

AUDIT COMMITTEE

MONDAY 27 JUNE 2011
7.00 PM

Bourges/Viersen Rooms - Town Hall

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

AGENDA

	Page No
1. Apologies	
2. Declarations of Interests	
3. Minutes of the Meeting held on 6 June 2011	1 - 4
4. Investigation Team Annual Report 2010/2011	5 - 16
5. Internal Audit: Annual Audit Opinion 2010/2011	17 - 52
6. Annual Review Of The Effectiveness Of Internal Audit - 2010/2011	53 - 60
7. Draft Annual Governance Statement 2010/2011	61 - 86
8. Accounts	
8.1 Budget Monitoring Report Final Outturn 2010/2011	87 - 102
8.2 Statement of Accounts	103 - 218
This report is now attached	
9. Work Programme	219 - 220



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

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

Committee Members:

Councillors: D Lamb (Chairman), J Stokes (Vice Chairman), Harper, Nadeem, P Kreling, S Lane and S Goldspink

Substitutes: Councillors: P Nash and K Sharp

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

Public Document Pack



MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT THE TOWN HALL, PETERBOROUGH ON 6 JUNE 2011

Present: Councillors Lamb, Kreling Harper, Goldspink, Sharp and Lane

Officers in attendance: Steven Pilsworth, Head of Corporate Services
Steve Crabtree, Chief Internal Auditor
Gemma George, Senior Governance Officer
Karen Dunleavy, Governance Officer

1. Apologies for Absence

Apologies were received from Councillor Stokes.

2. Declarations of Interest

There were no declarations of interest.

3. Minutes of the Meeting held on 28th March 2011

The minutes of the meeting held 28th March 2011 were approved as an accurate and true record.

4. Audit Committee Members Handbook

Members received a presentation on the Audit Committee Members' Handbook which detailed the function of Audit Committee.

The report sought the agreement of the Committee to formally adopt the use of the Audit Committee Handbook (3rd Edition). The following points were considered:

- Training Objectives;
- Areas of Activity;
- Terms of Reference;
- Audit Activity (1);
- Audit Activity (2);
- Regulatory Framework;
- Accounts;
- Support to Audit Committee;
- Role of Members;
- How Audit Committee was run;
- Using the handbook; and
- The Audit teams performance.

Members were advised that all matters which would be brought to Audit Committee for consideration ranged from governance arrangements and codes of conduct to internal controls.

Members were updated that the Audit Committee meetings scheduled throughout the year would consider the Annual Audit report and a review of financial and non financial performance. It was also intended that Members would be given the opportunity to meet with external auditors, Price Waterhouse Coopers.

Members were advised of the roles and responsibilities of lead officers for each part of the Annual Audit report:

- Resilience Services Manger - Risk Management;
- Head of Governance - Fraud and Investigations; and
- Head of Corporate Services - Statement of Accounts.

Members also received a briefing and overview on the Audit Committee roles when scrutinising financial reports which would be presented at future Audit Committee meetings as follows:

- Statement of Accounts;
- Outturn Report;
- Prudential Indicators; and
- Core Financial Statement.

The Outturn report which included the Prudential Indicators along with the Statement of Accounts was to be submitted to Cabinet for consideration on 13th June 2011 and presented at the Audit Committee meeting on 27th June 2011. The Statement of Accounts report would be used for submission to the external auditors for review. Members were advised that the Statement of Accounts report would be subject to final approval and sign off on 6th September 2011 Audit Committee meeting.

Members were advised that briefing sessions would be available before an item was to be considered at Audit Committee meetings.

Members were invited to comment on the Audit Committee Handbook and the following issues and observations were highlighted:

- Members were advised that external contractors had been used by Peterborough City Council by order of the Audit Commission. The contract for the external auditor service was being reviewed and that a tender would be submitted. A decision would be made at Audit Committee on which company would be used in the future;
- Members were advised that the Council paid for the services of the external auditors and that the terms of reference had been set by the Audit Commission;
- Members were advised that the Annual Audit Statement would highlight any points of failure which would be subject to challenge by Members of the Audit Committee;
- Members were advised that all audit reports would be available on the Council's internal website, which was under development;

- Members were advised that there would be briefing sessions made available on aspects of the Audit Committee Handbook, for any Member wishing to receive one;
- Members sought clarification on abbreviations used within the report;
- Members were advised that using the International Reporting Standards had created a massive impact on the finance team's workload; and
- Members were advised that the Statement of Accounts report could be compared with the previous year's submission.

Action Agreed

- (1) Except where unavoidable, no abbreviations would be used in future reports for Audit Committee;
- (2) Typographical errors and out of date references would be corrected before publication; and
- (3) The Committee approved to adopt the use of the Audit Committee Members' Handbook (3rd Edition).

5. Work Programme 2011/12

Members received an update on the 2011/12 Audit Committee work programme.

Members were advised that there would be a briefing session on the Statement of Accounts at 6.30pm prior to the Audit Committee meeting on 27th June 2011.

Action Agreed

It was agreed that all Members of the Audit Committee would be informed of the briefing session.

7.00pm – 8.00pm
Chairman

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 4
27 June 2011	PUBLIC REPORT

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

INVESTIGATION TEAM ANNUAL REPORT 2010/2011

RECOMMENDATIONS	
FROM : Helen Edwards, Solicitor to the Council	Deadline date : N/A
Audit Committee is recommended to	
1. Receive, consider and endorse the attached annual report on the investigation of fraud and other issues for the year ended 31 March 2011.	

1. ORIGIN OF REPORT

This report is submitted to the Committee as a scheduled report on fraud and irregularity in accordance with the established Work Programme 2010/2011.

2. PURPOSE AND REASON FOR REPORT

The main purpose of this report is to provide an overview of the Council's approach to combating fraud, and its delivery over the period April 2010 - March 2011. This report is to be considered in accordance with its Terms of Reference 2.2.15 - *To monitor council policies on "raising concern at work" and the anti fraud and anti corruption strategy and the Council's complaints process.*

3. BACKGROUND

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

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

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

4. CONSULTATION

Consultation has taken place between the following parties:

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

5. ANTICIPATED OUTCOMES

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

6. REASONS FOR RECOMMENDATIONS

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

7. ALTERNATIVE OPTIONS CONSIDERED

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

8. IMPLICATIONS

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

9. BACKGROUND DOCUMENTS

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

10. APPENDICES

Appendix - Compliance and Ethical Standards Team Annual Report 2010/2011



**Compliance and Ethical Standards
Team
Annual Report
2010/2011**

1 Introduction

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

The Council has clear anti-fraud and whistle blowing in place to ensure that we have a robust response to any allegation raised. We also have a clear plan in place ahead of the imminent introduction of the Bribery Act and its impact on the work of the Council.

The Council has a dedicated team, which considers all allegations of fraud and financial irregularity. From 1st April 2011, the team will form part of the new Governance Team, which will comprise the former Democratic Services, Chief Executive's Outer Office and Compliance and Ethical Standards Team. This report details progress and performance in all areas of the Compliance and Ethical Standards Team's work during 2010/11.

2 Raising Awareness of Fraud

The results of investigations triggered by specific referrals may identify business areas in which controls need to be strengthened and where managers should improve the monitoring of systems and staff. The Compliance and Ethical Standards Team continues to work closely with colleagues in the Internal Audit department to address these issues on an ongoing basis.

During 2010/2011, corporate fraud training was delivered to tier 2 and 3 managers throughout the Council as part of the Governance Module. This training was well received and generated a large amount of discussion around controls and vigilance.

The Benefit Fraud team will continue to deliver e-learning training to all staff involved in front-line benefit delivery.

3 Quantity of Fraud

According to last figures issued by the National Fraud Authority, fraud costs the UK over £38 billion a year. Loss estimates to fraud by sector are:

- Public - £21 billion
- Private - £12 billion
- Individuals - £4 billion

- Charity - £1.3 billion

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



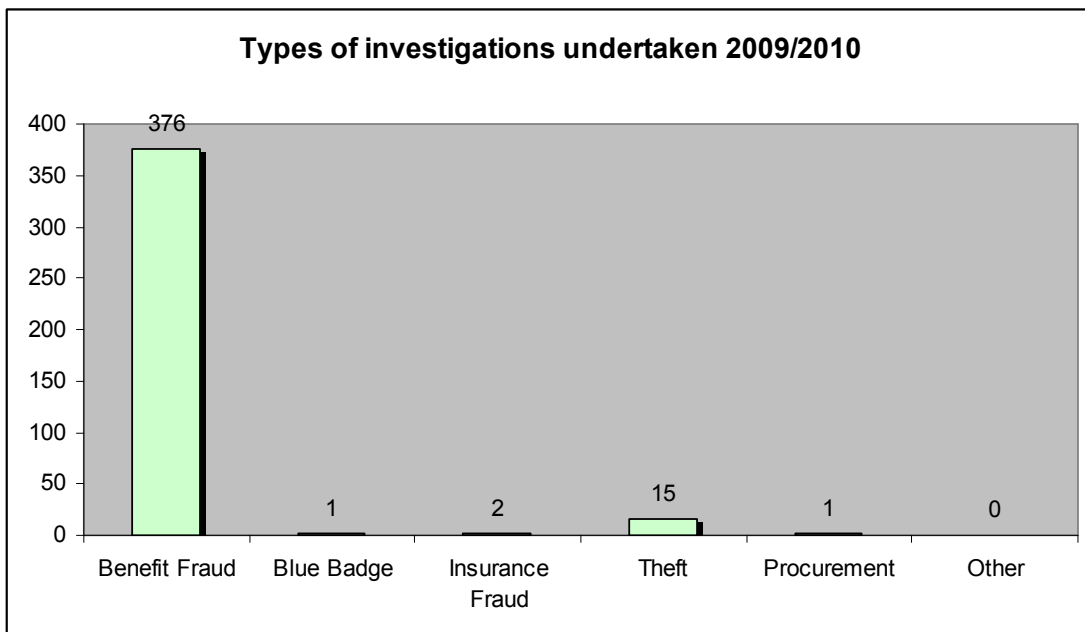
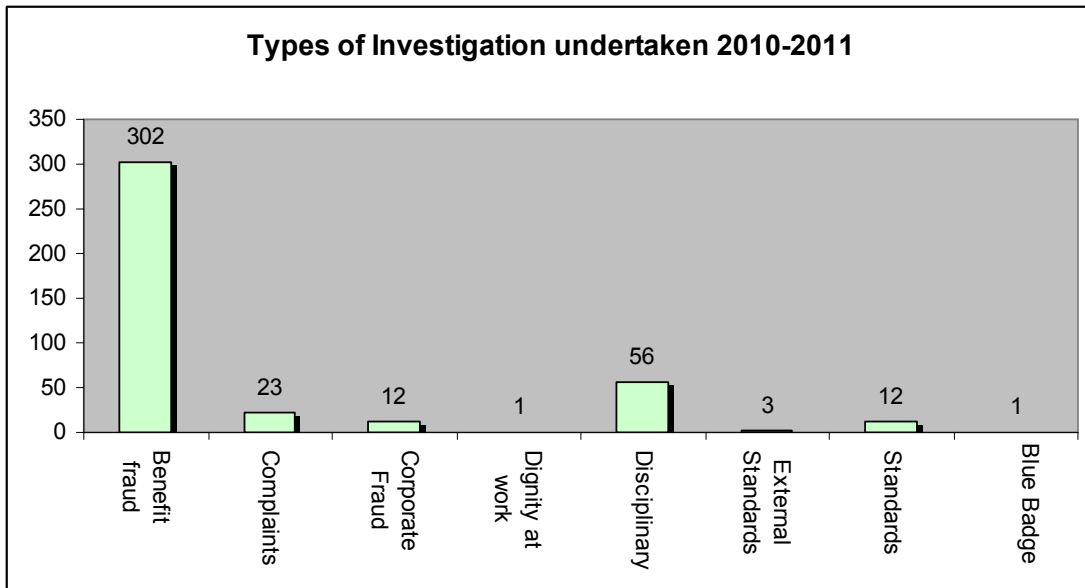
A lady was prosecuted for using her deceased aunt's Blue Badge to park in a disabled bay in the City centre. The Compliance and Ethical Standards Team investigated this allegation as a result of a referral from a member of the public, who believed the driver was abusing the Blue Badge scheme. The lady was subsequently fined £100, ordered to pay costs of £200 and a victim surcharge of £15.

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

During 2010/2011, the Compliance and Ethical Standards Team received details of 13 potential fraud or financial irregularities for investigation, all 13 cases proceeded to a full investigation. This represents a slight decrease in referrals from 19 in 2009/2010. The investigations of the Corporate Compliance team are shown in specific categories for this year.

Additionally, 755 allegations of benefit fraud were received as opposed to 909 in 2009/2010. 302 were investigated following a strict risk assessment, which allows priority to be given to the most serious cases. 160 cases resulted in a positive outcome which shows that the team have a 53% success rate in the investigations carried out.

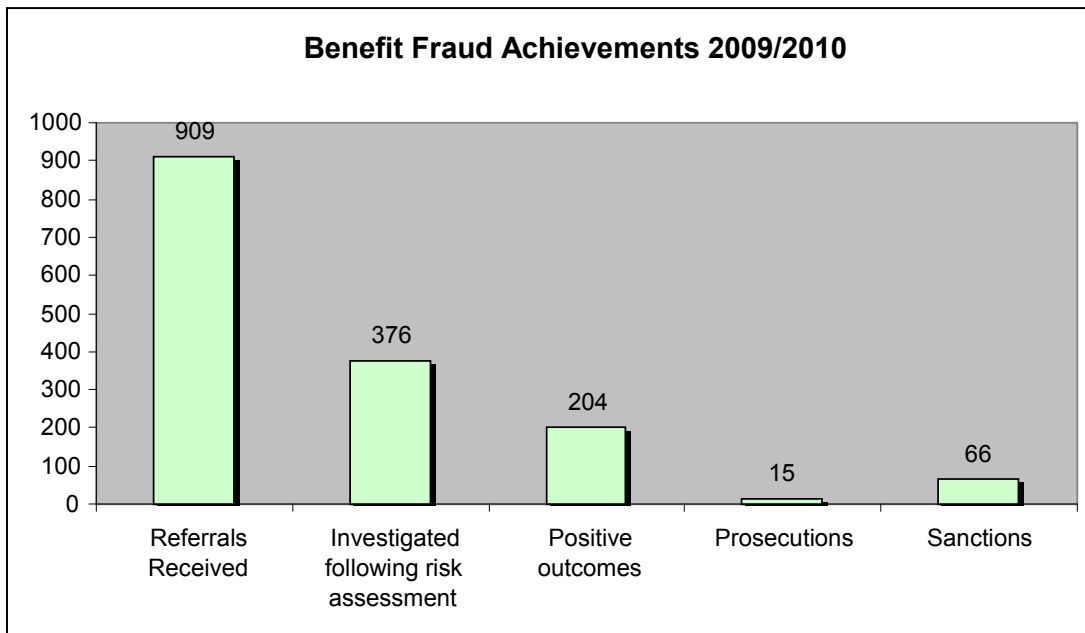
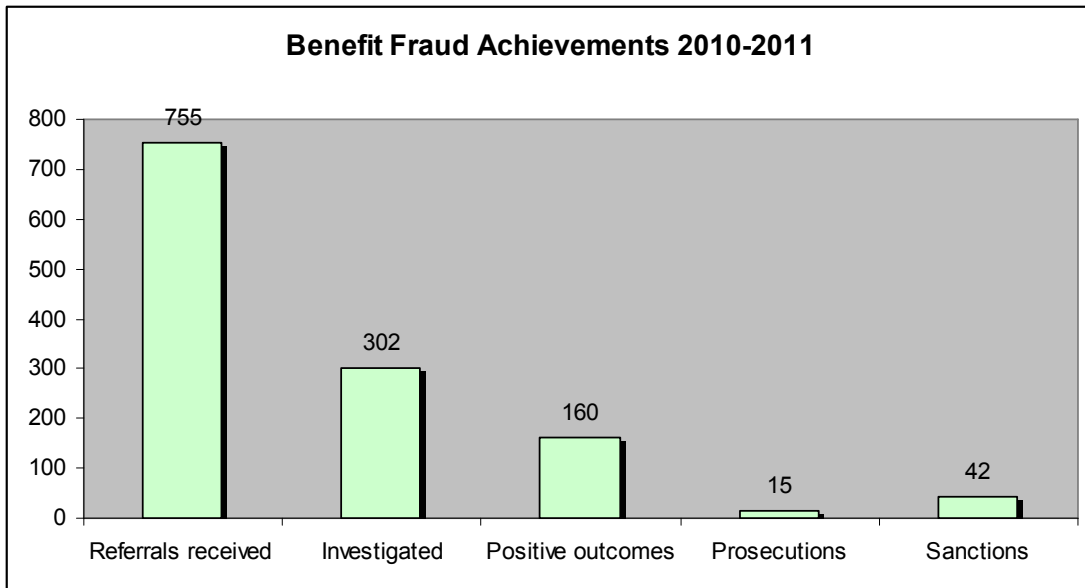
Types of investigations undertaken during 2010/2011 are detailed in the chart below:



Note: 3 fraud cases involving staff members and Housing Benefit are incorporated into the overall figure for Benefit Fraud.

4 Housing and Council Tax Benefit

Benefit fraud will always be the greatest risk faced by local authorities owing to the high volumes of payments and complexities of legislation. The Compliance and Ethical Standards Team work closely with the Benefits Service to reduce the incidence of fraud and error entering the system. The chart below highlights the success of the team in 2010/2011:

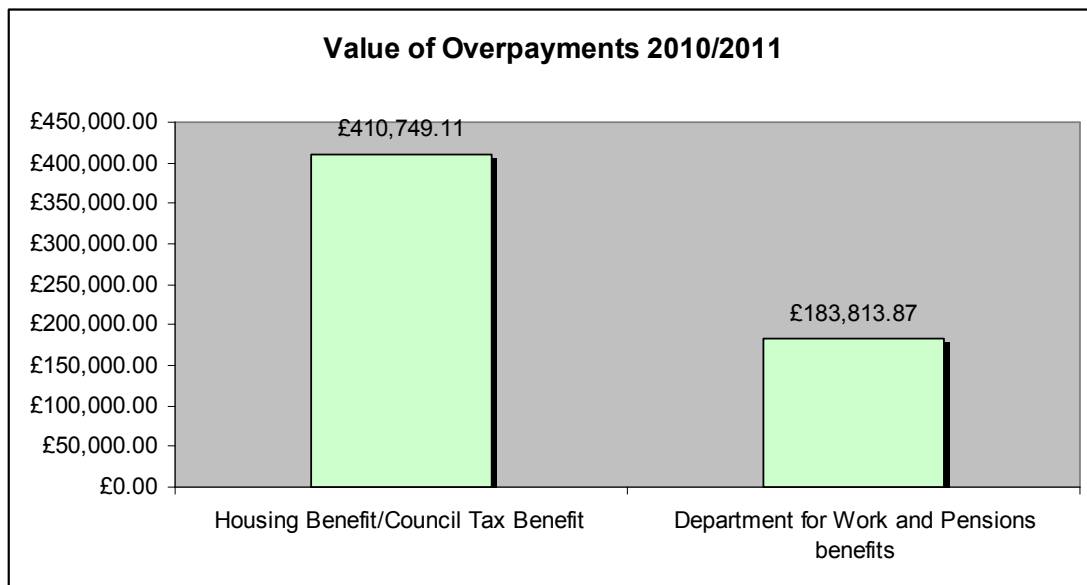


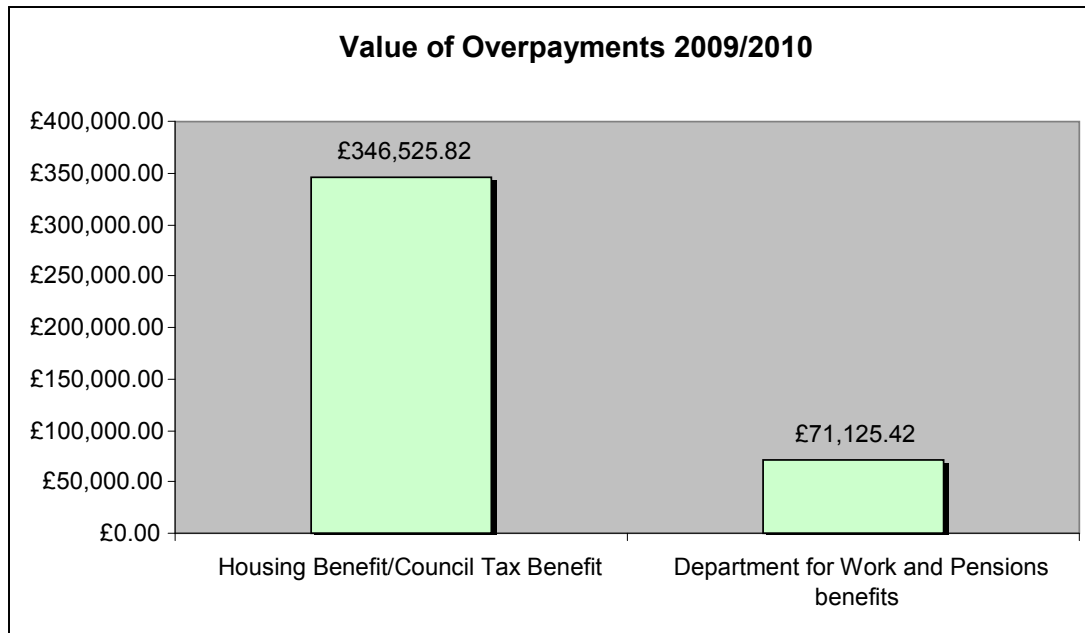
There was a slight decrease in the number of sanctions this year however this is partly due to the fact that the size of many overpayments uncovered has increased to above the level at which prosecution is the most appropriate sanction. The Compliance and Ethical Standards Team passed prosecution files relating to 17 individuals to Cambridgeshire Police or Peterborough City Council's Legal Services or the Department for Work and Pensions before the end of March 2011. Eight of these individuals were due to appear at Magistrates Court for their first appearances after April 2011 despite having been submitted in 2010. An example of this would be a lady whose file was passed for prosecution in September 2010 yet her first appearance was not until February 2011. Following an adjournment for a trial, this particular case will see a guilty plea entered in June 2011. A second example is a man whose file was passed to Cambridgeshire Police November 2010 however the Police were only able to locate and arrest him in April 2011.

