the Director of Governance and the Service Director Financial Services.

6.2 The assurance gathering process to support the AGS is set out in **Appendix A**.

6.3 New guidance has been published in April 2016 in relation to the compilation of the AGS and applies to next years' statement. During the year, the Council will be reviewing its current governance arrangements against best practice, including its Local Code and will submit this new Code to the Audit Committee later in the year as the approach is developed.

7. SUPPORTING EVIDENCE

7.1 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.

7.2 Internal Audit

7.2.1 There are two separate reports on the Audit Committee agenda which are the Annual Internal Audit Opinion 2015 / 2016 together with the Review of Internal Audit. The key issues are:

- 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 some 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 overall compliance with the CIPFA publication on the Role of the Head of Internal Audit together with the new Public Sector Internal Audit Standards; and
- Overall, positive assurance can be provided on the service.

7.2.2 In conclusion, the Annual Audit Opinion to the Audit Committee on 29 June 2016 gave a reasonable assurance on the overall standard of effective of the internal control framework. In addition, there is an effective Internal Audit in place when measured against the defined criteria as listed above.

7.3 External Audit

7.3.1 PwC provides an Annual Audit Letter giving an overall evaluation of the Council. The content of the letter was reported to Cabinet and Audit Committee (8 February 2016) and overall is positive and states that the Council is performing well. The key messages are:

EXTRACT FROM ANNUAL AUDIT LETTER: 8 FEBRUARY 2016		
Review Area	**Commentary**	**Opinion**
Accounts	We audited the Authority's Statement of Accounts in line with approved Auditing Standards and reported to Audit Committee on 21 Sept 2015	Issued an unqualified audit report on 30 September 2015.
Economy, efficiency and effectiveness	We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Council had in place, for 2014 / 2015, proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In line with Audit Commission requirements, our conclusion was based on two criteria: • that the organisation has proper arrangements in place for securing financial resilience; and • that the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	Issued an unqualified value for money conclusion.

Whole of Government Accounts	We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission.	We found no areas of concern to report as part of this work.
Annual Governance Statement	Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA / SOLACE. The AGS accompanies the Statement of Accounts.	We found no areas of concern to report in this context.

7.3.2 In conclusion, from a Peterborough City Council perspective, the Annual Audit Letter gives assurance in respect of 2014 / 2015 Financial Accounts and confirms an effective system of internal control.

7.3.3 It should be noted that during last year our contract for External Auditors was transferred to Ernst and Young.

7.4 Executive Directors: Internal Control and Governance Self-Assessment

7.4.1 Finance issued each Directorate with the Internal Control and Governance Self-Assessment as part of the accounts closure process. This assessment provides a considered overview of the controls in place in order 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;
- Communications and Customer Services; and
- Public Health.

7.4.2 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 AGS.

7.5 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.

7.6 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.

There has been progress on developing risk registers which have been referred to Audit Committee (the latest being in March 2016), and efforts are currently focussed on business continuity.

7.7 Corporate Governance

Regular updates on governance arrangements are reported through Corporate Management Team, Cabinet, Scrutiny Commissions, Audit Committee and ultimately to Full Council. This covers all aspects of governance – from constitutional changes, operational procedures such as Financial or Contract regulations, standards issues and audit and fraud related matters. Significant governance issues established in the AGS are reported to Audit Committee. With the ongoing changes across the organisation, there is a pressing need to ensure that corporate governance responsibilities are communicated to all. As highlighted in 6.3 above, revised best practice has been issued by CIPFA in April 2016 which will be brought before this Committee throughout the year.

8. CONSULTATION

8.1 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 AGS and governance arrangements. Following drafting, the AGS (**Appendix B**) has been issued to Corporate Management Team.

9 ANTICIPATED OUTCOMES

The draft AGS is 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 for inclusion in the Statement of Accounts.

10. REASONS FOR RECOMMENDATIONS

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

11 ALTERNATIVE OPTIONS CONSIDERED

In line with accounting requirements the Council has to publish an Annual Governance Statement based on a prescribed format.

12. IMPLICATIONS

This report contains no specific financial implications. The agreement of the AGS 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.

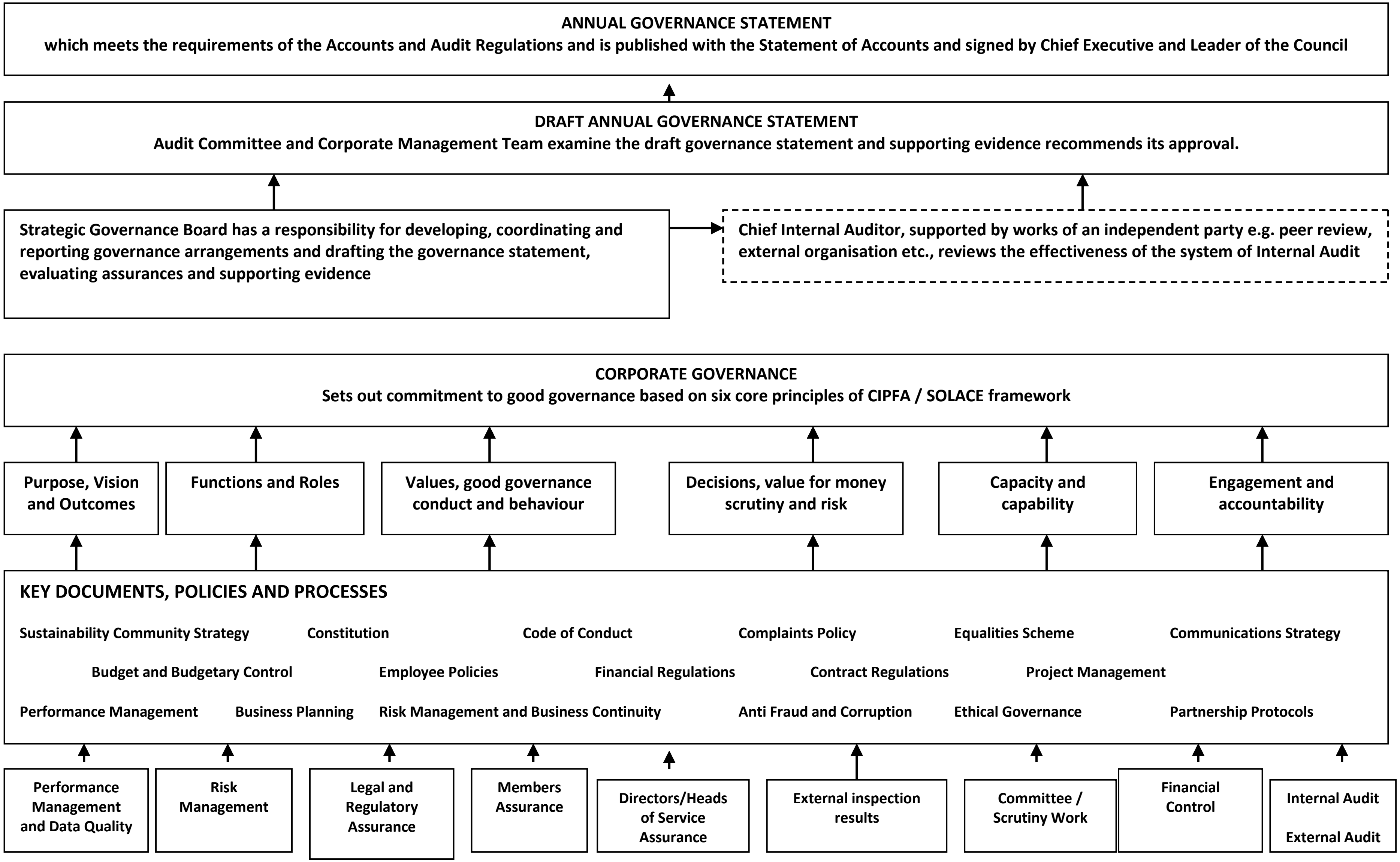
BACKGROUND DOCUMENTS
Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- 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.
- Accounts and Audit (England) Regulations 2011

APPENDICES

- Appendix A: Framework for the Annual Governance Statement
- Appendix B: Draft Annual Governance Statement

PETERBOROUGH CITY COUNCIL FRAMEWORK FOR THE ANNUAL GOVERNANCE STATEMENT



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PETERBOROUGH

CITY COUNCIL

Annual Governance Statement – 2015 / 2016

Annual Governance Statement

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 Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is 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.