Compliance and Ethical Standards Team Annual Report 2010-2011

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

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





There is an increase in the overpayments of both Housing Benefit and Council Tax Benefit as well as benefits paid by the DWP. However this can in part be due to some large cases which are currently at court, an example is that two cases which are currently in the prosecution process the DWP alone have a combined overpayment of £174,252.35.

During 2009/2010, there was a rise in the value of the Housing Benefit and/or Council Tax Benefit overpayments. However there has been a drop in the value of the overpayments relating to the Department for Work and Pensions benefits. This is largely due to the increase in the number of investigations which only affect Housing Benefit and/or Council Tax Benefit claims.

An example of a successful investigation is outlined below:



A customer obtained over £10,000 in Housing and Council Tax Benefit by failing to notify Peterborough City Council that she had started work. An investigation by Peterborough City Council established that the customer had been working for three years. The case was referred for prosecution with the customer pleading not guilty to charges of failing to declare a change of circumstance however she was found guilty after a trial. She was sentenced to 26 weeks imprisonment, which was suspended for 18 months, and was also ordered to carry out 200 hours of unpaid work. She will also have to repay the overpaid benefits she received as a result of her actions.

5 National Fraud Initiative

In January 2011, the Audit Commission released their latest National Fraud Initiative matches in respect of Council data, which had been matched against

a number of public sector agencies such as central government and local government. Work is currently underway to review the matches that have identified irregularities. This may ultimately lead to formal fraud investigations.

The Audit Commission's latest report entitled 'Protecting the Public Purse – Local Government Fighting Fraud' was published in September 2009. The Commission found that Council taxpayers could be losing almost £2 million pound a week to fraudsters claiming 25% Single Person Discount on their Council Tax.

6. Electoral Anti Fraud Initiative

The Chief Executive has continued to make it a priority to take strong and effective action to counter electoral fraud in Peterborough. The Compliance and Ethical Standards Manager is a member of the Council's Election Working Group and joins other key officers and stake-holders to maintain a robust stance against abuse of the system. This approach includes the introduction of a new Register of Electors on an annual basis with no carry forward of names; the use of identify checks for all persons seeking to be added to the Register after the annual canvass; recording of unique reference numbers and a publicity campaign to alert the public to potential abuse and Internal databases continue to be matched to provide a list of properties where occupancy is high. During three weeks of February 2011, officers visited 808 such properties and confirmed the names and identities of the occupants. The visits were also linked to work being undertaken on the 2011 Census. These visits identified over almost 1500 adults for the purposes of the Electoral Register. The occupants who were not available at any of the three visits to each property were invited to attend Review Hearings where they can tender documentary evidence to support their registration details. A strong partnership approach between Peterborough City Council and Cambridgeshire Constabulary has also continued to thrive with both organisations holding regular meetings and sharing good practice.

7. Publicity

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

8. Other Investigations

A number of other investigations have been undertaken by the team during 2009/2010:

- Disciplinary Cases: 56 cases of alleged disciplinary breaches were investigated. The results of these include 11 dismissals, seven final

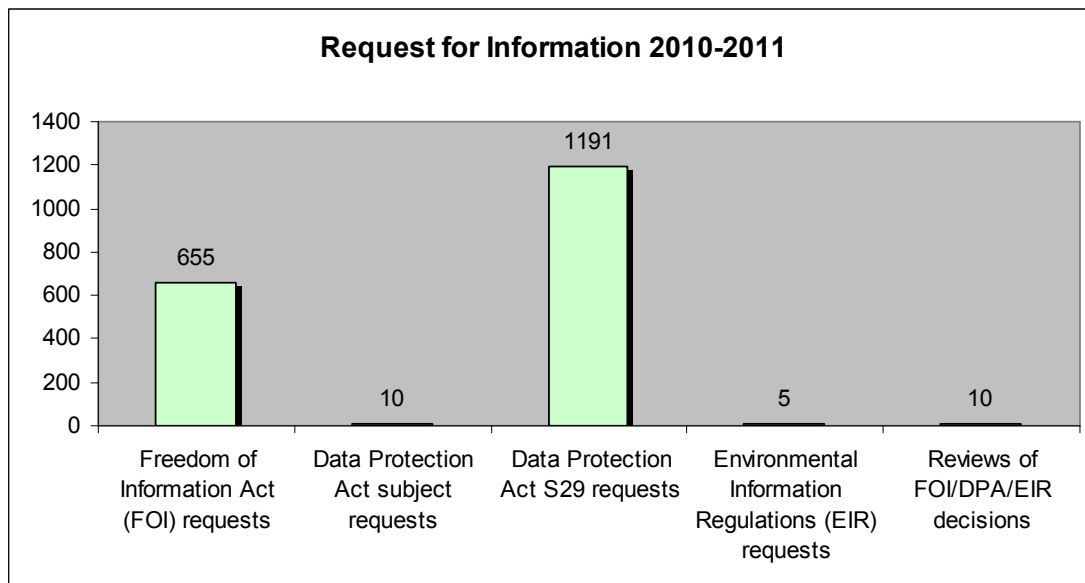
written warnings, nine written warnings, five verbal warnings and three resignations.,

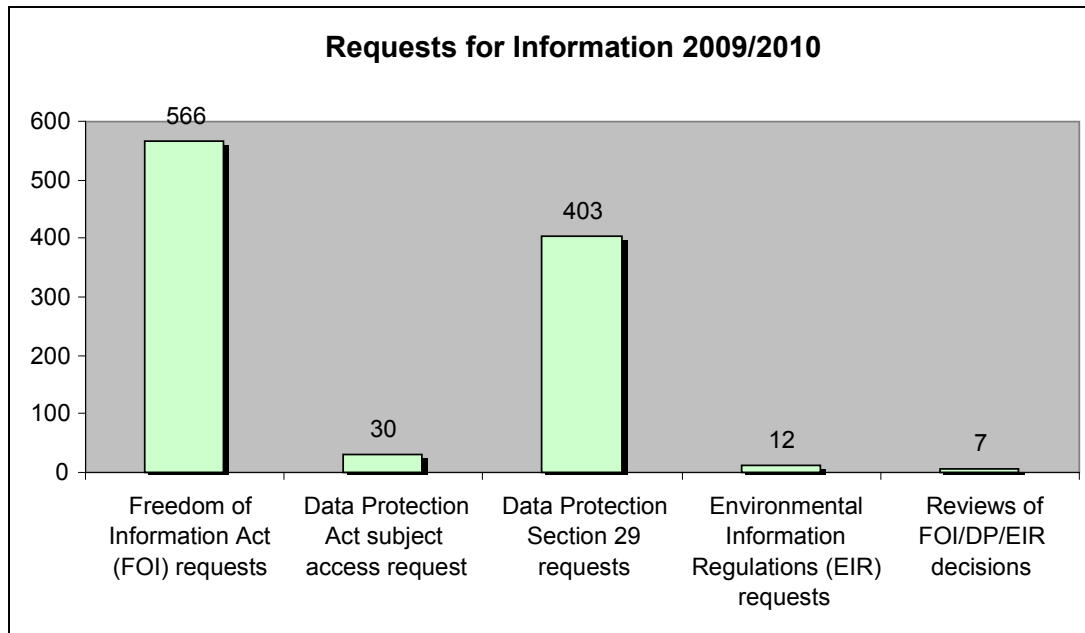
- Stage III Complaint Investigations: 23 were undertaken which is an increase on the 18 investigated by the team in 2009/2010.
- Standards Investigations: 15 cases were investigated during 2010/2011, including three external cases on a fee-earning basis. This is an increase overall as six cases were investigated during 2009/2010. The team has continued to operate a service to other Councils and is generating a modest income from this work.

During 2010/2011 the Team has received a number of compliments on the high standard of their work from Directors, Chairs of Committees and Clients.

9. Information Management

The Council (through the Compliance and Ethical Standards Team) received the following requests for information during 2010/2011:





This illustrates an increase in Freedom of Information Act, Data Protection Act subject access requests and EIR requests. The Compliance Team has also taken on all requests for information under Section 29 of the Data Protection Act to ensure that any information provided is done so following a request made in the correct manner.

8 Conclusion

Counter fraud activity remains a priority for the Council and there continues to be a successful approach to dealing with this risk. The Compliance and Ethical Standards Team has established itself as a centre of professionalism and is recognised as such by external authorities. Invitations to speak at conferences and seminars have been accepted as an opportunity to share good practice and promote the innovative work of the Council in the creation of a centralised investigation function. Frequent commissions to undertake external investigations are also testament to the success of the team.

Benefit fraud continues to be a significant fraud issue facing the Council in terms of both financial value and workload. The team are building upon their excellent status under the former Comprehensive Performance Assessment regime and will review all working practices regularly to ensure optimum efficiency.

The Information Management function did experience set-backs as a result of staffing changes in 2010/2011. However, a new manager for this area of the team has been appointed and recruitment for a new Information Specialist is ongoing.

AUDIT COMMITTEE	AGENDA ITEM No. 5
27 JUNE 2011	PUBLIC REPORT

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

INTERNAL AUDIT: ANNUAL AUDIT OPINION 2010 / 2011

RECOMMENDATIONS	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/A
Audit Committee is asked to	
<ol style="list-style-type: none"> 1. Receive, consider and endorse the attached Chief Internal Auditor's annual report for the year ended 31 March 2011; and 2. Note the report of Internal Audit's performance. 	

1. ORIGIN OF REPORT

This report provides details of the performance of Internal Audit during 2010 / 2011 and the areas of work undertaken, together with an opinion on the soundness of the control environment in place to minimise risk to the Council.

2. PURPOSE AND REASON FOR REPORT

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

3. INTERNAL AUDIT OPINION

- 3.1 The Internal Audit Opinion is based on review work undertaken during the period April 2010 to March 2011 and is set out in the attached Appendix 1.
- 3.2 Summaries of work carried out by Internal Audit are documented within the opinion, and, overall it is considered that Internal Audit can place **REASONABLE ASSURANCE** on the controls environment. As a result an unqualified opinion is provided. Where systems have fallen below expected standards, details of these have been identified within the report as well as through out the year to audit committee.

Furthermore, ongoing internal performance indicators are monitored and their level of achievement, or otherwise, are included for information purposes.

4. CONSULTATION

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

5. ANTICIPATED OUTCOMES

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

6. REASONS FOR RECOMMENDATIONS

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

7. ALTERNATIVE OPTIONS CONSIDERED

No other options appropriate.

8. IMPLICATIONS

None.

9. BACKGROUND DOCUMENTS

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

Accounts and Audit Regulations 2011
CIPFA Code of Practice for Internal Audit in Local Government 2006

10. APPENDICES

Appendix 1 - Head of Internal Audit Annual Audit Opinion 2010 / 2011



**HEAD OF INTERNAL AUDIT
ANNUAL AUDIT OPINION
2010 / 2011**

ANNUAL REPORT

1. Introduction
2. The Authority for Internal Audit
3. The Scope of Internal Audit
4. Review of Internal Control
 - Opinion 2010 / 2011
 - How Internal Control is Reviewed
5. Basis For Head of Internal Audit Opinion
 - Background
 - Corporate Governance and the Annual Governance Statement
 - Key Financial Systems
 - Other Reviews
 - External Activities
 - Allegations of fraud and irregularity
 - Significant Control Weaknesses
 - Key Issues
6. Internal Audit Performance 2010 / 2011
 - Major Achievements During 2010 / 2011
 - Ensuring Quality
 - Continuing Professional Development
 - Performance Indicators

APPENDICES

- A Assurance Levels and Recommendations 2010 / 2011
- B Audit Reports Issued: Opinion of Limited Assurance or No Assurance
- C Performance Indicators 2010-2011

1. INTRODUCTION

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

1.2 The purpose of this report is to meet the Head of Internal Audit (HoIA) annual reporting requirements set out in the CIPFA ¹Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at Paragraph 10.4 that the report should:

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

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

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

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

¹ CIPFA – Chartered Institute of Public Finance and Accountancy

2. **THE AUTHORITY FOR INTERNAL AUDIT**

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

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

2.2 **Local Government Act 1972 Section 151**

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

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

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

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

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

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

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

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

2.5 This is supported by the Council's Financial Regulations, which reflects Internal Audit's statutory authority to review and investigate all areas of the Council's activities in order to ensure that the Council's interests are protected. The Terms of Reference for the Audit Committee adequately meets the requirements of the Accounts and Audit Regulations in relation to the Annual Governance Statement.

2.6 The review of Internal Audit referred to in paragraph 2.3 has been conducted and included within this report.

3. **THE SCOPE OF INTERNAL AUDIT**

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

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

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

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

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

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

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

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

4. REVIEW OF INTERNAL CONTROL

4.1 Opinion 2010 / 2011

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

The internal control environment is fundamentally well established and continuing to operate well in practice even though 2010 / 2011 has been a challenging year for the organisation. There have been instances where the control environment was not strong enough or complied with sufficiently to prevent significant risks to the organisation. The area of most concern in the year has been in relation to payment processes and Internal Audit has been working closely with management in both these areas to improve key controls. Audit reports relating to these issues have been reported to Audit Committee during the year.

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

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

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

4.2 How Internal Control is Reviewed

Internal Audit continues to embrace the risk assessment approach to audit. During the course of the year the risks of the Authority has been continually challenged and used to form the basis of Internal Audit’s operational plan for the coming year. The review process draws on key indicators of risks to the organisation and attempts to ensure that suitable audit time and resources are devoted to review the more significant areas. The audit plan contains a contingency provision that is utilised during the year in response to unforeseen work demands

that arise. This risk based approach to audit planning results in a detailed range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:

- Corporate 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;
- Audits of Council establishments.

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

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

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

5. BASIS OF HEAD OF INTERNAL ANNUAL OPINION

5.1 Background

The opinion is derived from work carried out by Internal Audit during the year as part of the agreed Internal Audit Plan for 2010 / 2011, including an assessment of the Council's corporate governance and risk management processes. 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. This programme of work is outlined in **Appendix A**. Our opinion is limited to the work carried out by Internal Audit based upon the strategic Internal Audit Plan. Where possible we have considered the work of other assurance providers, such as External Audit.

5.2 The audit work that was completed for the year to 31 March 2011 is listed in **Appendix A**, which lists all the audits and their results in terms of the audit assurance levels provided and the number of recommendations made. The level of assurance achieved on the systems audited is detailed below. This shows that **68%** of the systems audited achieved an assurance level of significant or higher, compared to **52%** last year. This shows a good increase in the year which has been primarily due to the improvement in school assurance levels as they have been reassessed for the Financial Management Standard in Schools. This demonstrates that controls are becoming more embedded into daily processes.

AUDIT ASSURANCE				
Assurance Levels	Issued		%	
	2010 / 2011	2009 / 2010	2010 / 2011	2009 / 2010
Full	2	2	4.0	4.0
Significant	32	27	64.0	47.5
Limited	13	23	26.0	40.0
No	3	5	6.0	8.5
	50	57	100.0	100.0

RECOMMENDATIONS MADE		
	Numbers	
	2010 / 2011	2009 / 2010
Low	87	103
Medium	157	209
High	78	140
Critical	5	5
	327	457

5.3 A complete list of the audits and assurance ratings can be found in **Appendix A**. Recommendations to take corrective action were agreed with management and we will continue to monitor during 2011 / 2012 to confirm that they have been effectively implemented.

5.4 **Corporate Governance and the Annual Governance Statement**

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

Using the proper practice guidance issued by CIPFA as the basis, Internal Audit reviews the corporate governance evidence framework to confirm that there is evidence to indicate that policies, procedures and systems are in place for corporate governance to be effective within the Council. The Council has demonstrated a firm foundation for this and Internal Audit remains of the opinion that the policies, procedures and systems are generally in place for good corporate governance.

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

5.5 **Key Financial Systems**

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

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

The Assurance - Financial Systems	⇒	Our overall opinion is that internal controls within financial systems operating throughout the year are fundamentally sound , other than those reviews assigned "Limited Assurance".
-----------------------------------	---	--

5.6 **Other Reviews**

Appendix A provides a summary of other reports issued during the year. Areas of concern that have been raised during the year where limited assurance has been given relate to 13 audits. These cover areas such as

- Accounts Payable – Central Controls;
- Energy Payments;
- Asylum and Immigration Act;
- Purchasing Cards;
- Leaving Care Imprest Accounts;
- Future Jobs Fund and Migration Impact Fund;
- Seven school FMSiS reviews

Throughout the year Internal Audit provide executive summaries of audit reports where assurance ratings are either No or Limited Assurance. Reports that fall into this category for the final quarter of 2010/11 are detailed within **Appendix B** of this report. At the year end a number of reviews were in various stages of completion. Audit opinions relating to these will be reported during 2011/12 as part of the agreed performance reporting timetable to the Audit committee.

5.7 External Activities

Internal Audit have undertaken reviews on behalf of other organisations. These have generated additional funds for the Council. The nature of the works undertaken are confidential between us and the client and are not included within the details below. However, our clients have included:

- Vivacity Leisure Trust;
- Programmed work with Huntingdon District Council (HDC) did not take place during 2010 / 2011 due to a change in staff arrangements at HDC. However, an agreement is due to be formed during 2011 / 212 to facilitate and future requests for work; and
- In addition to the above funding has been received to support the Financial Management in Schools external assessments work that was conducted prior to the cessation of the initiative.

5.8 Allegations of Fraud and Irregularity

The team has continued to work with the Governance Team on cases of suspected fraud where appropriate. In addition to this, Internal Audit has assisted the Governance Team in the production of pro-active fraud data with the use of IDEA, a data interrogation software package. There is a separate report to this committee covering fraud.

5.9 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. No governance issues were raised as part of the audit work.

In addition, 5 critical recommendations were made in audit reports (compared to 5 in the previous year) which required immediate attention. These related to the audits of:

- Youth Offending Service; and
- Childrens Services: Whistleblowing Allegation (Chi2120-02)

5.10 Key Issues

There is a range of key issues that are likely to be of significance for 2011 / 2012 and beyond, which Internal Audit needs to be aware of. These include:

- the current economic climate which adds to the financial pressures already on the council. This is impacting on income and expenditure as well as the public's needs for council services;
- the impact on funding (DSG settlement) with regard to savings required over future years; and
- the management and governance arrangements with regard to externalised or partnership working.

6. INTERNAL AUDIT PERFORMANCE 2010 / 2011

6.1 Major Achievements During 2010 / 2011

The major achievements of Internal Audit for 2010 / 2011 are as follows:

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

6.2 Ensuring Quality

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

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

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

6.3 Continuing Professional Development

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

6.4 Performance Indicators

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

Better than target

- Feedback for each audit is collected via Post Audit Questionnaires (PAQ). Our average score was 4.5 against a target of 3.75 (the highest score being 5), reflecting the high opinion our audit clients have of auditor conduct and the quality and usefulness of reports. This score is consistent with 2009 / 2010 results.
- An average of 6.25 days training has been provided to each auditor, compared to a target of not less than 5 days. This includes 'on the job' training, training for professional qualifications, audit technical update seminars and internal training such as the Leadership Programme. In addition, Chief Internal Auditors from each local authority in Cambridgeshire staged an 'Away Day' for all auditors in November. This was to share ideas and best practice across the county. Similarly a group training session was arranged with Cambridge City Council as a result of the shared service arrangement to look at working processes. A further session has been organised for 2011/12.
- 100% of critical and high recommendations made were agreed, reflecting the high quality of audit reports.
- The length of time from completion of field work to issue of a draft report is above target at 8.5 days and therefore shows good improvement in reducing the amount of time to issue draft reports.
- The number of compliments received has exceeded our annual target and helps to demonstrate that Internal Audit are adding value to the business in the planning and delivery of the reviews undertaken.

On Target

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

Areas for improvement

- 89% of critical and high recommendations were implemented (target 100%). This is slightly lower than 91% last year. The lack of 100% implementation is primarily due to differing priorities of staff during a time of change, especially where service delivery methods are being altered, or where staff restructuring has occurred as the recommendations had been originally accepted.
- An average of 22.84 days sickness per person was lost during the year, compared to a target of 5 days. However this is an improvement from the previous year where sickness levels were 37.34 per person. There have been two officers on long term sickness (LTS) within the team which has been actively managed in accordance with the Council's Attendance Policy and through Occupational Health. Both officers have now returned to work and are working to contracted hours. Sickness levels per person excluding the LTS cases equate to 5.97 days per person which is slightly above target range but 50% of this time is as a result of pregnancy related absence. This situation has also impacted on the teams ability to deliver the planned number of audit days against the original audit plan.