The 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 the City Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011 Regulation 4(3) in relation to the publication of an Annual Governance Statement.

The Purpose of the Governance Framework

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

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

We have had the governance framework in place from 1 April 2015, and up to the date of approval of the Statement of Accounts.

The Governance Framework

The Council is a complex organisation with an appropriately comprehensive governance framework. It 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 citizens and service users;
- Performing effectively in clearly defined functions and roles;
- Promoting values for the whole organisation and demonstrating good governance through behaviour;
- Taking informed, transparent decisions and managing risk;
- Developing the capacity and capability of the governing body to be effective; and
- Engaging stakeholders and making accountability real.

The following paragraphs summarise the Council's Governance Framework which has been in place for the year ended 31 March 2016 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:

Creating and Implementing a Vision

Good governance means focusing on the purpose of the Council, on outcomes for the community and creating and implementing a vision for the local area. Through various forums, the Council has developed an overarching vision for the City and a set of strategic priorities and core values to assist in achieving this.

The Vision

Members, working with officers, and its partners – whether public, private, voluntary or community – have developed a clear vision of their purpose and intended outcomes for citizens and service users. The Peterborough Sustainable Community Strategy (SCS) 2008 – 2021 sets out the vision for the Council (and refreshed in 2010) to ensure it continues to reflect the communities needs and changing circumstances. These are:

- *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.*

Strategic Priorities

In order to achieve the vision, four priorities have been established and these are then set out in a Single Delivery Plan detailing accountability and resources allocations across the partnership. Providing value for money underpins the four priorities. The four priorities are:

- *Creating the UK's Environment Capital*
- *Creating Strong and Supportive Communities*
- *Delivering Substantial and Truly Sustainable Growth*
- *Creating Opportunities – Tackling Equalities*

By striving to deliver these priorities, which are reviewed, and refreshed if necessary, the following are the latest expectations:

- Growth, regeneration and economic development of the city to bring new investment and jobs. Supporting people into work and off benefits is vital to the city's economy and to the wellbeing of the people concerned;

- Improving educational attainment and skills for all of our children and young people, allowing them to seize the opportunities offered by new jobs and our university provision, thereby keeping their talent and skills in the city;
- Safeguarding children and vulnerable adults;
- Pursuing the Environment Capital agenda to position Peterborough as a leading city in environmental matters, including reducing the carbon footprint;
- Supporting Peterborough's Culture Trust, Vivacity, to continue to deliver arts and culture in the city;
- Keeping our communities safe and cohesive; and
- To achieve the best health and wellbeing for the city.

Core Values

Five core values have been established to guide the way we treat our customers, partners and each other, these being:

- *Expertise*: We recognise and value the differences, skills, knowledge and experience of all our colleagues;
- *Trust*: We are honest and open in all our dealings and deliver on out promises;
- *Initiative*: We are proactive and use our creativity to identify and resolve problems;
- *Customer focussed*: We understand and aim to meet our customers diverse needs, treating them fairly and with respect; and
- *Work together / one team*: We work with colleagues and partners to deliver the best services possible.

Reviewing Delivery

Our council priorities are 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 cascaded through the organisation to inform and amend departmental delivery and business arrangements.

The Council and neighbouring authorities, and their business, higher / further education and VCS partners have developed a Local Enterprise Partnership (LEP) 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).

When the Council works in partnerships, it has a methodology which ensures that there is a common vision underpinning these that is understood and agreed by all partners. These partnerships range from strategic to operational.

A Medium Term Financial Strategy (MTFS) has been established to ensure that resources are aligned to priorities and approved annually, the latest being in March 2016. This 10 year plan is annually refreshed. The budget process incorporates consideration of the allocation of resources against corporate aims, an identification of

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any financial risks together with allowing for an annual strategic review to release resources for use elsewhere subject to appropriate efficiency improvements being in place. Monitoring reports are submitted to CMT and Cabinet and issues are referred to other Committees as appropriate.

Value for money underpins the strategic priorities. Through reviews by External Audit, external agencies, Internal Audit, and other 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. A revised complaints scheme was implemented in 2015.

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 9 Members: - Leader and 8 Cabinet Members. 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 and Regulatory Committees.
    - ➢ Scrutiny: These 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, they are able to "Call In" and review certain decisions of Cabinet. Until the call-in process is completed the decision cannot be implemented.
    - ➢ Regulatory: These consider a variety of non-executive functions which Cabinet, by law, cannot undertake or has been agreed should not be considered by Cabinet, for example, Licensing. They are all cross-party and with the exception of Audit Committee, can include cabinet members.
- An Audit Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment. It also incorporates Member conduct, replacing the previous Standards Committee.
- 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. It also details each Committees clear terms of reference and work programmes to set out their roles and responsibilities.

- Cabinet member reports 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. This allows stakeholders to be aware of decisions to be taken and secondly to whom representations can be made. Agendas, reports and published decisions are available to councillors and the general public via the Council's web pages.
- Changes to services provided and new legislation during the year was integrated into the ongoing management of the Council.
- The Council ensures that effective management arrangements are in place at the top of the organisation. A revised structure has been introduced to reflect the new commissioning role to deliver services.
- Key officers within the Council are:
  - The Council's Chief Executive (and Head of Paid Service) leads the Council's officers and Chairs CMT;
  - The Corporate Director: 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 Director of Governance, 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. Corporate Directors meet their respective Cabinet Members on a regular basis. In addition, there are a number 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 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.

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 Director of Governance, after consultation with the Chief Executive and Corporate Director: 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. No reports were produced in 2015 / 2016.

- 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 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. Fraud policies are under review to reflect the new CIPFA Code of Practice on "*Managing the Risk of Fraud and Corruption*".
- The Council has an Audit Committee which follows best practice set out within CIPFA guidance. Its purpose is to provide independent assurance of the adequacy of the internal control environment and to oversee the financial reporting process. Its membership of 8 Councillors also has the responsibility for the standards agenda so that it has the full remit of responsibilities in respect of governance. For standards related issues, the Council has also appointed an 'Independent Person' to oversee these.
- 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)*". The Council is complying with requirements of the Code of Recommended Practice for Local Authorities on data transparency, such as disclosing Executive salaries and £500 spending transactions.
- Full Council approves a balanced budget before the start of each financial year. This includes the MTFS, annually reviewed, under which it plans its finances, target efficiency savings required and potential council tax implications over a ten year rolling period. During the year, budget monitoring reports are taken to Management Teams and Members on a regular basis.

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, together with any non-key decisions for the period.
- 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 operates in line with appropriate regulations. Responsibility for Internal Audit rests with the Chief Internal Auditor who supports the Audit Committee and reviews its effectiveness annually in line with best practice. The Internal Audit plan is based on the high risks reported within the risk registers together with key service changes being made. The Constitution makes it clear that management have the responsibility for operating a sound system of internal control. Internal Audit works with services to make recommendations around improvements to the control environment. Reporting lines are within the Resources Directorate with reporting lines to the Service Director: Financial Services**,** Corporate Director: Resources as well as access to the Chief Executive, Director of Governance and members as required. 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, Corporate Directors and management as appropriate.
- The Council maintains both Strategic and Operational Risk Registers.

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 maintained its Investors in People award. In developing Members' skills, the Council has an overall development strategy in place.
- Audit Committee 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. E-learning tool-kits have been set up to enhance on the job training.
- 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 a number of services being provided in partnership with the private sector. In addition, there has been a development of shared service arrangements with other councils, with Peterborough being the lead authority. Examples include arrangements with Rutland; Fenland; and Cambridge City and South Cambridgeshire.