APPENDIX A

ASSURANCE LEVELS AND RECOMMENDATIONS 2010 / 2011

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT	To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed annually; others will be reviewed periodically dependent on risk.										
Main Accounting / Financial Accounting	Strategic Res					-	-	-	-	-	Removed from plan – reliance placed on PwC as part of final accounts
Accounts Payable	Strategic Res					-	-	-	-	-	At review stage
Sundry Billing	Strategic Res					-	-	-	-	-	Removed from plan
Debt Recovery	Strategic Res					-	-	-	-	-	Deferred until 2011 / 2012
Housing and Council Tax Benefits	Strategic Res		x			2	-	-	-	2	Final issued
Council Tax	Strategic Res		x			2	1	1	-	4	Draft issued
Business Rates	Strategic Res		x			2	3	1	-	6	Draft issued
Cash / Banking	Strategic Res					-	-	-	-	-	Removed from plan
Budgetary Control (Capital)	Strategic Res					-	-	-	-	-	At draft review stage
Treasury Management	Strategic Res					-	-	-	-	-	Removed from the plan
Payroll	Strategic Res		x			5	6	-	-	11	Draft issued
Fixed Asset Accounting	Strategic Res					-	-	-	-	-	Memo issued No further action until migration of data onto asset management system

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT – Unplanned reviews 2010/11											
Youth Offending Service – Imprest Account	Strategic Res		x			3	-	-	-	3	Memo issued
SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT – Rolled forward from 2009/10	To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed annually; others will be reviewed periodically dependent on risk.										
Benefits 2009	Strategic Res		x			1	2	-	-	3	Final issued
Cash and Banking 2009/10	Strategic Res		x			4	3	2	-	9	Final issued
Main Accounting System	Strategic Res		x			1	1	-	-	2	Final issued
Accounts Payable – Central Controls	Strategic Res			x		5	4	4	-	13	Final issued – Executive Summary to Audit Committee 07/02/2011

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	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.										
Arrangements for production of AGS 2009/10	All					n/a	n/a	n/a	n/a	n/a	Audit Committee Report 07/06/2010
Annual Audit Opinion 2009/10	All					n/a	n/a	n/a	n/a	n/a	Audit Committee Report 07/06/2010
Internal Audit Effectiveness	All					-	-	-	-	-	Annual review to Audit Committee 27/6/2011
CAA / UoR Support	All					-	-	-	-	-	No longer required in current format - Work requirements to be reviewed in line with Government initiatives
Anti Fraud Culture:	Reviews to reported individually throughout the year										
National Fraud Initiative											Work has commenced with results due to be reported to the audit commission during 2011/12
Follow-Up Reviews	Individual reviews to be detailed throughout the year										
The Voyager School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Jack Hunt School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
St John Fisher School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Stanground College	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK Cont:											
Follow-Up Reviews Cont:	Individual reviews to be detailed throughout the year										
Orton St Johns Primary	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Barnack Primary	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Heltwate School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Ken Stimpson	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Watergall	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Nene Gate School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Hampton Vale	Chi Services					-	-	-	-	-	At review stage
Winyates	Chi Services					-	-	-	-	-	At review stage
St Augustines	Chi Services					-	-	-	-	-	At review stage
Woodston Primary	Chi Services					-	-	-	-	-	At review stage
Welbourne Primary	Chi Services					-	-	-	-	-	At review stage
Hampton College	Chi Services					-	-	-	-	-	At review stage
The Beeches	Chi Services					-	-	-	-	-	At review stage
Dogsthorpe Infants	Chi Services					-	-	-	-	-	At review stage

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK – Rolled forward from 2009/10											
Follow-Up Reviews											
Discovery FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
John Clare FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Nene Valley FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Wittering FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Bishop Creighton FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final issued
Climate Change Follow-up	Operations					n/a	n/a	n/a	n/a	n/a	Final issued
Energy Payments follow-up	City Services			x		-	6	4	-	10	Final issued – Executive Summary to Audit Committee 27 June 2011

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
OTHER GOVERNANCE ARRANGEMENTS	Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Areas that constitute key aspects of corporate governance are reviewed in line with risk levels.										
Performance Management	All City Services					-	-	-	-	-	Removed from plan
Risk Management	All Operations					-	-	-	-	-	In progress
Information Governance	All					-	-	-	-	-	Reports to Audit Committee will be through the Information Governance Group. Reduce scope of Information Security review and place reliance on PwC work in this area. No further Contact Point work as abolished by central govt.
Business Continuity	All Operations					-	-	-	-	-	Deferred into 2011 / 2012
Youth Offending Service	Chi Services				x	1	6	3	1	11	Final issued – Executive Summary to Audit Committee 27 June 2011
OTHER GOVERNANCE ARRANGEMENTS Rolled forward from 2009/10	Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Areas that constitute key aspects of corporate governance are reviewed in line with risk levels.										
Information Governance - Contact Point Accreditation	Chi Services					n/a	n/a	n/a	n/a	n/a	Final Certification

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	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.										
Regeneration / Sustainability	Asst Chief Executive					-	-	-	-	-	Removed from plan
Health & Safety	Operations		x			1	3	1	-	5	Final issued
Arms Length Management Organisation (ALMO) for City Services	City Services					-	-	-	-	-	Removed from plan
Safeguarding Children	Chi Services					-	-	-	-	-	Delayed and removed due to Ofsted inspection
Property Asset Management	Strategic Res					-	-	-	-	-	Memo. Linked with Fixed Asset review.
Highways	Operations					-	-	-	-	-	Removed from plan
Agile Working Scheme	Strategic Res		x			5	6	1	-	12	Final issued
Travel & Subsistence	All					-	-	-	-	-	Draft issued
Attendance Management	All					-	-	-	-	-	Removed from plan
Concessionary Fares	Operations					-	-	-	-	-	Removed from plan
Asylum and Immigration Act	Strategic Res			x		-	2	2	-	4	Final issued – Executive Summary to Audit Committee 07/02/2011

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
STRATEGIC AND OPERATIONAL RISKS (cont.)	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
Children in Care	Chi Services					-	-	-	-	-	Removed from plan
Funding Assurance on LA Direct Provision	Chi Services					n/a	n/a	n/a	n/a	n/a	Work undertaken in conjunction with Norfolk County Council
Delivering Through Localities	Chi Services		x			1	5	2	-	8	Final issued
Procurement:											
Corporate Contracting											Removed from plan
Purchasing Cards	All			x		6	9	9	-	24	Final issued
STRATEGIC AND OPERATIONAL RISKS – Unplanned Reviews / Control Advice	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
(Loyalty) Spend Cards	Chi Services					n/a	n/a	n/a	n/a	n/a	2 memos issued
Interim Utility Billing Process	Strategic Res		x			2	-	-	-	2	Memo issued
Sale of goods on Ebay	Chief Exec Operations					n/a	n/a	n/a	n/a	n/a	2 memos issued
EDF Purchase Orders	Strategic Res					n/a	n/a	n/a	n/a	n/a	Memo issued
Register Office – Missing Certificates	Strategic Res					n/a	n/a	n/a	n/a	n/a	Memo issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
STRATEGIC AND OPERATIONAL RISKS – Unplanned Reviews / Control Advice Cont:	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
Leaving Care Imprest Account	Chi Services			x		1	2	5	-	8	Final issued – Executive Summary to Audit Committee 27 June 2011
SI (Chi2120-02)	Chi Services				x	1	5	7	4	17	Final issued – Whistleblowing Allegation at a School
SI (Chi2105-03)	Chi Services				x	n/a	n/a	n/a	n/a	n/a	Final issued – Whistleblowing Allegation at a School
STRATEGIC AND OPERATIONAL RISKS – Rolled Forward from 2009/10	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
SI (Chi2084-05)	Chi Services		x			-	1	2	-	3	Final

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
CONTRACTS AND PROJECTS	Dependent on risk, we review a sample of projects contracts each year to test whether the council's governance arrangements are being followed and that contracts provide value for money.										
Project Management:											
Post Implementation Review	All										Removed from plan
Capital Gateway Processes	All					-	-	-	-	-	At review stage
Projects:											
CIA Consultancy – E-Payment Project Board	All					n/a	n/a	n/a	n/a	n/a	Completed. Actions required monitored through board minutes
CIA Consultancy – Internet Project	All					n/a	n/a	n/a	n/a	n/a	Complete
CIA Consultancy – Museum Refurbishment	All					n/a	n/a	n/a	n/a	n/a	Complete
CIA Consultancy - Manor Drive Project						n/a	n/a	n/a	n/a	n/a	In progress
CIA Consultancy – business Continuity (Oracle)	All					n/a	n/a	n/a	n/a	n/a	In progress
Contracts:											
PFI (Secondary School) contract	Chi Services										Removed from plan
CIA Consultancy – Green Waste	City Services					n/a	n/a	n/a	n/a	n/a	Final
Rolled forward from 2009/10											
CIA Consultancy - Funds	City Services					n/a	n/a	n/a	n/a	n/a	Final

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
EXTERNAL WORK	Work resulting income or a reduction in fees paid to other organisations.										
Grant Claim Certification:	Work on behalf of PwC (fee reduction)										
Teachers Pensions (TPA) TR17	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final Certification and Memo
Jack Hunt TPA	Chi Services	x				1	-	-	-	1	Final issued
Hampton College TPA	Chi Services		x			2	1	-	-	3	Final issued
Orton Longueville School	Chi Services		x			4	5	-	-	9	Final issued
FMSiS Section52 Outturn Return	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final Certification and Memo
FMSiS Inventories Summary	Chi Services					n/a	n/a	n/a	n/a	n/a	Final memo
GAF Opportunity Peterborough Grant 2009/10	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final memo
GAF3 Grant 2009/10	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final memo
Stroke Care Grant 2009/10	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final memo
Economic Participation Programme	Chief Exec					n/a	n/a	n/a	n/a	n/a	Final issued
Womens Enterprise Centre	Operations					n/a	n/a	n/a	n/a	n/a	Final issued to EEDA
Future Jobs Fund and Migration Impact Fund	Strategic Res			x		1	1	6	0	8	Final issued – Executive Summary to Audit Committee 27 June 2011
Leisure Trust	SLA in place between Internal Audit and Vivacity (income generating)										
	N/A					-	-	-	-	-	3 x drafts issued.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
EXTERNAL WORK	Work resulting income or a reduction in fees paid to other organisations.										
PCC FMSiS 2010/11:											
Training delivered to schools	Chi Services					n/a	n/a	n/a	n/a	n/a	Complete
Southfields Junior	Chi Services		x			1	1	-	-	2	Final issued
Thorpe	Chi Services		x			2	2	2	-	6	Final issued
Dogsthorpe Junior	Chi Services		x			4	2	1	-	7	Final issued
Leighton	Chi Services		x			-	1	3	-	4	Memo issued
Hampton Hargate	Chi Services		x			-	3	-	-	3	Final issued
St Botolph's	Chi Services	x				-	-	-	-	-	Final issued
Fulbridge	Chi Services		x			1	4	-	-	5	Final issued
Marshfields	Chi Services		x			1	5	-	-	6	Final Issued
Queens Drive	Chi Services		x			2	4	1	-	7	Final Issued
Heritage Park	Chi Services		x			2	2	-	-	4	Final issued
Duke of Bedford	Chi Services		x			3	5	1	-	9	Draft issued
Brewster	Chi Services					-	-	-	-	-	No further action-FMSiS cancellation
Eye Primary	Chi Services		x			-	2	-	-	2	Final issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
Orton Wistow	Chi Service			x		2	5	5	-	12	Final issued – Executive Summary to Audit Committee 27 June 2011
Welland	Chi Service		x			2	5	-	-	7	Final issued
Braybrook	Chi Services		x			2	5	-	-	7	Final issued
EXTERNAL WORK - Rolled Forward from 2009/10	Work resulting income or a reduction in fees paid to other organisations.										
The Voyager FMSiS	Chi Services		x			3	2	1	-	6	Final issued
Barnack Primary FMSiS	Chi Services		x			1	5	-	-	6	Final issued
Dogsthorpe Infants FMSiS	Chi Services		x			3	5	-	-	8	Final issued
Hampton Vale FMSiS	Chi Services			x		1	4	3	-	8	Final issued – Exec Summary to AC 06/09/2010
Southfields Infants FMSiS	Chi Services		x			1	2	-	-	3	Final issued
The Beeches FMSiS	Chi Services			x		1	6	-	-	7	Final issued - Exec Summary to AC 01/11/2010
Welbourne Primary FMSiS	Chi Services			x			5	1	-	6	Final issued – Exec Summary to AC 06/09/2010
Winyates Primary FMSiS	Chi Services			x		1	2	3	-	6	Final issued - Exec Summary to AC 01/11/2010
Heltwate FMSiS	Chi Services			x		2	5	4	-	11	Final issued – Exec Summary to AC 06/09/2010
NeneGate FMSiS	Chi Services			x		1	3	3	-	7	Final issued - Exec Summary to AC 01/11/2010

AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE

NO ASSURANCE		Date To Audit Committee
1	Youth Offending Team	27 June 2011

LIMITED ASSURANCE		Date To Audit Committee
2	Future Jobs Fund and Migration Impact Fund	27 June 2011
3	Leaving Care Imprest Account	27 June 2011
4	Energy Payments Follow-up	27 June 2011
5	Orton Wistow	27 June 2011

Note, there are other reports with Limited or No Assurance identified in Appendix A above which have been reported throughout the quarterly performance reports.

Report 1: Youth Offending

Executive Summary

During the course of the review it became apparent that governance arrangements for the YOS have been in place for several years without review and have remained unchallenged. Therefore, one recommendation in the report has been graded as a Critical priority and this relates to the fact that there is no formal agreement in place for the Youth Offending Service (YOS) Partnership. Three further recommendations are graded as a high priority and these relate to out of date Terms of Reference for the Management Board and the lack of financial reporting to, and monitoring by, the board.

Scope and Objectives

This was a planned audit review from the 2010/11 Internal Audit Plan. The purpose of the audit was to review the governance arrangements in place for the YOS with their partners Probation, Police and Health Service, also to ascertain the nature and probity of payments in kind.

Audit Opinion - No Assurance

Conclusion

The aims and objectives of the YOS are set in statute and link into Peterborough City Council's corporate objectives as set out in the Sustainable Community Strategy.

Formal governance arrangements are poor and the new Operational Manager for Youth Offending has recognised this fact and has plans and ideas on how to improve the governance of the service. The governance arrangements will be reviewed in line with the publication of the follow-on document to 'Sustaining the Success' which is due to be published in December 2010 and this will be timely. When implemented, the recommendations in this report will address the weaknesses found in the current governance arrangements and enable the board to fulfil its purpose and be fit for scrutiny by the Youth Justice Board.

Payments in kind, or contributions in kind, refer to the secondment of staff from the partners. The staff work for the Youth Offending Service but their salaries are paid by the partners and not processed via PCC payroll.

During the review, the following points were considered satisfactory

- The reporting process for performance on national indicators was found to be good as this is a standing item on every Management Board agenda.
- Risk Management is covered well in the Board meetings and each sub group reports to the Board on their risks to performance.
- An action summary is included with all minutes of meetings which makes very clear any action required and who the responsible officer is for overseeing the action.

Report 2: Future Jobs Fund

Executive Summary

Although both the Future Jobs Fund and the Migration Impacts Fund grants appear to be achieving their objectives, this review has highlighted a number of issues that need to be addressed and logged as 'lessons learned' for future projects.

There are six high level recommendations identifying:

- a lack of adherence to Contract Regulations (FJF and MIF)
- that role of the consultant to manage the project was not formally documented (FJF and MIF)
- verbal references are not followed up with written ones (FJF)
- three project leaders have not received formal project management training, affecting five of the nine projects (MIF)
- a lack of liaison between the Programme Manager and the Finance section re: budgets (MIF)
- a lack of project monitoring by the Programme Manager (MIF)

Scope & Objectives

The Head of Neighbourhood Services requested an audit to be carried out for these two grants to gain assurance that they have both been administered properly.

To review the governance and decision making arrangements for both the Future Jobs Fund and the Migration Impacts Fund grants

Audit Opinion – Limited Assurance

Conclusion

Staff working in both funding areas have demonstrated their commitment to their own projects and both FJF and MIF appear to be achieving positive outcomes.

Despite this success, some important corporate procedures were not complied with properly when commencing the projects (e.g. obtaining exemption approvals at the appropriate time and following up with formal contracts). From discussions with various staff involved, this appears to be due to ignorance of the required procedures rather than a deliberate avoidance, which indicates that there are training requirements to be addressed.

Report 3: Leaving Care

Executive Summary

Two contraventions of Peterborough City Council Financial Regulations have been detailed within the report, in relation to pre-signed authorisation forms and petty cash expenditure over the set limit of £50.00. The third area of concern relates to the absence of the correct coding of VAT to maximise the grants paid to young people, and ensure the Authority's accounts are in order.

The Team Manager is keen to use a Government Purchase Card for the benefit of the Leaving Care Team and this may be considered when the recommendations in this report have been actioned.

It was also noted that the imprest account bank statements included excessive quarterly commission charges. This point was followed up by Internal Audit with the Loans and Investments Officer. The charges were found to be incorrect, and have resulted in a full refund of £484.90 relating to 2010/11 with a further refund of £124.74 due for charges made in March 2011.

Scope & Objectives

The purpose of the audit was to review the controls in place for the administration of the Leaving Care imprest account and to ensure compliance with Peterborough City Council's Financial Regulations. In addition to this the monitoring of Care Leavers payments, and the options for payment methods have been considered.

Methodology

An unannounced visit was made to the Leaving Care Team. A full reconciliation of the imprest account was undertaken, including a check on cash balances held. A further visit took place in order to assess procedures in relation to the Purchasing process.

Audit Opinion – Limited Assurance

Conclusion

The Administrator at the Leaving Care Team has recently been appointed to the post. She has received training and support regarding the completion of imprest claims from the Administration Team Leader and the Accountancy Assistant, Children's Services. When the recommendations in the report have been implemented, the administration of the imprest account will be efficient and cost effective in terms of value for money for the young people leaving care.

Report 4: Energy Payments

Executive Summary

Internal Audit Report no.20 issued on 28th April 2010 detailed a number of major issues with the way the authority pays and records its utility bills. The responsibility for payment and recording of the authority's utility bills has since transferred to the Asset Management team. Since the last audit report an interim payment process has been introduced, whilst investigation continues into the reintroduction of bulk billing.

Major Findings

There have been two major findings at the time of the follow up review. These were:

- The current TEAM database is not a complete record of all utility bills paid by the authority
- The interim payment process agreed in July 2010 requires full validation of every paid utility bill post-payment. However at time of follow up only 19% of paid bills had received such validation

Progress of implementation of previous audit recommendations, new observations and recommendations, are detailed separately.

Scope and Objectives

The follow up was conducted to assess progress against recommendations, and inform management decisions on further work in this area.

Audit Opinion – Limited Assurance

Conclusion

Since the previous audit report was issued there has been significant progress in tackling some of the problems identified during that review. These include obtaining a £338k refund on the Regional Pool E.on electricity account, and the resolution of a significant number of closed accounts with credit balances refunded and debit balances paid. It was estimated that the total refunds obtained from E.on were in the region of £500k. Real progress has been made in clearing the three year backlog of utility bills that had not already been recorded to the TEAM database. However it is noted that data already in the locally held TEAM software remains to be transferred to the hosted software, and thus the database is not yet up-to-date.

As this report demonstrates significant issues remain to be resolved, including the lack of an up-to-date database for utility bills, and the development of a long-term solution for paying and administering utility bills, and this is reflected in the audit opinion. Current processes are resource-heavy, and it must be a matter of huge frustration that officers within Asset Management are required to be taken away from their "day jobs" to assist in manual billing processes, especially since the root of these problems pre-dates Asset Management responsibility for utility bills. Significant savings may be achievable with a more efficient process. Despite the severe financial pressures facing the authority, a strong business case, including cost saving estimates, should be submitted as a matter of priority for funding for development of an efficient and effective utility bill payment process. Transfer of billing data held in the local version of TEAM software to the hosted software should also be treated as a priority, ideally performed by an IT specialist to ensure that data is safely extracted.

Report 5: School Financial Management Standards

Executive Summary

The Financial Management Standard in Schools (FMSiS) process was embedded into the Internal Audit programme and following external assessment the school has met the requirements of the Standard. The school submitted evidence required in order to support stated procedures and processes in meeting the Standard. The Department for Education (DFE) announced the end of FMSiS in its current format in November 2010, with the school already a substantial way through the assessment process. The school elected to continue with the assessment process on a voluntary basis.

Scope and Objectives

Orton Wistow Primary School previously met the requirements of the Financial Management Standard in Schools during 2007-08. The purpose of the reassessment was to obtain reasonable assurance that adequate controls and procedures are in place to ensure the school's compliance with the standard has been maintained and to make observations and recommendations for improvement.

Audit Opinion – Limited Assurance

Conclusion

The Office Manager worked hard to complete the self-assessment and provided plenty of supporting documents for review prior to and during the External Assessment visit. There were two main weaknesses identified during the review. These related to actions taken outside of the documented scheme of delegation, and to version control surrounding the 2010-13 budget submission. Implementation of the recommendations in this report will strengthen financial controls at the school.

APPENDIX C**PERFORMANCE INDICATORS 2010 / 2011**

Performance Indicator	Annual Target	Actual	Comments
Customers Opinion			
Average rating Post Audit Questionnaire rating	> 3.75	4.5	
Does external audit place reliance on the work of Internal Audit?	Yes	Yes	
Number of complaints received in relation to the service	Nil	Nil	
Number of compliments received about the service	4	5	Achievement above target
Process Related			
%age of audit days delivered compared with the original audit plan	100 %	95%	This is primarily due to LTS issues reported below.
Average number of days between fieldwork completion and issue of draft audit report	15 days	8.5	
Does IA comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006?	Yes	Yes	
%age of critical / high priority recommendations agreed	97 %	100%	
%age of critical / high priority recommendations implemented	100 %	89%	Implementation not been possible due to structural changes. The review is due to be revisited during 2011/12 and recommendations have been re-agreed for follow up action.
%age of critical / high priority recommendations followed up within 6 months of final report issued	70 %	80.6%	
Organisational Development			
Number of audit training days per auditor	> 5 days	6.25	
Working days lost to sickness per FTE	5 days	22.84	
Proportion of staff qualified (CIPFA / IIA)	25%	37.5%	

AUDIT COMMITTEE	AGENDA ITEM No. 6
27 JUNE 2011	PUBLIC REPORT

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

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT – 2010 / 2011

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/a
Committee is asked to:	
1. Consider and comment on the Annual Review of the effectiveness of Internal Audit 2010 / 2011.	

1. ORIGIN OF REPORT

This report is submitted as part of the annual Audit Committee work programme for 2011 / 2012.

2. PURPOSE AND REASON FOR REPORT

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

3 ANNUAL REVIEW OF INTERNAL AUDIT 2010/11

3.1 Communities and Local Government (CLG) have now published the Accounts and Audit Regulations 2011. The main amendments contained within the final regulations now require a review of the effectiveness of internal audit, rather than a review of the effectiveness of the system of internal audit. Such a review has historically been provided as a fundamental part of the Annual Head of Internal Audit Opinion presented to this committee. This will remain the same.

3.2 Internal Audit is defined as the means by which the Council addresses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance processes are evaluated and reported in the Annual Governance Statement.

3.3 To address the Accounts and Audit Regulations requirement an assessment of Internal Audit has been carried out which is presented for consideration by those tasked with completion of the Annual Governance Statement and by Audit Committee. It contains an opinion on the effectiveness of the Internal Audit Service including a self-assessment against the "Code of Practice for Internal Audit in Local Government in the UK" (CIPFA). Additional evaluation has been made against the CIPFA publication "Statement on the Role

of Head of Internal Audit". Furthermore, separate analysis of key performance indicators for 2010 / 2011 have also been utilised and these are reported in the Head of Internal Audit Annual Opinion which is also on this agenda.

- 3.4 The review was undertaken by the Head of Internal Audit and the report is presented for Members' consideration and comment.

4 CURRENT ARRANGEMENTS FOR INTERNAL AUDIT

- 4.1 A dedicated Internal Audit Section forms part of the system of internal audit in the Council. The Section is part of the Strategic Resources Department. It is led by the Chief Internal Auditor. It works closely with others in the Council tasked with assurance, governance and risk management but the Section retains a separate identity in relation to the performance of Internal Audit and investigation functions for the Council.

- 4.2 The Chief Internal Auditor reports directly to the Head of Corporate Finance and the Director of Strategic Resources but also has direct access, if required to the Chief Executive, Solicitor to the Council, Council Leader and Executive Members and the Chair of the Audit Committee.

- 4.3 At the start of 2010 / 2011 the in-house team comprised 8.10 FTE approved posts including the Chief Internal Auditor. This has reduced by 0.83 FTE by year end following the creation of the shared resource with Cambridge City Council (Chief Internal Auditor reduction 0.5 FTE) and one officer reducing their hours (0.33 FTE). Included in the current posts is one vacant post.

- 4.4 Due to the size of the section, it is not structured around client / service based teams nor the Council's directorates. This approach has allowed the opportunity for auditors to develop a depth of knowledge and relationships with customers in relation to the work of a number of services rather than specific areas. However, a number of officers do have specific technical attributes that provide the organisation with a "first point of contact". As a result, this provides some continuity to the customer who can regularly deal with the same auditor over a period of time.

- 4.5 The Section's strategy for the delivery of Internal Audit is set out in the Annual Audit Plan. The Internal Audit Service Terms of Reference (TOR) outline the status of the Section and define the principles of how it operates within the Council. It provides appropriate arrangements to ensure that the Internal Audit Section is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. This has been agreed with the Audit Committee. Arrangements for investigation work are defined in the Council's policies and procedures for Anti-Fraud and Whistleblowing and these are reported on in the Investigation Team Annual Report 2010 / 2011 which is submitted to the Audit Committee in June 2011.

- 4.6 Internal Audit undertakes its work in accordance with the CIPFA Code of Practice for Internal Audit in Local Government (2006). This is best practice guidance for the discharge of an internal audit function covering expectations and the standards required. External Audit carries out its review of the internal audit function against these standards.

- 4.7 To examine the system of internal audit, this review considered several key elements and assessed their contribution to enabling the section to fulfil its responsibilities. These were:

- The structure and resourcing level, including qualifications and experience of the audit team;
- The extent of compliance with the CIPFA Code of Practice in producing quality work;
- Comparison with the Statement on the Role of the Head of Internal Audit;
- Ensuring that the Section successfully audits the most appropriate areas on a prioritised (risk) basis; and

- The performance of the audit team (full details of which are reported in the Head of Internal Audit Opinion report).

5 BASIS FOR OPINION

5.1 Staff Resources

5.1.1 During 2010 / 2011 there was a minor reduction in staffing changes as a result of the shared arrangement for the Chief Internal Auditor post with Cambridge City Council (0.5 FTE reduction from January 2011), and reduction in working hours by a Senior Auditor. The reduced staffing position during the year did not severely impact on the ability to deliver some aspects of planned work within proposed timescales, despite a number of investigation referrals received and in-year requests for support from directorates. However a number of actions were taken which helped to ensure that overall delivery was achieved. A revised plan was brought before the Audit Committee in November 2010 that detailed various changes made following additional works requested and other activities being delayed or deleted. There were some audits carried forward from 2010 / 2011 to be completed in Quarter 1. Various options are being explored to fill the vacant post to increase available resources.

5.2 Training and Experience

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

Audit experience:

- Peterborough City Council service ranges from a minimum of 3 years service within Internal Audit to over 20 years; and
- Previous work experience is with banks, accountancy firms, other local authorities and other public sector organisations.

Qualifications:

- Qualified Accountants (CIPFA x1);
- Institute of Internal Auditors – Fellow / Member (CFIIA x2);
- Institute of Internal Auditors – Practitioner Level (PIIA x1);
- Institute of Internal Auditors – Certificate Level (CIA x1);
- Association of Accounting Technicians (MAAT x3).

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

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

5.3.1 While an action plan has been reported to Members of this Committee in recent years, a fresh assessment was undertaken to ensure that no previous strengths had slipped. No slippages were identified. For 2010 / 2011 this demonstrated that the Section was meeting 188 out of 192 applicable Code requirements. There is still work to do on 4 areas and these are detailed in the attached Appendix 1.

5.4 External Audit Opinion

5.4.1 PricewaterhouseCoopers comment in the Annual Audit Letter on the adequacy, or otherwise of Internal Audit as well as other governance arrangements. The latest report,

taken to Audit Committee in February 2011 concluded that they could place reliance on the work of Internal Audit. As a result the auditors have confirmed that they will be able to take assurance over the quality and extent of audit work done in 2010 / 2011 including assurance over the core financial systems activity.

5.4.2 Liaison with the external auditor continues to be productive and offers the opportunity to co-ordinate audit plans and to share information and to inform risk assessments. The Section agreed the scope and approach to auditing the core financial systems enabling Internal Audit to deliver work of increased value to the Council whilst ensuring that the needs of the external auditor are addressed.

5.5 Comparison with Statement on Role of Head of Internal Audit

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

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

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

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

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

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

To perform this role the Head of Internal Audit:

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

5.5.5 There are a series of attributes and personal qualities which sit below these principles, some subjective. However, an initial assessment would indicate that the role of the Head of

Internal Audit at Peterborough City Council already meets the underlying aims of the five principles set out above.

5.6 Integrated Audit Work With Risk Management and Governance Arrangements

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

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

5.6.3 It is considered that the 2010 / 2011 Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with senior management and Audit Committee. Some changes were reported in mid-year following additional requests from senior managers; nevertheless, the plan was largely delivered as planned.

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

5.6.5 For 2011 / 2012, the agreed Audit Plan now show links to the corporate aims / objectives in order to clearly demonstrate how audit work relates to the achievement of Council objectives.

5.7 Performance Measures

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

Better than target

- Positive feedback on Post Audit Questionnaires (PAQ);
- Good levels of ongoing training / development provided;
- 100% of critical and high recommendations made were agreed;
- Fieldwork completion to draft report above target;
- Compliments exceed expectations.

On Target

- No complaints in year.

Areas for improvement

- Implementation of recommendations by management;
- Continue to reduce sickness levels.

5.8 Audit Committee

5.8.1 The system of Internal Audit includes the role of the "Audit Committee" and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and

in ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for Committee remained the same during 2010 / 2011 with continuity of membership assisting in maintaining an effective committee. Membership has altered for 2011 / 2012 with 4 new Members. During 2010 / 2011 regular briefings took place with the Chair of the Audit Committee. This covered the future agenda items together with discussions around the works undertaken by Internal Audit.

5.8.2 As part of the audit protocol, all finalised audit reports are issued to the appropriate officers within the Council as well as the Executive Member and Chair of Audit Committee. These reports are discussed at the above briefings.

5.8.3 It is proposed that ongoing development and training for the Committee will continue in 2011 / 2012 with a programme of refresher and new Member training to be agreed. As part of this programme it is also proposed that the Terms of Reference for the Committee be reviewed and re-approved. In addition, a separate handbook will be regularly reviewed on the roles and responsibilities for an effective audit committee.

6 CONCLUSION

Consideration of a range of views on the effectiveness of Internal Audit operating within the Council during 2010 / 2011 indicates that this has been both appropriate and effective. The report demonstrates that the Council has an effective system of internal audit including a policy framework, internal audit function, audit committee and effective management engagement.

7. CONSULTATION

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

8. ANTICIPATED OUTCOMES

It is reasonable from all the assurances now available to the Council to conclude that a sound system of internal audit operated throughout 2010 / 2011.

9. REASONS FOR RECOMMENDATIONS

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

10. ALTERNATIVE OPTIONS CONSIDERED

None required at this stage.

11. IMPLICATIONS

This report contains no specific financial implications.

12. BACKGROUND DOCUMENTS

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

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

REVIEW OF SYSTEM OF INTERNAL AUDIT 2010 / 2011**Summary of Findings**

The internal self-assessment and sources of evidence provided, established the following areas which could be improved, or considered for improvement.

Code Ref	Standard	Recommendations
5.1.1 d	Is there a protocol that defines the working relationship for IA with other regulators and inspectors?	Establish a protocol for effective liaison with external inspectors (other than PwC).
5.5.1	Has the HoIA sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	As above.
6.1.2	Does the HoIA have access to appropriate resources where the necessary skills and expertise are not available within IA?	Develop an overall strategy to take forward specialist auditing areas in conjunction with Cambridge City Council (and others as appropriate).
11.3.4	Do the results of the performance management and quality assurance programme evidence that the internal audit service is adding value and assisting the organisation in achieving its objectives?	Internal Audit to issue a survey to senior management to establish the extent to which audit is adding value to their services.

Conclusions

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

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

REVIEW OF SYSTEM OF INTERNAL AUDIT 2010 / 2011

1	SCOPE OF INTERNAL AUDIT
1.1	Terms of Reference
1.2	Scope of Work
1.3	Other Work
1.4	Fraud and Corruption
2	INDEPENDENCE
2.1	Principles of Independence
2.2	Organisational Independence
2.3	Status of the HoIA
2.4	Independence of Internal Audit Contractors
2.5	Declaration of Interest
3	ETHICS FOR INTERNAL AUDITORS
3.1	Purpose
3.2	Integrity
3.3	Objectivity
3.4	Competence
3.5	Confidentiality
4	AUDIT COMMITTEES
4.1	Purpose of the Audit Committee
4.2	Internal Audit's Relationship with the Audit Committee
5	RELATIONSHIPS
5.1	Principles of Good Relationships
5.2	Relationships with Management
5.3	Relationships with Other Internal Auditors
5.4	Relationships with External Auditors
5.5	Relationships with Other Regulators and Inspectors
5.6	Relationships with Elected Members
6	STAFFING TRAINING AND CONTINUAL PROFESSIONAL DEVELOPMENT
6.1	Staffing Internal Audit
6.2	Training and Continuing Professional Development
7	AUDIT STRATEGY AND PLANNING
7.1	Audit Strategy
7.2	Audit Planning
8	UNDERTAKING AUDIT WORK
8.1	Planning
8.2	Approach
8.3	Recording Audit Assignments
9	DUE PROFESSIONAL CARE
9.1	Responsibilities of the Individual Auditor
9.2	Responsibilities of the HoIA
10	REPORTING
10.1	Principles of Reporting
10.2	Reporting on Audit Work
10.3	Follow-up Audits and Reporting
10.4	Annual Reporting and Presentation of Audit Opinion
11	PERFORMANCE, QUALITY AND EFFECTIVENESS
11.1	Principles of Performance, Quality and Effectiveness
11.2	Quality Assurance of Audit Work
11.3	Performance and Effectiveness of the Internal Audit Service

AUDIT COMMITTEE	AGENDA ITEM No. 7
27 JUNE 2011	PUBLIC REPORT

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

DRAFT ANNUAL GOVERNANCE STATEMENT 2010 / 2011

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

1. ORIGIN OF REPORT

This report is submitted as part of the annual closure of accounts process and is included in the Audit Committee work programme for 2011 / 2012.

2. PURPOSE AND REASON FOR REPORT

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

3. BACKGROUND

3.1 The preparation of an Annual Governance Statement is necessary to meet the statutory requirements as set out in Regulation 4(3) of the Accounts and Audit (England) Regulations 2011. The Annual Governance Statement covers the Council's governance arrangements for the 2010 / 2011 reporting year.

3.2 Historically, the Annual Governance Statement has been published *as part of* the annual Statement of Accounts, however one of the key changes to Regulation 4 (4) in the recently revised Accounts and Audit Regulations 2011 is that the Annual Governance Statement should *accompany* the published accounts. This is to '*make clear that the Annual Governance Statement is not part of the statement on which the auditor's opinion is given.*' The regulations state that it is up to the organisation concerned to decide whether the Annual Governance Statement should be included as part of the Statement of Accounts or be issued as a separate document. At the Strategic Governance Board it was agreed that

we should continue to publish the Annual Governance Statement as part of the Statement of Accounts.

- 3.3 This report includes the draft Annual Governance Statement for the Members of the Audit Committee to review, challenge and advise the Leader and Chief Executive upon accordingly. This report also identifies progress with the 2009 / 2010 Annual Governance Statement and presents the necessary recommendations for Member approval that will allow the Council as a whole to ensure that the Annual Governance Statement is produced in accordance with CIPFA guidance and therefore meet External Audit requirements.

4. SCOPE OF THE ANNUAL GOVERNANCE STATEMENT

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

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

5. ARRANGEMENTS FOR COMPILING THE ANNUAL GOVERNANCE STATEMENT

- 5.1 CIPFA, in conjunction with SOLACE, have produced a framework for delivering good governance in local government and the Council's Annual Governance Statement for 2010 / 2011 has been drafted in accordance with this framework to ensure the requirements of the regulations referred to above are met.

- 5.2 Since 2003 / 2004, responsibility for carrying out these processes has rested with Internal Audit. In December 2010, CIPFA issued a statement on "*The Role of the Head of Internal Audit in Local Government*", which states that the Head of Internal Audit should "*set out the framework of assurance that supports the Annual Governance Statement and identify Internal Audit's role within it*", but "*should not be responsible for preparing the report*". This year, as in previous years, it was agreed that responsibility for compiling the Annual Governance Statement would remain with Internal Audit, but one of the noted changes are for the Strategic Governance Board to review / reallocate responsibility and arrangements for undertaking this key task in future.

- 5.3 The assurance gathering process followed to support the Annual Governance Statement has is set out in **Appendix A**.

6. SUPPORTING EVIDENCE

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

6.2 Internal Audit

There are two separate reports on the Audit Committee agenda which are the Annual Head of Internal Audit Opinion 2010 / 2011 together with the Review of Effectiveness of Internal Audit. The key issues are:

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

6.3 External Audit – PricewaterhouseCoopers

Throughout the year, PwC have been commissioned to undertake various reviews which have been circulated and discussed / approved at Audit Committee. PwC provides an Annual Audit Letter giving an overall evaluation of the Council. The content of the letter was reported to Cabinet and Audit Committee in February 2011, and overall is positive and states that the Council is performing well. Improvements have been made in a number of areas and further areas of change / improvement identified.

6.4 Directors / Heads of Service Assurance Statement (Appendix B)

Each Directorate were asked to complete an Assurance Statement having reviewed its key control checklists to come to an opinion on the governance arrangements and internal control environment within their service. No adverse comments were received.

6.5 Performance Management and Data Quality

Regular reporting of performance is in evidence across the Council. Monthly reports range from financial to non-financial data; covering budgets, performance levels, service delivery, programmes and projects. Regular discussions are held at Corporate Management Team; scrutiny panels and boards and areas of concern identified are addressed to reduce or prevent any deterioration in service.

6.6 Risk Management

Key improvements in risks have been as a result of:

- Full use of a project database to capture associated risks;
- Improved budgetary management arrangements to reduce financial risks; and
- Fully reviewed risk management strategy and strategic risks refreshed by Corporate Management Team on a bi-annual basis.

6.7 Corporate Governance

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

7. CONSULTATION

- 7.1 One of the key messages coming out of the CIPFA / SOLACE guidance is that good governance relates to the whole organisation and there should be corporate ownership of the Annual Governance Statement and governance arrangements. In order to facilitate corporate involvement in the process for compiling the Annual Governance Statement, the Strategic Governance Board discussed the progress against previous significant governance issues identified in January 2011 together with identifying the key officers to be involved in the 2010/11 process; and in May 2011 reviewed the draft Annual Governance Statement.

Following agreement, the revised Annual Governance Statement (**Appendix C**) has been issued to:

- Corporate Management Team; and
- PricewaterhouseCoopers.

8. ANTICIPATED OUTCOMES

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

9. REASONS FOR RECOMMENDATIONS

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

10. IMPLICATIONS

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

11. BACKGROUND DOCUMENTS:

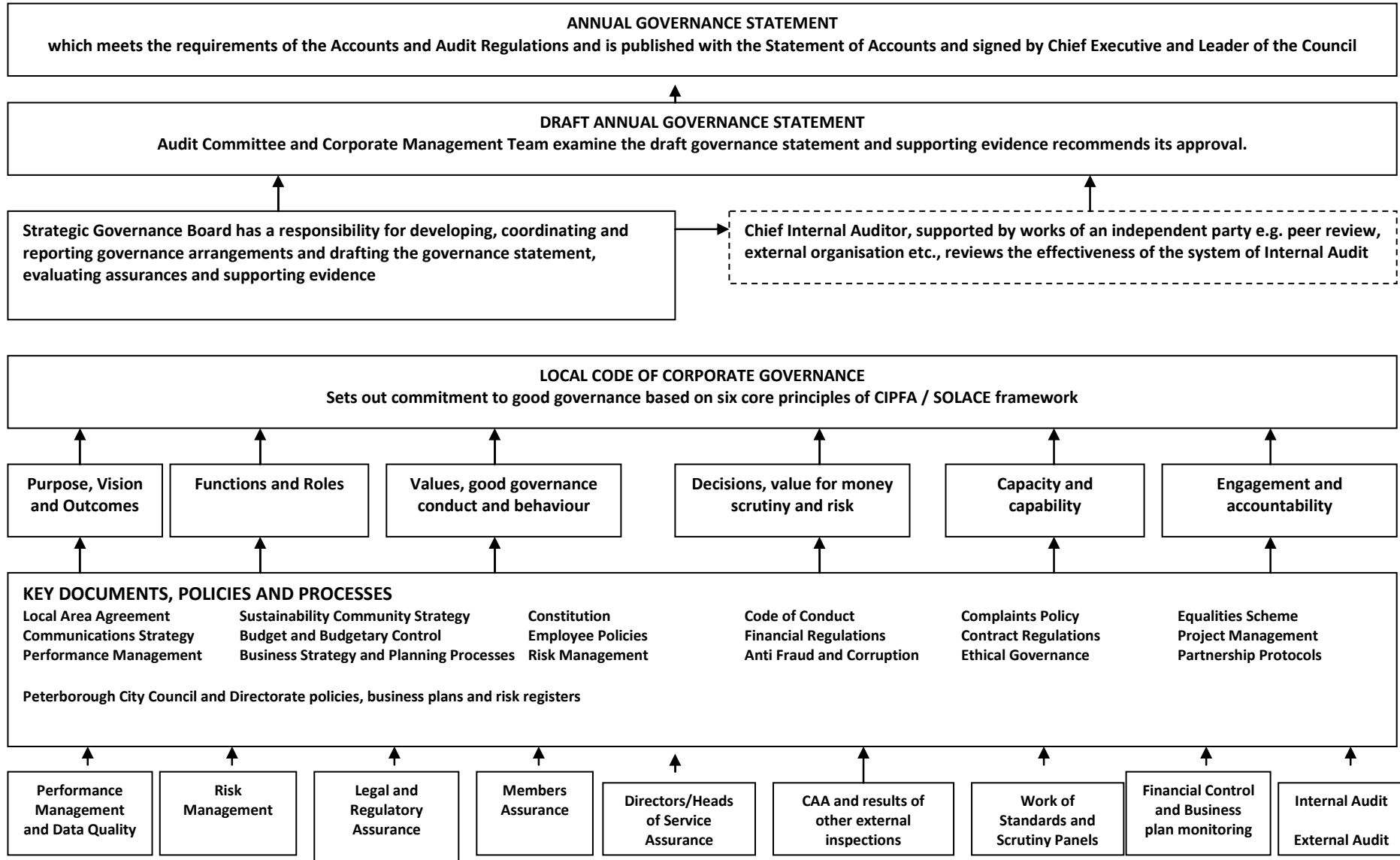
(Used to prepare this report in accordance with the Local Government (Access to Information) Act 1985)

- Delivering Good Governance in Local Government – The Framework and Guidance Note for English Authorities – CIPFA/SOLACE.
- The CIPFA Finance Advisory Network – A Rough Guide for Practitioners 2007/08.
- Application Note to Delivering Good Governance in Local Government – a Framework – CIPFA/SOLACE – March 2010
- Accounts and Audit (England) Regulations 2011

12. APPENDICES

Appendix A – Peterborough City Council Framework for the Annual Governance Statement
Appendix B – Executive Directors / Heads of Service Assurance Statement
Appendix C – Peterborough City Council Annual Governance Statement 2010 / 2011

PETERBOROUGH CITY COUNCIL FRAMEWORK FOR THE ANNUAL GOVERNANCE STATEMENT



This page is intentionally left blank

EXECUTIVE DIRECTORS / HEADS OF SERVICE ASSURANCE STATEMENT**Background**

This note is to help to ensure a clear understanding of the purpose of a Director's Assurance Statement and what's required. This Statement will be used to draw up actions to improve our governance arrangements across the Council and requires one return for all of the services within each Directorate. This will enable the development of mutual support and share learning and good practice.