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 Employee forums / Joint consultative forum; Voluntary and community sector network; One-off consultation events; and Public meetings. Varied social media channels of communication are used to reach all sections of the community and other stakeholders.
- The Council has a number of significant partnerships, outsourced contracts and service vehicles. These are:
  - Greater Peterborough Partnership – our local strategic partner;
  - Peterborough Culture and Leisure Trust (Vivacity);
  - Opportunity Peterborough;
  - Amey - An outsourced partnership for the provision of street scene activities previously undertaken by City Services;
  - Skanska – Provision of Highways Maintenance service;
  - SERCO – Provision of Council back office facilities, including revenues and benefits and ICT services;
  - Health and Well Being Board – established to provide a strategic leadership forum focused on securing and improving the health and well-being of Peterborough residents;
  - Peterborough Investment Partnership – a Joint Venture partnership to support growth and development of key sites; and
  - Blue Sky Peterborough – the Council’s energy services company.

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.

In year review mechanisms, including Member engagement is ensured by:

- Cabinet is responsible for considering overall financial performance management and receives reports during the year. 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 includes an overview of service and financial performance, efficiency and effectiveness.
- 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. It now has the combined remit to oversee Member conduct.

- 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 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, Corporate Director: Resources, Leader of the Council and the Chair of the 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 (2010)*" and the "*Public Sector Internal Audit Standards (2013)*".
- Following the transfer of housing benefit investigations to the Single Fraud Investigation Service within the Department for Work and Pensions, the remaining investigations service transferred into Internal Audit in December 2014. Their remit is to undertake investigations into corporate fraud, corporate complaints and council tax as well as anomalies generated by the National Fraud Initiative.
- 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 quarterly and Audit Committee half yearly. Risks are accounted for in all project planning, the creation of the MTFS 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. This will be reconvened in 2016.
- A number of areas were identified in the proceeding Annual Governance Statement and an update has been included on our progress to improve governance regarding these issues.
- Assurance from the Audit Commission, other Inspection Agencies and External Audit. On completion of their work, an Annual Audit Letter is issued to the Council. The last Annual Audit Letter was issued for the financial year 2014 / 2015, 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. From these works it was considered that the Council has adequate and effective systems of internal control in place to manage the achievement of its objectives.
- Assurance from Corporate Directors and their management teams on the key elements of the control framework that 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.

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.

2014 / 2015 Governance Issues: Progress to Date	
Issue	**Progress**
Counter Fraud Arrangements In December 2014, responsibility for Housing Benefit fraud investigation work transferred to the Single Fraud Investigation Service operated by the Department for Works and Pensions and fraud investigation resources have since been realigned. Following these changes our approach to counter-fraud should be aligned with the new CIPFA Code of Practice on “Managing the Risk of Fraud and Corruption”. Corporate Director: Resources	Following the changes made to fraud investigation in December 2014, a progress / follow up report was submitted to Corporate Management Team in February 2016 which also incorporated Corporate Complaints. Service provision has been been benchmarked against the Code of Practice during 2015 / 2016 and an Action Plan established to address a number of minor gaps.
Management of the Better Care Fund Planning and pooled budget arrangement with the Clinical Commissioning Groups (CCGs) known as the Better Care Fund (BCF). This plan sets out the Council's and CCGs' vision to deliver integrated health and social care systems to reduce demand on acute hospital and care home provision in favour of a sustainable integrated neighbourhood health and social care system. Corporate Director: People and Communities	Ongoing reviews and scrutiny is in place to ensure effective management of the Better Care Fund with our partners.
Austerity Measures Continuing budget pressures need to be effectively managed in order to deliver a balanced budget while maintaining an effective delivery of services to the public. Corporate Director: Resources	A balanced budget was agreed for 2015 / 2016 as part of the medium term financial plan and has been delivered in its entirety. A balanced budget has once again been agreed for 2016 / 2017 which reiterated that no service reductions would be required. Budget preparation commenced early each year in order to increase the confidence in the process and allow for effective consultation and scrutiny with Members and stakeholders.