A reminder... why this is important...

Governance is about how local government bodies ensure that they do the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Governance comprises the systems, processes, culture, and values by which local government bodies are directed and controlled and through which they account to, engage with and lead their communities. Governance concerns everybody and covers the whole authority.

Each authority is required to publish an Annual Governance Statement, describing its governance arrangements and encompassing such items as the policies, procedures, tasks, behaviours and other aspects of the organisation that together facilitate its operation. The Annual Governance Statement is a key corporate document describing the Council's control framework, the process for evaluating business risk and the procedures and processes applied to manage those risks. It is the culmination of the Authority's continuous review of its systems, policies and procedures and the process of compiling it is more important than the document itself.

One of the sources of assurance for the Statement should come from Directors and managers responsible for the operation, management and monitoring of the controls within their sphere of responsibility. Each Executive Director should consider the areas of risk and control and state the level of assurance which can be provided for the operation of the relevant internal controls in 2010 / 2011 financial year. These Statements will be incorporated with other assurance sources (e.g. Internal / External audit opinions) into the corporate Annual Governance Statement. The purpose of this Statement is therefore your chance as Executive Director to review with your managers the systems, processes and behaviours that are operating within your services in the last year. It's a chance to take stock and identify where you need to tighten up.

There may be areas which you consider controls are not to the level to which you aspire, and therefore you will be signing the statement subject to these. The areas for development will be included as part of your planning for the coming year. Your Assurance Statement will be brought together with others to give an overall view of the adequacy of the control environment within the organisation. The final Annual Governance Statement is reviewed by external auditors as part of the Statement of Accounts, but will only reflect those areas where there is a material weakness or lack of control. The process of compiling the Governance Statement is more important than the Statement itself. Doing the Statement is not only good management practice and a requirement of evidencing good corporate governance, but it also demonstrates our compliance.

What does signing the document mean?

Your Assurance Statement relates to fundamental management processes. Subject to those areas you have decided need to be improved, you would be stating that appropriate controls were in place. You're only expected to give reasonable assurance for your area of activity, not to totally guarantee that everything is perfect.

Steve Crabtree
Chief Internal Auditor

DEPT. / SERVICE AREAS:				
AREA OF ASSURANCE		Compliant?		If YES: How is this demonstrated / evidenced to support this? If NO: Describe the issue
		Yes	No	
1	<p>Controls are in place to ensure that the services can demonstrate compliance with legal requirements, including taking any necessary steps during the year to identify, evaluate, communicate, implement and monitor any legislative changes, specific to your service</p> <p>The services recognise the need to operate within the legal constraints and don't act unlawfully and make decisions based on principles of good administrative law - rationality, legality and fairness</p>			
2	Controls are in place to ensure there is compliance with the Council's constitution, including schemes of delegation, Financial Regulations and Contract Regulations and effective action is taken where you find areas of non compliance			
3	There are processes in place to plan the delivery of and implement the plans for the priorities of the Strategic Plan, from Director to services			
4	There are processes in place to ensure that the Council's policies and procedures are operated within the services including health and safety, codes of conduct etc.			
5	There are processes in place to ensure that risks are identified and managed effectively			
6	There is effective service / business planning with resource planning, including adequate stakeholder involvement and customer feedback sought and acted upon as appropriate			
7	There are effective performance management processes with accurate and adequate performance information generated, reported to relevant parties on a timely basis, with appropriate action taken to address performance issues			
8	There are well defined reporting arrangements to Members and senior management, including a clear reporting structure with adequate, accurate and timely information provided, to enable effective decision taking, including seeking appropriate professional advice on legal and financial matters			

AREA OF ASSURANCE		Compliant?		If YES: How is this demonstrated / evidenced to support this? If NO: Describe the issue
		Yes	No	
9	<p>Management and staffing structures are clearly defined, responsibilities including job descriptions are clearly established and there is a workforce of adequate competence and number to deliver the service.</p> <p>New staff have been properly inducted, and have been introduced to the ambitions, focus and priorities of the Council, and understand their role as part of the team.</p> <p>Performance Development Reviews are conducted effectively and on time and the results provided to Human Resources to develop the corporate training needs analysis.</p> <p>Employees receive face to face briefings and team meetings are planned, well organised and effectively managed</p>			
10	Standards of conduct within the services are in accordance with written codes and controls are in place to deter, prevent, detect, and therefore reduce the risk, of fraud and corruption.			
11	There are effective financial planning and budgetary control procedures in place.			
12	All expenditure transactions by the services are properly authorised and properly and accurately recorded on a timely basis.			
13	The services can demonstrate that value for money in the use of resources has been pursued			
14	All income is properly collected, recorded, banked and monitored, with fees and charges etc. reviewed for appropriateness on a regular basis with levels properly approved			
15	<p>Assets are adequately recorded and safeguarded to protect against loss or unauthorised use</p> <p>Inventories are properly maintained and stock is adequately recorded.</p>			
16	Partnership arrangements are strategically justified, well founded, clearly defined and adequately monitored for effectiveness			

AREA OF ASSURANCE		Compliant?		If YES: How is this demonstrated / evidenced to support this? If NO: Describe the issue
		Yes	No	
17	ICT systems used by the service are secure and satisfactory for their purpose and adequate business continuity arrangements are in place Information is appropriately secured			
18	Recommendations from relevant external Inspectorate or Internal Audit Reports are reviewed and acted upon			
19	Decisions are taken with due regard to insurance, health and safety, community safety, sustainability, human rights and other risk implications			
20	There are business / service continuity plans, which are subject to regular testing and review			

ACTION PLANNING

Those areas which I consider are not adequately controlled and the reasons for this view and risks involved are:-

Area Assurance	Area(s) for development	Proposed Action	Implementation by whom & date

EXECUTIVE DIRECTOR STATEMENT:

I consider that to the best of my knowledge there were adequate controls in place in the functions/services for which I am responsible for the relevant risks / controls for the financial year 2010 / 2011.

This Assurance Statement has been drawn up with the managers for the service areas for which I am responsible and the statements made are to the best of my knowledge accurate.

I will support the managers in addressing any shortfall in assurance and will seek to improve the overall levels of control through balancing the strategic / operational priorities against the perceived risk.

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

**PETERBOROUGH CITY COUNCIL
ANNUAL GOVERNANCE STATEMENT 2010 / 2011**

1. SCOPE OF RESPONSIBILITY

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

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

This statement explains how the City Council endeavours to deliver good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (England) Regulations 2011, which requires the City Council to publish a statement on internal control in accordance with proper practice. Proper practice has been defined as an Annual Governance Statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

3. THE GOVERNANCE FRAMEWORK

The Council is a complex organisation with an appropriately comprehensive governance framework. The Council works in a dynamic environment and keeps its processes under constant review. Our governance framework derives from six core principles identified in a 2004 publication entitled *The Good Governance Standard for Public Services*. This was produced by the Independent Commission on Good Governance in Public Services - a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office of Public Management. The commission utilised work done by, amongst others, Cadbury (2002), Nolan (1995) and CIPFA / SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007. The six core principles state that good governance means:

- Focusing on the purpose of the Authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting the values of the Authority and demonstrating the values of good governance through behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members to be effective and ensuring that officers (including the statutory officers) also have the capability and capacity to deliver effectively; and
- Engaging with local people and other stakeholders to ensure robust local public accountability.

In March 2008, the City Council approved and adopted a Local Code of Corporate Governance, which provided in-depth details of the framework the City Council has in place to meet the six core principles of effective governance, as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) guidance "*Delivering Good Governance in Local Government*". The following paragraphs summarise the City Council's Governance Framework which has been in place for the year ended 31st March 2011 and up to the date of approval of this Statement and the Statement of Accounts.

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

3.1: Creating and Implementing a Vision

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

- The Council has a clear statement of its purpose and vision as set out in the Sustainable Community Strategy (SCS). This sets out the overarching strategy for the Council including its priorities and the outcomes that it is seeking to achieve. This Single Delivery Plan, together with Departmental Business Plans provides a clear basis for corporate and service planning which is carried out in accordance with the Corporate Planning Cycle.
- The SCS for Peterborough was agreed by the Greater Peterborough Partnership in 2005 and fully refreshed to set out vision for Peterborough covering 2008 - 2021. It sets out a vision and overall strategy for the future of the city and the surrounding villages and rural areas. It reflects both the agenda for growth and the clear desire to ensure that Peterborough grows the right way, so that economic and population growth leads to

genuine improvements in key areas, particularly those where Peterborough currently has specific problems or issues. It recognises that in order to create a bigger and better Peterborough, then the city will have to deal quickly and effectively with the pressing issues of today as well as the plans for tomorrow.

- The SCS vision is to create:
 - *A bigger and better Peterborough that grows the right way, and through truly sustainable development and growth;*
 - *Improves the quality of life of all its people and communities, and ensure that all communities benefit from growth and the opportunities it brings;*
 - *Creates a truly sustainable Peterborough, the urban centre of a thriving sub-regional community of villages and market towns, a healthy, safe and exciting place to live, work and visit, famous as the environment capital of the UK.*
- There are four priorities for areas of work which are needed in order to achieve the vision and each of these is supported by four high level outcomes that form the basis of the Local Area Agreement. The four priorities are:
 - Creating Opportunities - Tackling Inequalities
 - Creating Strong and Supportive Communities
 - Creating the UK's Environment Capital
 - Delivering Substantial and Truly Sustainable Growth
- Led by the City Council, the SCS is a shared view across partners and the community about what needs to be done to improve the economic, social and environmental wellbeing of the local area. Partner organisations are expected to take account of the SCS when they prepare their own organisation's business plan.
- The Vision is reviewed through a variety of means including ongoing analysis of performance information; a review of national and local drivers for change; consultation with stakeholders, including residents, businesses and partner organisations. This is structured around the Corporate Planning Cycle, so that any changes made are cascading through the organisation to inform and amend departmental delivery contracts, service plans and business plans.
- The SCS contains a statement of objectives within each corporate priority. This describes the areas where we are focussing our activities over a three year period. This document also records information about the Council's services and finances, and lists targets for the next three years together with planned improvements. Performance is normally reported to Cabinet on a quarterly basis and is monitored through various Scrutiny Committees. Performance information is available across the council through the council's corporate project management system, Verto.
- The Council has a medium term financial plan (MTFP) and capital programme to ensure that resources are aligned to priorities. The budget process incorporate consideration of the allocation of resources to the corporate aims. The MTFP allows annual strategic review in the context of performance against aims and sets targets of efficiency improvement to release resources for deployment. Monitoring reports are submitted to the Corporate Management Team, (CMT) and to Cabinet and issues are referred to other Scrutiny Commissions as appropriate.

- Value for money is embedded in the Council's culture, and underpins the strategic priorities. Through reviews by External Audit, external agencies, Internal Audit, and internal review teams, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which functions are exercised. The council has an ambitious business transformation programme to take the council forward.
- There are two work streams for the transformation programme.
 - Focus on procurement - aiming to deliver ongoing annualised savings. A range of corporately negotiated contracts mean that purchasing across the organisation is consistent and offers best value for money for the council as a whole. These achievements have resulted in the Council being nominated for, and also winning a number of national awards.
 - Driving efficiency – with the successes of the procurement strand providing funding for the efficiency agenda. The efficiency focus is on the use of ICT to simplify processes; reducing the cost of business support; and rationalising current ICT-related supplies and service contracts. The organisation will become smaller and there will be a number of restructures to equip the council for its future activity.
- Regular revisions are made to the Constitution to ensure continuing improvement and simplification, whilst maintain appropriate governance checks. The Council continues to develop and refine systems for identifying and evaluating all significant risks, via CMT. Council approved a Risk Management Strategy in October 2004 and this has been annually refreshed through the Audit Committee. Changes to the overall risk profile of the council are reported through to members on the Audit Committee on a periodic basis, the most recent being in the March 2011 committee cycle.
- When the Council works in partnerships, it has a methodology which ensures that there is a common vision underpinning the work of the partnership that is understood and agreed by all partners. The Council works in many different partnerships, ranging from the strategic to the operational. The overarching vision for partnership working is set out in the SCS supported by the Local Area Agreement which articulates it.
- The Council has a comprehensive comments, compliments and complaints scheme. This is used to identify areas where service quality is not satisfactory and to take action to improve. As an organisation, the Council is committed to meeting the service needs of a very diverse community, and looks to meet the "*Equality Framework for Local Government*".

3.2: Roles and Responsibilities of Members and Officers

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

- The Council is governed by a constitution which sets out the main control mechanisms. The Council appoints a Cabinet. Made up of the Leader, Deputy Leader and 8 other members, who are responsible for proposing budgets and policies and taking key decisions in relation to their various portfolios. In addition, the Cabinet have appointed 1 other member to act as Cabinet Advisor on strategic portfolio activities. The manner in which Cabinet business is transacted is governed by written procedures and principles contained in the Executive Decisions within and outside the

Policy Framework within the Constitution. Individual Cabinet members receive regular feedback from the senior officers within their portfolios on the progress of objectives. Issues of strategic and corporate importance are referred to Cabinet.

- As well as Cabinet, other Committees are in place to cover the functions of Scrutiny, Regulatory and Neighbourhood Committees.
 - The Council has 6 Scrutiny Committees which can hold the Cabinet to account by reviewing decisions, undertaking reviews of the Council's functions, and consider any relevant matters affecting the city or its residents. Although they have no decision making powers, the Commissions / Committees are able to "Call In" and review certain decisions of Cabinet. Until the call-in process is completed the decision cannot be implemented.
 - These non-executive members also serve on 8 Regulatory Committees which consider a variety of non-executive functions which Cabinet, by law, cannot undertake or has been agreed should not be considered by Cabinet. The committees are all cross-party and can include cabinet members.
 - Neighbourhood Committees have been set upon across the city. These will deliver improvements for the local area by identifying, overseeing, monitoring and driving actions to support all issues relevant to the area, including service delivery, service improvements and area developments.
- All Committees have clear terms of reference and work programmes to set out their roles and responsibilities. An Audit Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment. The Council's Constitution contains a Code of Conduct for Councillors, protocols advising on the Code of Conduct of Officers and a specific protocol on Member / Officer Relations.
- Information bulletins are circulated to councillors on current local government issues and publications and regular briefings are provided on their role. Notices of all key decisions to be taken are published in the Council's Forward Plan in which the community is advised firstly that the decision is to be taken and secondly to whom representations can be made. In this was the public interest in major decisions to be taken by the Council is stimulated. Agendas, reports and published decisions are available to councillors and the general public via the Council's web pages.
- The Council ensures that effective management arrangements are in place at the top of the organisation. The Council's Chief Executive (and Head of Paid Service) leads the Council's officers and Chairs the Corporate Management Team.
- The Executive Director (Strategic Resources) as the s.151 Officer appointed under the 1972 Local Government Act carries overall responsibility for the financial administration of the City Council. The Executive Director is 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.
- The Solicitor to the Council, as Monitoring Officer, carries overall responsibility for legal compliance and the maintenance of high standards of conduct by providing advice and support to Members and Officers.

- Regular CMT meetings are held. In addition, Executive Directors meet their respective Cabinet Members on a regular basis. A Heads of Service Forum supports the work of CMT on a number of issues. In addition, there are a series of officer working groups who meet to deal with a range of specific service as well as cross cutting issues.
- All staff, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities. Terms and conditions of employment are in line with the harmonisation agreement implemented in 2008, and are regularly refreshed and amended following consultation with Unions. The terms and conditions of members are clearly set out in the Members' Allowances Scheme within the Council's Constitution. The Scheme covers basic and special responsibility allowances, and pensions. The Scheme is approved by the Council following preparation and review by an independent Panel at least annually.
- The council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

3.3: Standards of Conduct and Behaviour

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

- The Solicitor to the Council, after consultation with the Chief Executive and Executive Director (Resources) can report to Full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.
- The Council has developed and 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
 - Grievance procedures
- The Council takes fraud, corruption and maladministration very seriously and has the following policies which aim to prevent or deal with such occurrences:
 - Anti Fraud and Corruption Policy and Fraud Response Plan
 - Confidential Reporting Code (Whistleblowing Policy);

- Human Resources policies regarding disciplinary of staff involved in such incidents.
- Member and Officer behaviour is governed by separate Codes of Conduct. These include a requirement for declarations of interest to be completed. Conduct of Members is monitored by a Standards Committee, independently chaired, which also investigates allegations of misconduct of Members. The Standards Committee has a defined work programme which it reviews at each meeting which includes planned reviews of relevant codes and protocols within the Constitution.
- The Corporate Complaints procedures enables the Council to receive and investigate any complaint made against it, a Member or a member of staff.
- Many services across the organisation abide by, or have achieved various accredited status of excellence, as well as being shortlisted for and winning a number of national awards. These include:
 - The Council has maintained Investors in People accreditation, and has been awarded “bronze” status for the whole Council.
 - Legal Services has achieved Lexcel accreditation, which is the Law Society's practice management standard, only awarded to solicitors who meet the highest management and customer care standards.
 - Strategic Resources achieved a number of successes in recent years with the LGS Awards, Government Business Awards, and Municipal Journal Awards. It was the LGC Finance Winner for Efficiency 2009 for Manor Drive and Customer Services and shortlisted for the LGC Main Award for Efficiency and Transformational Government in March 2010. From the Government Business Awards in March 2010 it was winners for Procurement and Waste, and shortlisted for Finance.
- 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 with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). Executive salaries and £500 spending transactions are disclosed in order to maintain transparency.
- Full Council approves a balanced budget before the start of each financial year. This includes a Medium Term Financial Strategy, annual reviewed, under which it plans its finances, target efficiency savings required and potential council tax implications over a three year rolling period. During the year, budget monitoring reports are taken to Management Teams and Members on a regular basis.

3.4: Decision Making, Scrutiny and Risk

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

- The Leader and Cabinet are responsible for all Executive Decisions. Operational matters requiring decision are delegated to Council Officers under the Scheme of Delegations.
- Forthcoming key decisions by Cabinet (including decisions by individual Cabinet Members), are published in the Cabinet's Forward Plan in so far as they can be anticipated. This is reviewed at each Cabinet Meeting.
- The 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.
- The Council has several committees which carry out regulatory or scrutiny functions which encourages constructive challenge and enhances the Authority's performance overall. Scrutiny Committees have power to review the decisions of Cabinet and Cabinet Members, through the "call-in" process, to determine whether decisions have followed the agreed process and are in accordance with the Council's policy framework and approved budget.
- The Council's Internal Audit service complies with the Accounts and Audit Regulations 2003 (amended 2006) and operates in accordance with the "*CIPFA Code of Practice for Internal Audit in Local Government in UK 2006*". Responsibility for Internal Audit rests with the Chief Internal Auditor. Reporting lines are within the Strategic Resources Directorate, with reporting lines to the Head of Corporate Services, Executive Director (Strategic Resources) as well as access to the Chief Executive, Monitoring Officer and members as required.
- The Internal Audit division plans and priorities its work around risk based auditing approach and seeks to programme in work based on risk, strength of control and materiality. Internal Audit makes recommendations for improving the internal control environment and part of their work includes monitoring agreed action plans. This ensures compliance with established policies and procedures, particularly financial and contract procedures. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to Members (through the Audit Committee), the Chief Executive, Executive Directors and management as appropriate.
- The Council maintains both Strategic and Operational Risk Registers. The Council undertook a fundamental review of its risk management approach, culminating in a revised strategy in September 2009.