2014 / 2015 Governance Issues: Progress to Date	
Issue	**Progress**
Review of Ward Boundaries The Council has been subject to review by the Electoral Commission and new arrangements will be in place for 2016. Effective management is required to ensure that the processes deliver and inform the public of the changes and how it impacts on them. Director of Governance	There has been effective management arrangements in place for the successful adoption of new boundaries resulting in an all-out election in May 2016. Effective publicity and consolation resulted in no issues arising.
Service Delivery Models As part of the ongoing delivery of savings and innovative ways of service delivery, appropriate governance arrangements are required to prevent any conflicts of interests as staff undertake more roles and have dual reporting commitments. Corporate Director: Resources Director of Governance	Ongoing training has been delivered to officers and members to ensure that new models are effective developed, followed and reviewed against.

2015 / 2016 Governance Issues:

These have been incorporated into the following areas which will need to be resolved during the year:

New Governance Issue	
Issue	**Lead Officer**
Ongoing and future changes to the Council's financial framework including several changes to national and regional funding regimes will increase the financial pressure the Council is required to contribute to reduce the national deficit. These changes arise from on-going changes to benefit administration and continued downward pressure on government funding of Councils as confirmed in the indicative long term financial settlement. Sizable grant reductions over the next 4 years could have a profound impact on the way the council delivers services and on its internal operations. For example, reductions in staffing levels could lead to a reduction in the effectiveness or application of controls.	Corporate Director: Growth and Regeneration
The Council has a number of key regeneration projects planned for the future which are to be delivered in partnership, for example Fletton Quays. Should one of these high profile projects not be delivered as planned it is likely to result in reputational damage to the Council or increase the financial pressure on the council for the future. Robust governance arrangements will be required.	Director of Governance
A number of data quality issues identified in Childrens and Communities will be followed up to ensure that quality records are maintained as the Customer Experience develops.	Corporate Director: Children and Communities
The New Governance Framework for 2016 / 2017 onwards will need to be adopted. Work will be required throughout the year to ensure that the Council complies with it and any gaps are addressed. As part of this there will be a need to refresh the Local Code of Governance	Director of Governance

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 balanced 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.

Signed:		Signed:	
Gillian Beasley, Chief Executive		Councillor Holdich, Leader of the Council	
Date:		Date:	

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AUDIT COMMITTEE	AGENDA ITEM No.
	PUBLIC REPORT

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

FEEDBACK REPORT

1. ORIGIN OF REPORT

This is a standard report to Audit Committee which forms part of its agreed work programme.

2. PURPOSE AND REASON FOR REPORT

This standard report provides feedback on items considered or questions asked at previous meetings of the Committee. It also provides an update on any specific matters which are of interest to the Committee or where Committee have asked to be kept informed of progress.

3. APPENDICES

Appendix A – Summary of Feedback Responses
Appendix B – Feedback Response Report

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APPENDIX A

AUDIT COMMITTEE: RECORD OF ACTION TAKEN

MUNICIPAL YEAR: MAY 2015 - APRIL 2016

DATE ISSUE RAISED	AGENDA ITEM / ACTION ARISING	OFFICER RESPONSIBLE	ACTION TAKEN	SIGN OFF DATE
21 March 2016	The Audit Committee agreed to recommend option three the amended Code of Conduct based on the DCLG model for adoption at the Annual Council.	Kim Sawyer/Karen S Dunleavy	To be presented to the meeting on 13 July 2016.	2 June 2016
21 March 2016	To arrange a meeting between Audit Committee Chair, Cabinet Member for Resources and the Chief Internal Auditor to discuss the specific technical skills and resources required in order to undertake ICT audits that ensure projects are fully integrated and in line with the Digital Strategy.	Steven Crabtree	Chief Internal Auditor met with Cllrs Seaton and Aitken on 23 May 2016. Various options were discussed in relation to undertaking reviews of ICT. The Chief Internal Auditor will quantify these proposals and produce a separate note for consideration by the Cabinet Member for Resources.	2 June 2016
21 March 2016	To provide a guidance note to Audit Committee Members to outline when an application could be made for the use of regulation of investigatory powers act 2000 (RIPA).	Ben Stevenson	Response provided in Appendix B~~?~~	7 April 2016
21 March 2016	The Committee approved the draft Annual Audit Committee Report for submission to Council.	Karen S Dunleavy	To be presented to the meeting on 13 July 2016.	2 June 2016

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RESPONSE TO ACTION POINT

AUDIT COMMITTEE	
29 JUNE 2016	PUBLIC

USE OF REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

ACTION POINT – 21 March 2016

To provide a guidance note to Audit Committee Members to outline when an application could be made for the use of regulation of investigatory powers act 2000 (RIPA).