3.5: Developing Capacity and Capability of Members and Officers

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

- The Council's 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. In developing Members' skills, the Council has an overall development strategy in place.
- Members of the Audit Committee are provided with training specific to its responsibilities before every Committee meeting. The focus is on key governance issues such as risk management and internal control, together with scrutiny arrangements for the accounts. Individual briefings are enhanced by the 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 effective induction tailored to their needs, although there are key messages given to all: such as freedom of information and data security, procurement and financial regulations.
- Senior Managers have been through the Vision 2010: Building Managers for the Future programme, the purpose being to provide the necessary tools to support managers in delivering improved services linked explicitly to business outcomes and to enable them to display the expected leadership behaviours. Further acknowledgement of the Council's commitment to ensuring that staff are equipped with the appropriate skills and capabilities to perform comes in the form of the Investors in People accreditation.
- All officers have comprehensive job descriptions and person specifications and the Council has a process in place to review performance for all staff. The scheme was recognised as needing review and a new system of Performance Development Review has been introduced. Where capability issues are identified, appropriate processes are in place to try to resolve these.
- As the needs of Councils become more and more stretched by finite resources, alternative service delivery methods have been explored. This has led to the development of shared service arrangements with other councils, with Peterborough being the lead authority. These include opportunities with Rutland (for Legal and Trading Standards) and Cambridge City (for Internal Audit).

3.6: Engaging with Local People and Stakeholders

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

- The Council's planning and decision making processes are designed to include consultation with stakeholders and the submission of views of local people.
- Every year, together with our partners, we carry out many consultation exercises. The Council has in place arrangements to enable it engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands. These have included Citizens Panel; Focus groups (face to face and on-

line) - with, for example, refugees and asylum seekers, disabled people, young people, older people; Employee forums / Joint consultative forum; Voluntary and community sector network; One-off consultation events; and Public meetings.

- All consultation is carried out for purpose and is not generic so that it deals with specific issues. The Council recognises that different sections of the community have different priorities and is able to analyse consultation results on this basis. Varied channels of communication are used to reach all sections of the community and other stakeholders. Communication channels include: newspapers, MORI Surveys, press releases, internet, public question time at committee meetings, public speaking on planning applications, open forums, member surgeries etc.
- Our commitment to partnership working is demonstrated in our approach to community leadership. To give local citizens a greater say in local decision making, the Council established 7 Neighbourhood Committees to cover the city and its surrounds. Neighbourhood Committees are open public meetings that are held at a local venue every two or three months. The meetings are an opportunity for residents to find out what is happening in their area and to discuss the big issues and priorities. Residents meet with local ward Members and representatives from the Police, Health and Council. The Neighbourhood Councils are local leadership groups which agree priorities, decide where community grants are to be spent where available, monitor performance and decide upon the vision for the neighbourhood. In addition to neighbourhood councils, ongoing work in the community is also facilitated through the Parish Council Liaison Committee.
- On an annual basis the Council publishes information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period. The forward looking section of the plan which sets out the authority's vision, strategy and plans, and medium term financial plans for the coming period is published in March / April each year.
- When working in partnership the Council ensures that engagement and consultation undertaken by the partnership is planned with regard to methodology, target audience and required outcomes. Existing mechanisms and groups are used where appropriate.
- The Council has identified a number of significant partnerships. These are:
 - Peterborough PCT - an integrated NHS body delivering integrated health and adult social care services. A Section 31 Partnership Agreement between the Council and the PCT delegates delivery of adult social care services to the Trust. The partnership is governed by an Annual Agreement that details performance and financial matters. The Care Trust produces its own internal assurances about the effectiveness of its internal control environment that are monitored by the Executive Management Team, the Audit Committee (chaired by a Non Executive Director) and the full Board.
 - The Children and Young Peoples Trust - a partnership between the Council and the organisations that have a duty to cooperate under the Children's Act 2004 to deliver integrated and coordinated services to children, young people and their families.
 - Peterborough Culture and Leisure Trust (Vivacity) - partnership set up to secure new and improved facilities which commenced from May 2010.
 - Opportunity Peterborough - a partnership between the Council, the East of England Development Agency (EEDA), Homes and Communities Agency (HCA) and the Government's Department for Communities and Local Government to drive the sustainable growth of the city. This has now reverted back to the Council.

- Significant outsourced partnerships include the provision of street scene activities previously undertaken by City Services. This is now provided by Enterprise. In addition, Council back office facilities provided through Manor Drive are currently going through a similar tendering exercise. Expected delivery is from November 2011.
- A Health and Well Being Board will shortly be set up to oversee expectations and service deliverables following the transfer of various activities and partnering with the PCT.

4. REVIEW OF EFFECTIVENESS

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

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

- The Cabinet is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. It is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.
- There is a well resourced scrutiny function which holds the Cabinet to account, which include an overview of service and financial performance, efficiency and effectiveness.
- The Standards Committee has met regularly throughout the year to consider and review issues relating to the conduct of Members. Service standards have been agreed with the Monitoring Officer and a report on the number and progress of complaints against members is received at each meeting. It has developed, and continually monitors, its own work programme and reports annually to Council on its previous year's performance. The Monitoring Officer has consistently met the statutory reporting requirement to Standards for England. This will change following the proposals from central government to abolish the reporting standards.
- The Audit Committee met throughout the year to provide independent assurance to the Council in relation to the effectiveness of the risk management framework, internal control environment and the annual statement of accounts. Annually, the Internal and External Audit Plans are approved through the committee. The Committee met 7 times during the year receiving regular reports and training on governance, risk and internal control matters.
- 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. Internal Audit has unrestricted access to all Council records and property, and the organisational independence to form an objective opinion on the adequacy and effectiveness on the whole system of internal control. The work of Internal Audit is planned using risk assessments, assurance from other inspectorates, and discussions with Directors and Heads of Service; and annual plans are formulated and approved by Audit Committee. The work includes not only reviews of financial control, but also of risk management, control over the achievement of organisational policies and objectives, and compliance with laws and regulations. The outcome of all audit reviews are reported to the appropriate Director, and matters of concern are raised with the Chief Executive, Executive Director (Resources), Leader of the Council and the Chair of Audit Committee. A review against the CIPFA Statement on the Role of the Head of Internal Audit shows that the Council meets the principles.
- The Governance section within Legal and Democratic Services undertakes fraud investigations and detection work.

- Risk management is handled through a range of mechanisms. Risk owners are in place for all corporate risks. The risks cascade down to the services, who manage the risks via the service planning process and regular review. Corporate risks are revisited through CMT. Risks are accounted for in all project planning, the creation of the Medium Term Financial Strategy 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, including the Chair of Standards Committee, the Board has been established to consider, review and coordinate improvements in all aspects of the governance framework.
- The actions arising from the significant control issues detailed in last years Annual Governance Statement have been monitored throughout the year and reported through to Audit Committee.
- Assurance from the Audit Commission, other Inspection Agencies and External Audit. On completion of their work, a Joint Audit and Inspection Letter is issued to the Council. The last Joint Audit Letter was issued for the financial year 2009 / 2010, and was discussed and endorsed at meetings of the Cabinet and Audit Committee on . The main conclusions from the Letter are an unqualified audit opinion on the financial statements together with deadlines for the production and publishing of final accounts by 30 September 2010 were met.

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

- The Chief Internal Auditors' annual opinion on the status of the Council in terms of the governance and overall controls. For this year he has provided an unqualified opinion.
- Assurance from Executive Directors and their management teams on the key elements of the control framework were in place in their departments. A separate annual evaluation questionnaire is circulated to each department and completed through their departmental teams, allowing for overall ownership within the groups. They were also asked to identify areas where control weaknesses had resulted in significant issues arising. 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.
- Assurance from Members. A separate questionnaire was issued to all members to seek their views on the governance arrangements in place to support and develop them and to provide suggestions on how any shortfalls or gaps could be addressed.

5. SIGNIFICANT GOVERNANCE ISSUES

The review process has highlighted a number of new significant issues of the effectiveness of the governance and internal control environment. For each issue, detailed action plans have been determined, a responsible officer identified and a summary of the key elements are included in the table below. Conversely, there are a number of items which were included in 2009 / 2010 which have been excluded as significant progress has been made in addressing the issues such that they are no longer considered a threat to the control environment. These items are:

- Sickness management. Reductions have been made to the level of sickness, in particular short term absence. Ongoing proactive works will continue to reduce still further.
- Effective recruitment. Pre-employment checks have been enhanced.
- Shared services. Ongoing development to reduce costs while maintaining or enhancing service levels.

ONGOING GOVERNANCE ISSUES IDENTIFIED IN 2010 / 2011	
ISSUE	AREA FOR IMPROVEMENT
Use of Consultants	<p>Following an independent review of the use of consultants, various actions were identified to put in place improved governance arrangements.</p> <p>Lead Officer: Director of Strategic Resources</p>
Development of Neighbourhood Committees	<p>Following a corporate review of the operations of Neighbourhood Councils, a number of changes were agreed at Cabinet / Full Council in March / April 2011. Appropriate governance needs to be in place to ensure effective decision making and resource devolvement.</p> <p>Lead Officer: Head of Neighbourhood Services</p>
Delivery of Medium Term Financial Strategy	<p>Ongoing savings underpin the delivery of the MTFS. Regular monitoring needs to be in place to ensure successful delivery.</p> <p>Lead Officer: Head of Corporate Services</p>

6. CERTIFICATION

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

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

Leader of the Council Marco Cereste _____ Date _____

Chief Executive Gillian Beasley _____ Date _____

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 8a

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

BUDGET MONITORING REPORT FINAL OUTTURN 2010/11

R E C O M M E N D A T I O N S	
FROM : <i>Executive Director Strategic Resources</i>	
<ol style="list-style-type: none"> 1. That the final outturn position on the Council's revenue budget of £475k underspent, and the capital budget be noted. 2. That the reserves position for the Council is approved. 3. That the performance against the prudential indicators be noted. 4. That the performance on treasury management activities, payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments be noted. 5. That the challenging financial position in future years and how this could impact the Council be noted. 	

1. ORIGIN OF REPORT

- 1.1. This report is submitted to Audit Committee on 27 June as part of the Statement of Accounts. This report was disclosed to Cabinet on 13 June as a monitoring item.

2. PURPOSE AND REASON FOR REPORT

- 2.1. The purpose of this report is to inform Members of the final financial performance for revenue and capital at 31 March 2011.
- 2.2. This report also contains performance information on treasury management activities, the payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments.

3. TIMESCALE

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

4. FINAL OUTTURN 2010/11

4.1. Corporate Overview

4.1.1. Full Council approved the budget for 2010/11 in February 2010 in the context of the financial downturn and anticipated uncertainty surrounding local government financing following the general election in May 2010. The Council took a positive approach to investment and savings in order that the Council would be able to deliver a balanced budget whilst continuing to invest in high quality services to underpin the growth of the City. The Council remains well placed to manage the finances available to it over the long term and continue to provide investment in those services that need it. Specifically, the predicted budget surpluses planned until 2014/15, allow the Council a longer lead time to implement changes to service provision in consultation with stakeholders over the following three years, smoothing the impact of reduced local government grant funding for delivering services going forward.

4.1.2. The new Coalition Government announced the first cuts in May 2010 which would impact on local government funding. For the Council the impact of these reductions were £2.4m reduction in revenue grants and £2.3m in capital. It was also indicated that grants would be reduced significantly further in future years. Further pressures were also emerging at this time with demand led budgets such as social care and looked after children.

4.1.3. The Council were proactive and responded promptly to successfully manage the impact of these financial challenges in 2010/11 and has taken the following necessary prompt actions which contributed to the favourable final outturn position:

- i. Delivery of departmental savings plans;
- ii. Bringing forward savings proposals from future years;
- iii. Use of reserves to smooth impact including a review of reserves;
- iv. Review of the capital programme including a value for money review on borrowing versus using revenue financing and use of a Government capitalisation direction, allowing the Council to treat statutory redundancy costs as capital expenditure rather than revenue;
- v. A voluntary redundancy programme was introduced; and
- vi. The outsourcing of City Services was brought forward to enable savings at an earlier date.

4.1.4. The financial position of the Council going forward in future years is set to be extremely challenging which has been recognised with budget deficits within the current MTFs from 2014/15 onwards. However, the Council remains committed to its strategy in delivering service efficiencies and improvements using a proactive approach to managing Council finances and through the continued delivery of a longer term financial plan covering a rolling five year cycle.

4.2. Financial Report - Revenue

4.2.1 The Council's overall revenue position is £475k under spent, against a budget of £161,952k, an improvement of £486k since the adopted outturn of £11k overspend was reported to Cabinet. This is in part due to the robust mechanisms introduced early in the financial year including the reduction of non-priority spend or delaying projects and initiatives with no detriment to the MTFs and implementing savings proposals at earlier opportunities. Alongside these actions, departments were able to deliver their action plans successfully.

4.2.2 The Council has needed to take urgent action to keep within budget in 2010/11, mainly due to the reduction in grant being announced in year. This successful action does not provide additional benefit for 2011/12 and beyond above the budget agreed in February for the following reasons:

- Some savings are one-off, having been used to meet the specific challenges of the 2010/11 financial year

- Where savings are permanent, they have already been included in the MTF5 approved by Council, but have been delivered early to maximise the saving gained.

4.2.3 In accordance with financial guidance, the Council has set aside specific reserves to meet commitments and current issues to mitigate risk exposure to the Council financially during next financial year.

4.2.4 The under spend is summarised in the table below at departmental level. A further breakdown is included in Appendix A.

Final Revenue Outturn Position 2010/11

Adopted Outturn £(k)	Department	Annual Budget £(k)	Final Outturn £(k)	Outturn Variance £(k)
-528	Chief Executive	10,189	8,784	-1,405
-40	Childrens Services	38,654	38,873	219
162	City Services	13,776	13,600	-176
-432	Operations	27,848	27,305	-543
-744	Strategic Resources	32,667	31,664	-1,003
0	Adult Social Care	40,582	40,582	0
1,593	Corporate Items	-1,764	669	2,433
11	General Fund Total	161,952	161,477	-475
	Transfer to Capacity Building Reserve			475
803	Contribution to General Fund Balance			2,242
3,758	General Fund Balance Brought Forward			3,758
4,561	General Fund Balance Carried Forward			6,000
0	Dedicated School Grant Total	117,291	116,794	-497

4.2.5 The main changes since adopted outturn was published:

- Departments implementing local action plans such as vacancy management, freezing non business critical spend and delaying projects or initiatives in the short term with no consequences on service delivery;
- Through the implementation of the voluntary redundancy process the Council benefited from reduced salary costs in the current financial year which have contributed to the achievement of departmental balances;
- Corporate solutions identified and actioned;
- Impact of a reduced capital programme requiring less borrowing.

4.2.6 Chief Executive Department – The increased under spend can be mainly attributed to further curtailing of expenditure across all services as well as savings from a reduction in staffing costs, some of which left through the voluntary redundancy programme. Savings in communications costs have begun to take effect in advance of the significant budget reduction planned from April. Additionally, some costs in Delivery have been met by further funding from partners, reducing the net cost to the Council.

4.2.7 Children’s Services – Since the adopted outturn was published, the numbers of children that require adoption placements has increased. In response to this a reserve has been set aside to assist with this pressure going forward next year. If the reserve was not in place Children’s Services would have achieved a favourable outturn position following the successful implementation of their action plan.

4.2.8 City Services – The favourable movement in City Services since the adopted outturn is mainly attributable to a reduction in waste disposal costs as well as realisation of savings from the outsourcing to Enterprise at an earlier date than originally planned.

- 4.2.9 Operations Department – The outturn position has improved following further reduction in expenditure through continued actions by services in response to the action plan as well as an improvement in income streams during the latter part of the year.
- 4.2.10 Strategic Resources – The favourable movement has been contributed to by various actions including a reduction in spend across services, implementing corporate solutions to offset pressures. The amount of borrowing required to support the capital programme was also lower than expected, leading to lower costs of borrowing.
- 4.2.11 The Dedicated Schools Grant shows an under spend of £113k of general expenditure as well as an under spend of Exceptional Circumstances Grant of £384k against a budget of £117,291k. Schools Forum is responsible for decisions related to the Dedicated Schools Grant and Exceptional Circumstances Grant. This has been included for information purposes only. In accordance with accounting guidance, both under spends have been carried forward to next financial year.
- 4.2.12 Departments have requested to carry forward balances of unused reserves as well as requesting new reserves in order to meet known commitments in 2011/12. The outturn position also includes a contribution to capacity reserves to allow for other pressures in 2011/12 where estimates have been provided but were not known at the time of setting the budget.

4.3 Financial Report - Reserves

- 4.3.1 In setting the 2010/11 budget, the level of Council balances was considered sufficient in meeting the MTFS recognising the requirement to review the balances to ensure delivery of the Council's priorities. As part of setting the MTFS 2011/12 consideration was given to a five year review of the budget and in the context of uncertainty of future funding arrangements beyond 2012/13. Subsequently the following table has been updated to reflect the current position going forward over the next five years and includes the predicted budget surplus forecast over the following financial years which is planned to be drawn down fully by 2014/15. These balances are subject to approval by the Audit Committee on 27 June 2011.
- 4.3.2 The overall level of balances assumes that the under spend of £475k reported within revenue outturn position is transferred to the capacity building reserve. Although the current reported position is healthier than that reported earlier in the year and within the MTFS, it is anticipated to diminish over the next five years due to some balances being specific to costs that will be incurred over the next five years and in drawing down predicted budget surpluses as disclosed in the MTFS.

Council Reserves	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	Estimated Balance at 31.03.11 £000	Estimated Balance at 31.03.12 £000	Estimated Balance at 31.03.13 £000	Estimated Balance at 31.03.14 £000	Estimated Balance at 31.03.15 £000	Estimated Balance at 31.03.16 £000
Departmental Reserves Total	3,300	960	883	868	853	838
Commercial Property Portfolio Reserves	3,342	1,933	1,122	436	0	0
Carbon Reduction Reserve	375	0	0	0	0	0
Icelandic Reserve	0	0	0	0	0	0
Provision of Grants Reserve	250	0	0	0	0	0
Parish Council Burial Ground Reserve	37	39	39	39	39	39
Insurance Reserve	3,007	2,663	2,563	2,463	2,363	2,263
Capacity Building Reserve*	6,143	4,667	4,849	5,197	5,485	5,536
Schools Capital Expenditure Reserve	584	584	584	584	584	584
Corporate Reserves Total	9,772	7,953	8,035	8,283	8,471	8,422
General Fund Working Balance	6,000	7,685	10,878	9,907	6,000	6,000
Total Reserves	23,038	18,531	20,918	19,494	15,324	15,260

*Capacity Building Reserve includes the revenue under spend.

4.4 Financial Report - Capital

- 4.4.1 At the beginning of the financial year, the capital programme was £133.1m, the result of the agreed capital programme for 2010/11 of £106.3m and slippage from the previous financial year of £26.8m.
- 4.4.2 Throughout 2010/11 the capital programme was refreshed and then subjected to extensive review following the announcements made in the emergency budget on reduced grant funding to finance the capital programme and uncertainty for funding the programme in future years.
- 4.4.3 As a result capital projects were deferred and decisions made in the context of setting a robust capital programme thereby reducing the capital programme by £57.8m in total since the beginning of the financial year. Significant projects that contributed to this included school projects, Affordable Housing, Waste project and South Bank Bridges.
- 4.4.4 The capital programme is financed through borrowing, capital receipts, grants and contributions. Given that the capital programme has reduced through slippage and deferral of projects this has reduced the amount of borrowing originally anticipated since setting the MTFS and had a favourable impact on revenue expenditure in 2010/11. Where schemes are to continue in future years, it should be noted that borrowing would still be required and therefore the revenue requirement should be considered as part of refreshing the current MTFS.
- 4.4.5 The funding of the 2010/11 capital programme assumed £13.3m of capital receipts to fund the capital programme. Actual capital receipts received are £4.6m.

Overall position of the Capital Programme 2010/11 as at Outturn

Capital Programme by Directorate:	Budget MTFS 2010 to 2014 £000	2010/11 Budget inc. slippage from 2009/10 £000	Revised Budget at Feb 2011 £000	Outturn £000
Adult Social Care	921	921	404	338
Chief Executives	12,520	15,179	11,786	4,632
Children's Services	41,219	52,507	25,636	22,413
City Services	2,229	3,613	2,774	806
Operations	29,103	36,274	22,481	21,481
Strategic Resources	20,332	24,590	12,229	10,073
Total Expenditure	106,324	133,084	75,310	59,743
Financed by:				
Grants & Contributions	48,431	60,345	41,547	32,456
Capital Receipts	13,382	13,382	4,533	3,259
Right To Buy Receipts	712	712	712	714
Borrowing	43,799	58,645	28,518	23,314
Total Resources - required	106,324	133,084	75,310	59,743

4.5 Financial Report – Treasury Management Activity for 2010/11

4.5.1 The Treasury Management Strategy was updated during the year as part of the Medium Term Financial Strategy and sets out the strategy for borrowing and investing for the next financial year and prudential indicators for the next five years. The main objectives of the Strategy are to reduce the revenue cost of the Council's debt in the medium term, to seek to reschedule debt at the optimum time and to invest cash balances with dependable institutions in accordance with the Council's lending list.

4.5.2 In summary, the following actions were taken during 2010/11:

- i. Investments were placed in accordance with the restricted lending list implemented in October 2008 following the economic crisis. The current lending list ensures investments are secure and liquid but interest returns are low due to the limitation of institutions used and the level of the bank base rate which has remained at 0.50% since March 2009.
- ii. Investments were placed to cover cash flow deficits and also for short periods in anticipation of an extension of the lending list to include all of the UK institutions included in the Treasury Strategy.
- iii. As borrowing rates continued to be higher than investment rates in 2010/11, cash balances were used to finance the capital programme instead of borrowing. This policy has meant no additional costs have been incurred through borrowing in advance of need.