Contact Officer (s)	*Ben Stevenson*	01733 452387

Response:

1.1 Number the paragraphs accordingly.	The determination for whether the use of the Act is required relies on the answer to five questions being yes. These questions are: 1. Is the surveillance activity covert i.e. someone is unaware of the activity? 2. Is the surveillance directed i.e. for a specific purpose? 3. Is the investigation into a criminal offence? 4. Is there a possibility of obtaining confidential or private information? 5. Is the crime threshold met? This means that we as a local authority can only use the RIPA powers if the criminal offence is punishable by a term of imprisonment of more than 6 months or it is related to the underage sale of tobacco and alcohol. If these questions are answered yes then RIPA does apply and the process as described in the Act including judicial approval will apply. In some cases, the first four may be yes but the matter may not meet the crime threshold. In such matters as those where surveillance is seen as the proportionate response but RIPA does not apply, Peterborough City Council will adopt the same process as if it did apply apart from requiring judicial approval. In addition to the above, the use of any surveillance powers must be proportionate. In simple terms, are we using a sledgehammer to crack a nut. It must also be necessary to further an investigation i.e. it cannot be obtained in any other way. The council policy contains greater detail on our approach and is attached. In respect of the offence of fly tipping, this would meet the crime threshold as the offence relating to fly tipping is punishable by 12 months imprisonment at Magistrates Court or 5 years at Crown Court. If there was an application which met the determination and was considered to be a proportionate and necessary response to the issue then it may be approved internally before seeking judicial approval.

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AUDIT COMMITTEE	AGENDA ITEM No. 13
29 JUNE 2016	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Fuller, Chair of Audit Committee	
Contact Officer(s):	Karen Dunleavy, Democratic Services Officer	☎ 452 233

WORK PROGRAMME

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 Draft Work Programme for the following municipal year.

2. UPDATE

2.1 Work Programme 2015 / 2016 (**Appendix A**)

The Work Programme is based on previous years agendas. The programme has been refreshed throughout the year in consultation with senior officers and the Committee membership to ensure that it remains relevant and up to date. In addition, any delays in reporting issues are recorded so that they do not drop off the committee agenda.

2.2 Training for members on specific aspects of the Audit Committee agenda are available throughout the year and will be arranged on request and will take place on a separate day to that of the Committee meeting.

DATE: 29 JUNE 2016			
		Section / Lead	**Description**
Standard	Apologies for Absence		
Standard	Declarations of Interest		
Standard	Minutes of previous Meeting	Democratic Services Karen Dunleavy	
	Internal Audit: Annual Audit Opinion	Internal Audit Steve Crabtree	To receive, consider and endorse the annual Audit Opinion of Internal Audit for the year ended 31 March 2016.
	Investigations Team Annual Report 2015 / 2016	Internal Audit Steve Crabtree	To receive, consider and endorse the annual report on the investigation of fraud and irregularities for the year ended 31 March 2016
	Draft Annual Governance Statement	Internal Audit Steve Crabtree	To receive, consider and endorse the draft Annual Governance Statement for the year ended 31 March 2016
	Budget Monitoring Report Final Outturn 2015 / 2016	Finance Steven Pilsworth	To receive, consider and endorse the final outturn position for the year ended 31 March 2016
	Draft Statement of Accounts 2015 / 2016	Finance Steven Pilsworth	To receive, consider and comment on the draft Statement of Accounts for the year ended 31 March 2016
	Audit Plan	EY	To receive the Audit Plan from EY, to review their proposed approach and scope for the 2015/16 audit in accordance with requirements, and to ensure that the EY audit is aligned with the Committee's service expectations.
	INFORMATION AND OTHER ITEMS		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Steven Pilsworth	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
Standard	Feedback report	Democratic Services Karen Dunleavy	
Standard	Draft Work Programme 2016 / 2017	Democratic Services Karen Dunleavy	

OTHER POSSIBLE AGENDA ITEMS

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Ben Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

DATE: 22 SEPTEMBER 2016			
		Section / Lead	**Description**
Standard	Apologies for Absence		
Standard	Declarations of Interest		
Standard	Minutes of previous Meeting	Democratic Services Karen Dunleavy	
	Risk Management: Strategic Risks	Governance Kevin Dawson	To receive details of the strategic risks impacting on the Council and the mitigating actions to address these.
	Audit of Statement of Accounts To Those Charged with Governance (ISA260)	Finance Steven Pilsworth & EY	To receive the final Statement of Accounts for the year ended 31 March 2016 incorporating the Annual Governance Statement together with the annual report to those charged with governance following their scrutiny by External Audit.
	INFORMATION AND OTHER ITEMS		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required. To also include the outcome of a recent Surveillance Commission Inspection.
	Approved Write-Offs Exceeding £10,000	Finance Steven Pilsworth	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
Standard	Feedback report	Democratic Services Karen Dunleavy	
Standard	Work Programme 2016 / 2017	Democratic Services Karen Dunleavy	

OTHER POSSIBLE AGENDA ITEMS

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Bens Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

DATE: 21 NOVEMBER 2016			
		Section / Lead	**Description**
Standard	Apologies for Absence		
Standard	Declarations of Interest		
Standard	Minutes of previous Meeting	Democratic Services Karen Dunleavy	
	Internal Audit: Mid Year Progress Report	Internal Audit Steve Crabtree	To receive an update on progress against the Annual Audit Plan together with details of any concerns
	Use of Consultants	Finance Steven Pilsworth	To receive an update on the Use of Consultants across the organisation
	Treasury Management	Finance Steven Pilsworth	To receive an update on the policy and effectiveness of treasury management
	INFORMATION AND OTHER ITEMS		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Steven Pilsworth	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
Standard	Feedback report	Democratic Services Karen Dunleavy	
Standard	Work Programme 2016 / 2017	Democratic Services Karen Dunleavy	

OTHER POSSIBLE AGENDA ITEMS

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Ben Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

DATE: 13 FEBRUARY 2017			
		Section / Lead	Description
Standard	Apologies for Absence		
Standard	Declarations of Interest		
Standard	Minutes of previous meeting	Democratic Services Karen Dunleavy	
	External Audit: Annual Audit Letter and Other External Reports.	EY	To receive and approve the External Audit report in relation to issues identified as part of their audit works
	INFORMATION AND OTHER ITEMS		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Finance Steven Pilsworth	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
Standard	Feedback report	Democratic Services Karen Dunleavy	
Standard	Work Programme 2016 / 2017	Democratic Services Karen Dunleavy	

OTHER POSSIBLE AGENDA ITEMS

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Ben Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

DATE: 27 MARCH 2017			
		Section / Lead	**Description**
Standard	Apologies for Absence		
Standard	Declarations of Interest		
Standard	Minutes of previous Meeting	Democratic Services Karen Dunleavy	
	Risk Management: Strategic Risks	Governance Kevin Dawson	To receive an update on the strategic risks for the Council
	Internal Audit: Draft Internal Audit Plan 2017 / 2018	Internal Audit Steve Crabtree	To receive and approve the Internal Audit Plan 2017 / 2018
	Draft Annual Audit Committee Report	Democratic Services Karen Dunleavy	To receive the Draft Annual Audit Committee Report prior to submission to Council
	INFORMATION AND OTHER ITEMS		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Steven Pilsworth	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
Standard	Feedback report	Democratic Services Karen Dunleavy	
Standard	Work Programme 2017 / 2018	Democratic Services Karen Dunleavy	

OTHER POSSIBLE AGENDA ITEMS

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Ben Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

To be rescheduled:			
		Section / Lead	**Description**