4.5.3 The 2010/11 treasury management activities are summarised as follows:

	Strategy	Action
1.	Consider repayment of external loans or avoid new borrowings when it is in the best financial interest to do so.	As investment returns remained below the cost of borrowing during the financial year, cash balances were used to finance the capital programme and no new borrowing was required
2.	Invest with credit worthy organisations to limit exposure against loss.	The Council has continued with the restricted lending list implemented in October 2008. Currently the Council only lends to the UK Government, Local Authorities and the Council's own bank, Barclays, despite the Treasury Management Strategy allowing investment in a wider range of organisations. This has resulted in a lower rate of interest being paid on cash surpluses, and this will need to be reviewed to maximise interest receipts, whilst maintaining the security of the investment
3.	To achieve the optimum investment return commensurate with security, liquidity requirements (access to funds), debt management alternatives (avoidance of borrowings, premature repayments etc), if these would generate savings in the medium term.	Cash balances have been used to finance capital expenditure to minimise counterparty risk and as an alternative to diminishing investment returns. The Council's investments have yielded 0.42% which is just below the benchmark of 0.43%.
4.	Consider rescheduling of fixed or variable rate loans to maximise interest rate savings and minimise the impact on Council budgets.	Consideration has been made to rescheduling debt however there have been no suitable opportunities to do this. The difference between the repayment rate and the rate of a new loan has not resulted in a net discount to the Council and no savings were to be made. The PWLB raised their interest rates by 1% in October 2010 following the Comprehensive Spending Review. The rise in rates has not only made short and long term borrowing more expensive but has limited further the opportunities for debt rescheduling.
5.	Exploit long-term funding opportunities at interest rate levels that are below short-term rates forecast / anticipated over the foreseeable future.	Borrowing has been avoided by running down the cash balances while borrowing costs remain higher than investment return.

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

4.5.5 Further information on the Council's capital financing arrangements can be found in the Prudential Indicators performance found in Appendix B. The Prudential Indicators were revised during August 2010 to reflect the impact of the PFI adjustments and were taken to Audit Committee on 6 September 2010. All performance is within the limits.

4.5.6 In 2010/11 the CFR was:

	£000
Opening Capital Financing Requirement 1 April 2010	216,050
New Capital Expenditure Financed by Borrowing	23,214
Minimum Revenue Provision for Debt Repayment	(6,276)
Minimum Revenue Provision for PFI	(1,399)
Minimum Revenue Provision for Leases	(1,078)
Closing Capital Financing Requirement 31 March 2011	230,511

4.6 Financial Report – Performance Monitoring

5.6.1 An outline of performance against key indicators can be seen at Appendix C.

5 CONSULTATION

5.1 Detailed reports have been discussed in Departmental Management Teams.

6 REASONS FOR RECOMMENDATIONS

6.1 This monitoring report for 2010/11 financial year is part of the process for producing the Statement of Accounts.

7 ALTERNATIVE OPTIONS CONSIDERED

7.1 None required at this stage.

8 IMPLICATIONS

8.1 This report does not have any implications effecting legal, human rights act or human resource issues.

9 BACKGROUND DOCUMENTS

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

Detailed monthly budgetary control reports prepared in Departments.

Appendix A

Previous Variance £k	Department	Budget £k	Current Forecast Outturn £k	Variance to Date £k
	CHIEF EXECUTIVE'S DEPARTMENT			
0	Chief Execs Department	435	395	-40
-474	Legal & Democratic Services	4,227	3,466	-761
0	Chief Executive Dept & Business Support	1,074	1,029	-45
102	Delivery	2,140	1,970	-170
-127	Communications	1,043	736	-307
-29	Human Resources	1,270	1,188	-82
-528	CHIEF EXECUTIVE DEPARTMENT TOTAL	10,189	8,784	-1,405
	DIRECTOR OF CHILDREN'S SERVICES			
13	Resources, Commissioning and Performance	6,157	5,980	-177
-523	Learning & Skills	10,808	10,483	-325
150	Children's Community Health	2,111	2,257	146
320	Safeguarding Families and Communities	19,578	20,153	575
-40	CHILDREN'S SERVICE TOTAL	38,654	38,873	219
	DIRECTOR OF CITY SERVICES			
149	Building & Technical	-197	85	282
-250	Street Scene & Facilities	1,078	1,282	204
-450	Property, Design and Maintenance	-360	-979	-619
185	Other Trading Activities and Business Support	1,259	1,501	242
528	Maintenance General Fund	11,996	11,711	-285
162	CITY SERVICES TOTAL	13,776	13,600	-176
	DIRECTOR OF OPERATIONS SERVICES			
35	Business Support	427	494	67
331	Commercial Operations	1,993	2,435	442
0	Cultural Services	5,294	5,277	-17
-119	Directors Office	485	393	-92
-23	Environment Capital	542	431	-111
-496	Planning, Environment, Transport & Engineering	8,603	7,899	-704
-160	Neighbourhoods	10,504	10,376	-128
-432	OPERATIONS SERVICES TOTAL	27,848	27,305	-543
	DIRECTOR OF STRATEGIC RESOURCES			
0	Director's Office	338	338	0
-9	Business Support	2,086	2,042	-44
-916	Corporate Services	21,626	21,237	-389
0	Internal Audit	378	375	-3
-32	Insurance	100	80	-20
0	Shared Transactional Services	726	394	-332
20	Customer Services	900	880	-20
145	Strategic Property	456	454	-2
278	ICT	2,120	2,388	268
-35	Procurement	559	396	-163
-379	Business Transformation	2,973	2,515	-458
61	Waste Management	-19	69	88
0	Service Improvement (moved from CE)	390	281	-109
123	Westcombe Engineering (moved from CE)	34	215	181
-744	STRATEGIC RESOURCES TOTAL	32,667	31,664	-1,003
	CORPORATE ITEMS			
2,433	Impact of £1.165bn Government Cuts	-1,764	669	2,433
-840	Corporate Pressures/Solutions	0	0	0
1,593	CORPORATE ITEMS TOTAL	-1,764	669	2,433
0	ADULT SOCIAL CARE TOTAL	40,582	40,582	0
11	GENERAL FUND TOTAL	161,952	161,477	-475
0	DEDICATED SCHOOL GRANT TOTAL	117,291	116,794	-497

Treasury Management Strategy – Prudential indicators – 2010/11

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.

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

The Code requires the Council to set a range of Prudential Indicators for the next five financial years. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy. The actual outturn for the Prudential Indicators for the financial year 2010/11 are detailed below.

The 2009 Statement of Recommended Practice (SoRP) introduced a new accounting policy based on International Financial Reporting Standards (IFRS) with regards to how Private Finance Initiative (PFI) arrangements are accounted for. The new accounting policy results in PFI related assets being brought on to the Council's Balance Sheet. This involves three of the Council's secondary schools, which in turn impacts on the Council's capital financing.

The 2010 Code of Practice has changed the way operating and financing leases are accounted for and some of them now impact on the capital financing in the same way as PFI.

The IFRS adjustment has no impact on the total expenditure of the Council, it instead changes the way this expenditure is accounted for and shown in the Council's accounts, which in turn impacts on Prudential Indicators.

The 2010/11 Prudential Indicators were revised in August 2010 to reflect the impact of the PFI adjustments and were taken to Audit Committee on 6th September 2010.

The 2010/11 Prudential Indicators below show the Council's performance for the financial year against them and the indicators have been revised to include the changes to leases. All performance is within the limits.

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

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

2. Indicator Two: Estimates and actual Capital Expenditure 2010/11

	2010-11 Indicator	2010-11 Actual
Capital Expenditure	£106.3m	£59.6m

This indicator is the actual capital expenditure for the financial year based on the Capital Programme for that period.

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

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

	2010-11 Indicator £m	PFI £m	Finance Leases £m	2010-11 Revised Indicator £m	2010-11 Actual £m
CFR	216.2	41.4	4.6	262.2	230.5

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

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt.

	2010/11 Indicator %	PFI %	Finance Leases %	2010/11 Revised Indicator %	2010-11 Actual %
Financing costs to revenue stream	5.3	0.8	0.5	6.6	4.5

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

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

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

	2010-11 Indicator £	PFI £	Finance Leases £	2010/11 Revised Indicator £	2010-11 Actual £
Incremental impact on Council Tax	(27.97)	-	-	(27.97)	(44.43)

The overall impact of the PFI arrangement and the finance leases for this Prudential Indicator is zero. This is because the change in accounting treatment has no additional impact on the Council's revenue expenditure.

6. Indicators Six: External Debt Prudential Indicators

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

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

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

	2010-11 Indicator £m	PFI £m	Finance Leases £m	2010/11 Revised Indicator £m	2010-11 Actual £m
Authorised Limit for external debt -					
borrowing	311.9			311.9	134.5
other long term liabilities	4.0	41.4	4.6	50.0	46.0
Total	315.9			361.9	180.5
Operational Boundary for external debt-					
borrowing	226.2			226.2	134.5
other long term liabilities	3.0	41.4	4.6	49.0	46.0
Total	229.2			275.2	180.5

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

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

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

The following indicators take into consideration the capital programme over the life of the MTF5 and the ability to phase the borrowing over this period. The indicators provide flexibility for the Council to take advantage favourable interest rates in advance of the timing of the actual capital expenditure.

7. **Indicator Seven: Variable interest rate exposure**

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

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

	2010/11	2010-11
	Indicator	Actual
	£m	£m
Upper limit for variable rate exposure	54	0

8. **Indicator Eight: Fixed Interest rate exposures**

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

also reflected a position where the great majority of borrowing was at fixed rates to provide budget certainty.

	2010/11	2010-11
	Indicator	Actual
Upper limit for fixed rate exposure	£m	£m
Borrowing	311.9	134.5
Investments		-18.2
Total	311.9	116.3

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

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

Period	Upper Limit Estimate	Lower Limit Estimate	Actual Borrowing
Under 12 months	30%	0%	14%
1 - 2 years	30%	0%	0%
2 - 5 years	80%	0%	0%
5 - 10 years	80%	0%	1%
over 10 years	100%	10%	85%

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

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

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

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

Annual Investment Strategy

The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity

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

As at 31st March 2011 the Council's external investments totalled £18.2m and have yielded interest at an average rate of 0.43% in the financial year to date. The average investment balance has risen from £27m in April 2010 to £42m in October 2010. The balance at March 2011 is £22m (Table 1). The performance of the investments is just below the target benchmark 7 day rate of 0.42% (Table 2).

Borrowing

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

The Council's external debt as at 31st March is £134.5m with an average fixed rate of 4.56% (Table 3). The actual total external debt is measured against the Council's authorised limit for borrowing of £315.9m, which must not be exceeded.

Table 1: Average Interest Rate

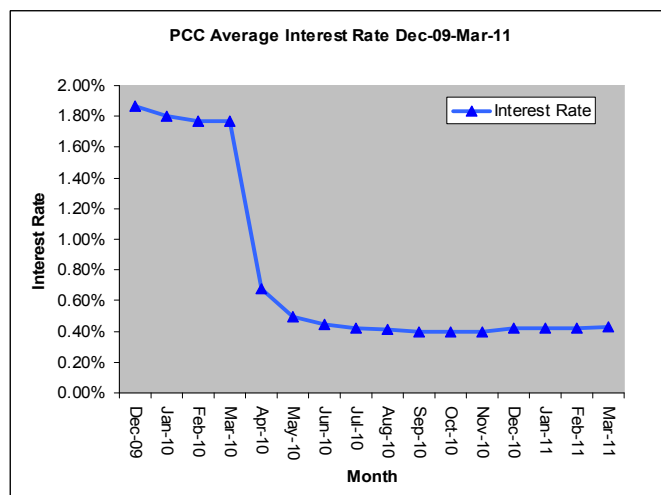
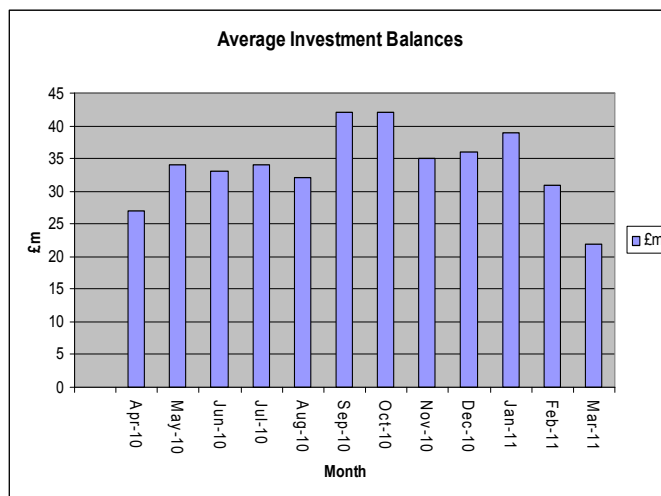


Table 2: PCC Average Investment Balance

Table 3: Debt Portfolio

Debt Portfolio		
	Principal	Interest per annum
	£m	£m
PWLB	117,006	5,341
Market Loans	17,500	793
TOTAL	134,506	6,134

B

Prompt Payment (Invoices paid within 30 Days)

The prompt payment of invoices for March 2011 is 96.94% against a target of 95.50%. The current performance is shown in comparison to the cumulative performance for 2009/10 in table 4.

Sundry Debt Performance

The current outstanding sundry debt in excess of 6 months is shown in table 5 as at 31 March 2011. Debt aged 1-60 days old has increased in comparison to last month by £2m which is not unusual for the end of the financial year, as departments finalise the raising of income for the year prior to 31 March 2011. Aged debt of 61-180 days old has reduced by £488k but aged debt over 366 days old continues to grow with this area holding large levels of debt outstanding for the PCT and Section 106 agreements. The authorities' top 20 debts total £5m and are mainly a mix of Section 106 and third party partners.

- The amount of debt written off for 2010/11 to date is £134k.

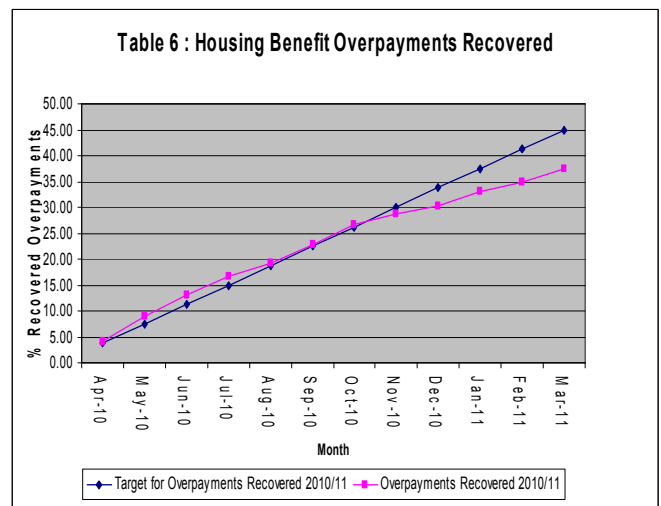
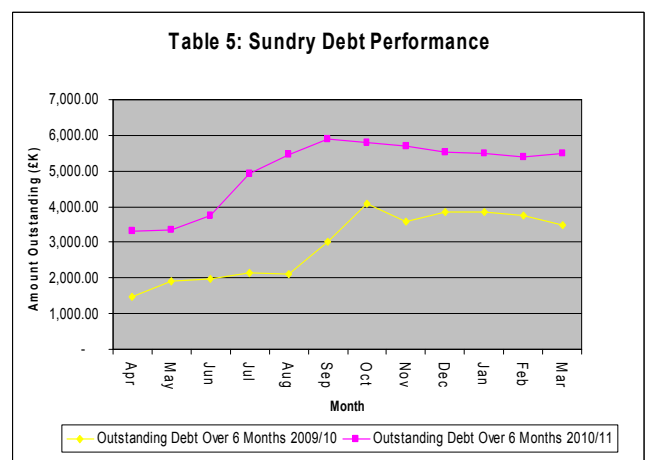
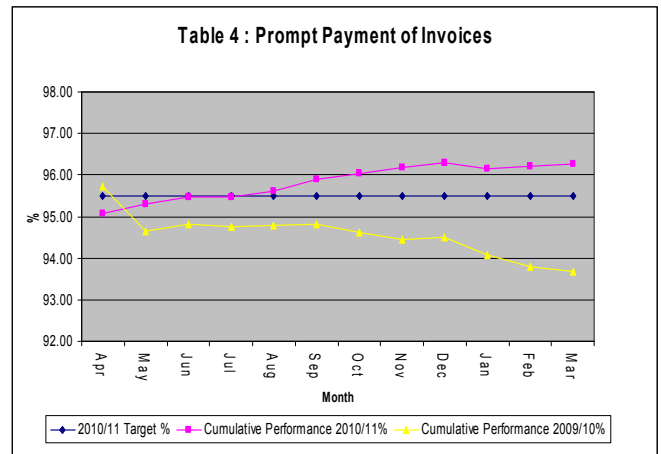
Housing Benefit Overpayments

Table 6 shows the total amount of housing benefit overpayments recovered against the cumulative target rate set for 2010/11.

Housing benefit overpayment collection for the end of March was 37.31% against the target of 45%.

The collection target of 45% for the current year was an ambitious target. Although below target, the collection rate is 1.16% above that achieved for the same period in the last financial year.

More proactive recovery work is ongoing. The first batches of cases under the new debt recovery contract have been forwarded to the bailiff/debt collectors during January and there has been some collections received from these.



Council Tax and Business Rates Collection

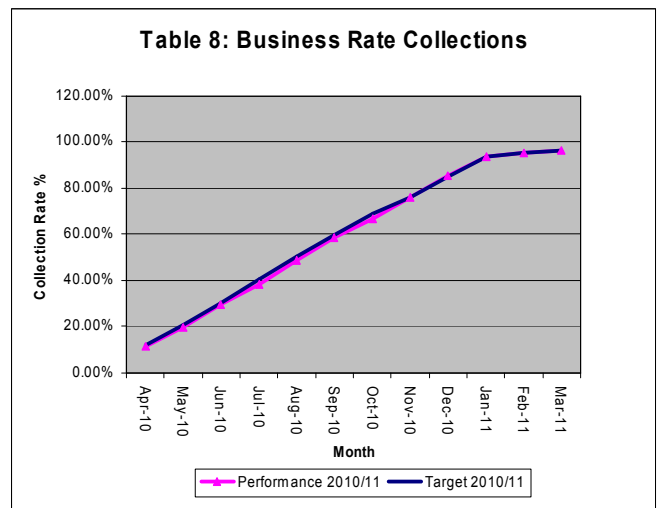
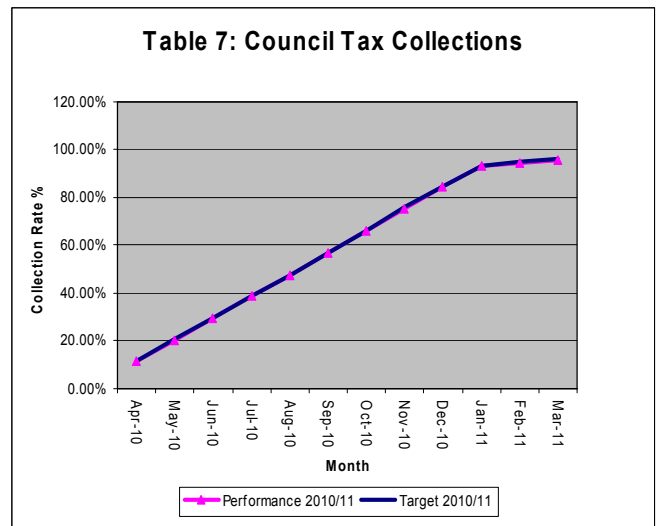
The following tables 7 and 8 show the performance for collection of Council Tax and Business Rates for the period to date.

Council Tax

Council Tax collection at 31 March 2011 was 95.76% which is 0.74% below target and 0.34% below the collection rate achieved at the same time in the last financial year. The outstanding liability at the end of March was £2.63m. £2.1m of this is in active recovery with payment arrangements covering £352k whilst £1m is with external bailiffs for collection.

Business Rates

The collection rate for Non Domestic Rates as of 31 March 2011 was 96.31% which is 0.19% below target, but 1.22% above the collection achieved for the same period in the last financial year. The total outstanding liability at the end of March was £3.12m of which £1.5m is in active recovery following the granting of a liability order. A further £1.6m debt is currently at the reminder/final notice stage and will progress to summons in the next 2 months if not paid. There is £830k debt with the bailiffs for collection.



AUDIT COMMITTEE	Agenda Item 8b
27th JUNE 2011	

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

STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2011

RECOMMENDATIONS	
FROM : Executive Director - Strategic Resources	Deadline date : 27 June 2011; <i>statutory deadline for approving Accounts</i>
<p>1. To note the changing role of Audit Committee in the approval of the Council's annual accounts, see points 4.16 to 4.20</p> <p>2. For members to review and comment on the Statement of Accounts prior to the Chief Finance Officer's certification by the 30 June 2011.</p>	

1. ORIGIN OF REPORT

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

2. PURPOSE AND REASON FOR REPORT

- 2.1. The Council must consider and approve its Accounts at a meeting of either the full Council or a Committee of the Council. This is a requirement of the Accounts & Audit Regulations 2011. The Council's Constitution delegates this matter to the Audit Committee.
- 2.2. The Accounts must be signed and certified by 30 June 2011 by the Council's Section 151 officer (Executive Director – Strategic Resources), in accordance with the Accounts and Audit Regulations 2011.
- 2.3. The Council's Section 151 officer has responsibility for certifying that the Accounts present fairly the financial position of the Council at 31 March 2011.
- 2.4. The Audit Committee is required to approve the Accounts no later than 30 September 2011 following, and in the knowledge of, the audit findings.

3. TIMESCALE

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

4. KEY ISSUES

International Financial Reporting Standards (IFRS)

- 4.1. In the 2007 Budget, the then-chancellor announced that the UK Public Sector would adopt International Financial Reporting Standards (IFRSs) as this was seen as best practice and allowed for international comparisons to be made. The 2010/11 Statement of Accounts is the first set of accounts the Council has produced under IFRS.
- 4.2. In the transition to IFRS based accounts the Council's finance team has been required to restate the 2008/09 and 2009/10 financial years for inclusion in accounts, whilst also producing 2010/11 financial statements.
- 4.3. The significant alterations to the treatment of transactions in the accounts are:
 - Salaries and Pensions – untaken holiday pay and similar items accrued for at the year end
 - Government Grants and Contributions – capital grants are recognised immediately (unless there are conditions) rather than being deferred and matched to expenditure
 - Leases – different tests used to determine whether a lease is a finance or operating lease. The classification of a lease leads to a different impact on the Comprehensive Income and Expenditure Statement and Balance Sheet
 - Private Finance Initiative (PFI) – there has been clarification with regards to the treatment of schools with Foundation status which occupy an asset that was funded via the PFI arrangement. During 2009/10 the asset and liability of the PFI arrangement were brought onto the Council's balance sheet, however this treatment was in conflict with the Foundation status and means that the Council's balance sheet has now been amended to show the liability only.
- 4.4. These adjustments are a change in accounting treatment only, and have no impact on Council Tax.
- 4.5. There are also significant amendments to the presentation of the accounts, which include:
 - New financial statements, including the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement
 - Additional supporting notes and disclosures which provide supplementary information to the financial statements. An example of such a new note is Note 16 – 'Amounts Reported for Resource Allocation Decisions' which is provided across four separate tables. Two of the tables provide a segmental analysis of the Council's income and expenditure per the Council management structure for the 2009/10 and 2010/11 financial years. The remaining two tables reconcile the note back to the Comprehensive Income and Expenditure Statement for the respective years.

Format of the Accounts 2010/11

- 4.6. The Accounts for 2010/11 conform with CIPFA's (Chartered Institute of Public Finance & Accountancy) Best Value Code of Practice for Local Authority Accounts and the new Code of Practice on Local Authority Accounting (the Code). The individual financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of the Council.

- 4.7. The key contents of the various sections are as follows:
- *Explanatory Foreword* - provides an understandable guide to the most significant matters reported in the accounts.
 - *Statement of Responsibilities* – sets out the responsibilities of the Council and the chief financial officer in respect of the Statement of Accounts
 - *Comprehensive Income and Expenditure Statement* – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation
 - *Movement in Reserves Statement* – this statement shows the movement in the year on the different reserves held by the Council
 - *Balance Sheet* – shows the value of the assets and liabilities recognised by the Council as at 31 March 2011
 - *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 2010/11
 - *Notes to the Financial Statements* - the various statements are supported by technical *Notes* and by the *Statement of Accounting Policies*
 - *The Collection Fund & Notes* – shows the transactions of the Council in relation to Council Tax and National Non-Domestic Rates
 - *Statement of Accounting Policies* – outlines the accounting policies adopted by the Council
 - *Annual Governance Statement* – identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded

Schools

- 4.8. Details on Schools Balances are shown in Note 18 to the Core Financial Statements in the Accounts. This shows that there was a net increase in School Balances during 2010/11 of £1.6m from £5.1m to £6.7m. There were 4 schools (from 5 at 31 March 2010) with deficit balances at 31 March 2011. These Schools are required to submit plans to the Council demonstrating how these deficits will be overcome.

Collection Fund

- 4.9. During 2010/11, Council Tax collection rates had an in year final collection rate of 95.76%.
- 4.10. The 2009 SoRP brought a change of accounting policy with regards to the Collection Fund, such that any surplus or deficit incurred is shown in the Income and Expenditure Account and the impact of this reversed out through the Movement in Reserves Statement.
- 4.11. For 2010/11 the Collection Fund incurred a deficit of £1.2m for the year of which the Council's share of £1.0m (£0.65m in 2009/10) is shown in the Comprehensive Income and Expenditure Statement.

Balance Sheet at 31 March 2011

- 4.12. The Statement of Accounts includes a Balance Sheet that sets out the net worth of the Council at the balance sheet date. The following paragraphs give a high level indication of the reason for movements from last year restated Balance Sheet which total a net increase of £135.0m.

- 4.13. The Revaluation Reserve represents the net movement in the value of fixed assets since 1 April 2007 and it increased by £42m during the year.
- 4.14. The Capital Adjustment Account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them. This account increased by £1.2m, as charges such as depreciation and impairment were lower than the capital receipts and grants income for the year.
- 4.15. The Pension Reserve, which balances the Pensions Liability, has decreased by £85.5m, which is largely a result of:
- positive asset returns and falling long term inflation expectations
 - the pension increase change from RPI to CPI
- 4.16. Changes in the revenue related balances arose from an increase in schools balances of £1.6m.

Reserves and Balances

- 4.17. As reported to Council in February 2011, the Executive Director - Strategic Resources is charged with considering the level of Reserves and Balances required by the Council and making recommendations as to the adequacy of the amounts held. The closing balance for the General Fund for 2010/11 was £6.0m which is in line with MTFS.

Approval, signing, inspection and audit arrangements - the Accounts and Audit Regulations 2011

- 4.18. Under the previous Accounts and Audit Regulations 2003 members were required to approve the annual accounts before they were reviewed by the external auditor. This was not consistent with the private sector or elsewhere in the public sector, where directors or board members are aware of the findings of the audit before they approve the accounts.
- 4.19. The revised Accounts and Audit Regulations 2011, include the following for the approval and publication of the annual accounts:
- the responsible financial officer must certify the presentation of the annual accounts no later than the 30 June
 - the annual accounts must be published with the audit opinion and certificate, and before that must have been approved by members no later than 30 September
 - the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given
- 4.20. Whilst under the new regulations the Council's Audit Committee is no longer required to approve the accounts prior to audit, the Council considers it is good practice for members to review and comment on the accounts prior to the Chief Financial Officer's certification. The Finance team will continue to review the accounts after Committee agenda despatch, working towards the CFO certification and the start of the audit. If any substantial changes are needed to the Accounts, then an update will be provided to Committee at the meeting.
- 4.21. The Auditor will decide the date from which they will receive questions on and objections to the Accounts. The Accounts will be placed on deposit for public inspection for not less than 20 working days before the date set by the Auditor (Regulation 14).

- 4.22. At the conclusion of the Audit, the Auditor will issue a report on the Financial Statements and will issue the Audit Certificate for 2010/11. This will be considered at the Audit Committee meeting on 26 September 2011.

Annual Governance Statement

- 4.23. The Statement of Accounts includes the Annual Governance Statement. This document is being approved by Audit Committee on 27 June 2011.

Appendices

Statement of Accounts 2010/11

5. CONSULTATION

No external consultation has been undertaken.

6. ANTICIPATED OUTCOMES

As set out in the report.

7. REASONS FOR RECOMMENDATIONS

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

8. ALTERNATIVE OPTIONS CONSIDERED

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

9. IMPLICATIONS

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

10. BACKGROUND DOCUMENTS

- Budgetary control reports through 2010/11
- Council February 2010: Medium Term Financial Strategy
- The Accounts and Audit Regulations (England) 2011, Statutory Instrument

11. APPENDICES

Appendix 1 - Statement of Accounts

This page is intentionally left blank



Statement of Accounts

2010/11



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

The Head of Corporate Services

Peterborough City Council

Manor Drive

Paston Parkway

Peterborough

PE4 7AJ

email: FinanceManagementTeam@peterborough.gov.uk

Tel: 01733 384590

www.peterborough.gov.uk

Peterborough City Council

Statement of Accounts 2010/11

Contents	Page
Explanatory Foreword	1
Independent Auditors' Report to the Members of Peterborough City Council.....	7
Statement of Responsibilities.....	9
Comprehensive Income and Expenditure Statement.....	10
Movement in Reserves Statement	11
Balance Sheet.....	12
Cash Flow Statement.....	13
Notes to the Financial Statements	14
The Collection Fund and Notes.....	67
Statement of Accounting Policies.....	69
Annual Governance Statement	85
Glossary.....	99
Index of Notes to the Core Financial Statements.....	104

Explanatory Foreword

1 Background

The Statement of Accounts has been prepared in accordance with statutory requirements, detailed in the Local Government Act 2003, the Accounts and Audit Regulations 2011 and The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code).

2 The Accounts

The Statement of Accounts brings together the major financial statements for the Council for the financial year 2010/11. The financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of Peterborough City Council. The key contents of the various sections are as follows:

- *Explanatory Foreword*
- *Statement of Responsibilities* – sets out the responsibilities of the Council and the chief 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 2011
- *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 2010/11
- *Notes to the Financial Statements* - the various statements are supported by technical *Notes* and by the *Statement of Accounting Policies*
- *The Collection Fund and Notes* – shows the transactions of the Council in relation to Council Tax and National Non-Domestic Rates
- *Statement of Accounting Policies* – outlines the accounting policies adopted by the Council
- *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

3 Revenue Expenditure

The Comprehensive Income and Expenditure Statement on page 10 shows the gross revenue expenditure and income together with net expenditure for 2010/11 compared with 2009/10 equivalents. The Comprehensive Income and Expenditure Statement is analysed by services as laid down in the Best Value Accounting Code of Practice (BVACOP) issued

by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Council's organisational structure, on which the estimates for the year and budget monitoring during the year are based, do not correlate directly with BVACOP. However, Note 16 page 26, demonstrates the presentational differences between these reporting requirements.

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

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

The following table compares the budget to the actual net expenditure based upon the Council's organisational structure. Figures in brackets indicate a favourable variance. The Council under spent by £0.48m, which was transferred to reserves.

Revenue Expenditure	Budget £000	Actual £000	Variance £000
Chief Executive Office	10,189	8,784	(1,405)
Children's Services	38,654	38,873	219
City Services	13,776	13,600	(176)
Operations	27,848	27,305	(543)
Strategic Resources	32,667	31,664	(1,003)
Adult Social Care	40,582	40,582	-
Corporate Items	(1,764)	669	2,433
Total Council Expenditure	161,952	161,477	(475)
Transfer to earmarked reserve			475
Contribution to General Fund Balance			2,242
General Fund Balance Brought Forward			3,758
General Fund Balance Carried Forward			6,000

The financing of the budget was as follows:

Financed by	£000
Government Grant (Revenue Support Grant)	9,765
Government Grant (Area Based Grant)	13,996
Distribution from National Non Domestic Rates	67,249
Demand on the Collection Fund	61,994
Capitalisation Direction	502
Reserves	8,446
Total Financing	161,952

Balances

At 31 March 2011, the General Fund working balance of the Council stood at £6m which is in line with the Medium Term Financial Strategy (MTFS) of returning the General Fund balance to £6m by 2012/13.

The Schools balances totalled £6.7m at 31 March 2011, compared to £5.1m at 31 March 2010.

4 Capital Expenditure

The main elements of capital expenditure, compared with the revised February 2011 budget after slippage, are shown below.

Capital Expenditure	Budget per MTFS 2010 Approved Budget £000	2010/11 Budget inc. slippage from 2009/10 £000	Revised Budget at February 2011 £000	Outturn £000
Chief Executives	12,520	15,179	11,786	4,632
Children's Services	41,219	52,507	25,636	22,413
City Services	2,229	3,613	2,774	806
Operations	29,103	36,274	22,481	21,481
Strategic Resources	20,332	24,590	12,229	10,073
Adult Social Care	921	921	404	338
Total	106,324	133,084	75,310	59,743
Financed by:				
External Sources	48,431	60,345	41,547	32,456
Capital Receipts	14,094	14,094	5,245	3,973
Borrowing	43,799	58,645	28,518	23,314
Total	106,324	133,084	75,310	59,743

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

5 External Borrowings and Investments

At 31 March 2011 the Council had net borrowings including cash and outstanding interest of £117.1m (£122.6m in 2009/10).

2009/10 £m		2010/11 £m
136.3	Borrowing*	136.3
(13.7)	Investments	(19.2)
122.6	Net Borrowing	117.1

*No new borrowing or rescheduling of debt was undertaken in 2010/11 (no new borrowing in 2009/10). This reflects the Treasury Management policy per the MTFS, as it continues to be more cost effective to run down the Council's cash balances.

6 Change in Accounting Policies

In the 2007 Budget, the then-chancellor announced that the UK Public Sector would adopt International Financial Reporting Standards (IFRSs) as this was seen as best practice and allowed for international comparisons to be made. The 2010/11 Statement of Accounts is the first set of accounts the Council has produced under IFRS.

The significant alternations are:

- Salaries and Pensions – untaken holiday pay and similar items are accrued for at the year end

- Government Grants and Contributions – capital grants are recognised immediately (unless there are conditions) rather than being deferred and matched to expenditure
- Leases – different tests are used to determine whether a lease is a finance or operating lease. The classification of a lease leads to a different impact on the Comprehensive Income and Expenditure Statement and Balance Sheet
- Private Finance Initiative (PFI) – there has been clarification with regards to the treatment of schools with Foundation status which occupy an asset that was funded via the PFI arrangement. Previously the asset and liability of the PFI arrangement were brought onto the Council's balance sheet, however this treatment was in conflict with the Foundation status and means that the Council's balance sheet has now been amended to show the liability only.

These adjustments are a change in accounting treatment only, and have no impact on Council Tax. For further information about these IFRS transitional adjustments see Note 47, page 63.

7 Changes to Service Delivery

During 2010/11 the Council changed the way some services are delivered through two partnership arrangements. The Council retains responsibility for providing these services however the service delivery will be undertaken by a third party instead of by the Council directly. The Services affected include:

- Vivacity Peterborough Culture and Leisure – the Council transferred the management of it's Arts, Heritage, Library

and Sport Services to a specially created culture and leisure trust under a 25 year Funding and Management Agreement (FMA) that commenced 1 May 2010. The vision of the Trust is to deliver inspiring culture and leisure services which enrich the lives of residents and visitors to the City.

- Enterprise Peterborough – on 4 March 2011 the Council entered into a long-term, 23 year, strategic partnership with Enterprise Peterborough. It is responsible for delivering and improving a broad range of services, including household waste and recycling collection, street cleaning, property design and maintenance and grounds maintenance. A range of other services will also be part of the partnership, including public and school bus services to be transferred during 2011/12. The aim of the strategic partnership is to improve the delivery and performance of these services, while providing the best value for local taxpayers.

8 Pensions

The main statements include entries to show the financial position of the Council's share of the Cambridgeshire Pension Fund. This information has been compiled by the Fund's actuary in accordance with International Accounting Standard 19: Employee Benefits (IAS19).

Based on the information supplied by the actuary in compliance with IAS19, the calculated deficit on the Fund has decreased during 2010/11 from the £230.8m in 2009/10 to £145.3m. The change of £85.4m is largely a result of:

- positive asset returns and falling long term inflation expectations

- the pension increase change from Retail Price Index (RPI) to Consumer Price Index (CPI)

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

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

The Council's employer's contribution to the Fund was 17.6% in 2010/11. This percentage was reviewed as part of the triennial actuarial valuation during 2010. Future contributions will depend on demographic factors, investment returns, and changes in the legislation which governs the scheme. Further details can be found in Note 7, page 16.

9 Icelandic Banks

The Council had a total of £3m invested in two Icelandic owned banks which went into administration in October 2008. The investments were impaired to make their value equal to that expected to be received from the administrators.

As recovery rates have improved from those used in 2009/10, the impairment of the investments has been revised accordingly. The Council followed the Capital Financing Regulations to defer the impact of the impairment on the General Fund until 2010/11. This cost has been matched by the earmarked reserve that was created in 2009/10 to cover the impairment costs, which means there has been no impact on the General Fund for 2010/11. Further details can be found in Notes 17 and 32.

In summary the key movements have been:

- £3m invested with two Icelandic owned banks which went into administration in October 2008
- £838k was put aside in a reserve in 2009/10 to cover the estimated impairment loss
- £545k is the latest estimated impairment value which has been charged against the General Fund in 2010/11, in accordance with regulations
- It is possible that recovery rates will improve further as administrators continue to wind down the businesses
- As the £545k has been provided for during 2010/11 any subsequent improvements in recovery rates will benefit the financial position in future years.

10 Conclusion

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

The Council approved the revenue and capital budget requirement for 2010/11 in February 2010 in the context of the environment of the worst financial situation for several generations and of great uncertainty regarding future public sector and local government funding.

The new Coalition Government announced the first grant funding reductions to local government in May 2010. For Peterborough City Council the impact was a reduction of £2.4m in revenue grants and £2.3m in capital grants in the current financial year of 2010/11. At the same time pressures were

emerging with the demand led budgets such as social care and looked after children. Indications were also made at this time that grants would be further reduced in future years.

The Council has been proactive in dealing with the new funding challenges and managing the impact of the pressures created. The actions taken throughout the year have helped the Council to be in a strong financial position to deliver £28m of savings required in 2011/12. The Medium Term Financial Strategy (MTFS) delivers a balanced budget for the Council for the next three years.

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

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

The financial position of the Council will be constantly monitored and corrective action taken to manage service demands within the resources available where necessary.

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

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

John Harrison
Executive Director - Strategic Resources

Independent Auditors' Report to the Members of Peterborough City Council

Page intentionally left blank for auditors opinion

118

Julian Rickett (Engagement Lead)
For and on behalf of PricewaterhouseCoopers LLP
Appointed auditors
80 Strand
WC2R 0AF

Date:

Page intentionally left blank for auditors opinion

119

Julian Rickett (Engagement Lead)
For and on behalf of PricewaterhouseCoopers LLP
Appointed auditors
80 Strand
WC2R 0AF

Date: _____

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

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

Chairman's Certificate

I certify that the Statement of Accounts for the year ended 31 March 2011 was approved at the meeting of the Audit Committee on 26 September 2011.

Signed on behalf of Peterborough City Council:

Chairman of meeting
approving the accounts:

Date:

The Chief Financial Officer's Responsibilities

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

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

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code

The Chief Financial Officer has also:

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

Chief Financial Officer's Certificate

I certify that the accounts set out on pages 10 to 68 present a true and fair view of the financial position of the Council at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Executive Director -
Strategic Resources:

Date:

Comprehensive Income and Expenditure Statement

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

Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009/10			2010/11				
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Comprehensive Income and Expenditure Statement	Notes	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
4,170	(2,024)	2,146	Central Services to the Public		3,875	(1,661)	2,214
298	-	298	Court Services		300	-	300
54,859	(14,374)	40,485	Cultural, Environmental, Regulatory & Planning Services		45,905	(13,368)	32,537
233,290	(179,788)	53,502	Education & Children's Services	1, 6	240,900	(193,060)	47,840
23,243	(5,935)	17,308	Highways & Transport Services		22,164	(7,346)	14,818
82,495	(80,399)	2,096	Other Housing Services		85,684	(78,557)	7,127
48,825	(9,065)	39,760	Adult Social Care	2	51,493	(9,697)	41,796
-	-	-	Exceptional Income – Pension Liability Reduction	7	-	(53,405)	(53,405)
7,692	(4,339)	3,353	Corporate & Democratic Core	3, 4	4,097	(1,471)	2,626
1,016	-	1,016	Non Distributed Costs		-	(4,438)	(4,438)
455,888	(295,924)	159,964	Cost of Services	16	454,418	(363,003)	91,415
15,316	(14,206)	1,110	Other Operating Expenditure	9,10	45,430	(13,760)	31,670
17,585	(1,353)	16,232	Financing & Investment Income & Expenditure	11	16,442	(17,026)	(584)
-	(171,815)	(171,815)	Taxation & Non-Specific Grant Income	12, 13	-	(174,788)	(174,788)
488,789	(483,298)	5,491	(Surplus) / Deficit on Provision of Services	16	516,290	(568,577)	(52,287)
		(15,530)	(Surplus) / Deficit on Revaluation of Fixed Assets				(51,182)
		137,427	Actuarial (Gains) / Losses on Pension Assets / Liabilities	7			(31,527)
		5,567	Writing out of assets				-
		127,464	Other Comprehensive Income & Expenditure				(82,709)
		132,955	Total Comprehensive Income & Expenditure				(134,996)

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 10.

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

Movement in Reserves during 2009/10 and 2010/11	Notes	General Fund Balance	School's Balances	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2009	17	6,000	5,578	11,410	-	2,520	25,508	139,404	164,912
(Surplus) / Deficit on Provision of Services		(5,027)	(464)	-	-	-	(5,491)	-	(5,491)
Other Comprehensive Income & Expenditure		-	-	-	-	-	-	(127,464)	(127,464)
Total Comprehensive Income & Expenditure		(5,027)	(464)	-	-	-	(5,491)	(127,464)	(132,955)
Adjustments between accounting basis & funding basis under regulations		8,453	-	-	1,118	7,053	16,624	(16,624)	-
Net Increase / Decrease before Transfers to Earmarked Reserves		3,426	(464)	-	1,118	7,053	11,133	(144,088)	(132,955)
Transfers to Earmarked Reserves		(5,668)	-	5,668	(1,118)	(4,276)	(5,394)	5,394	-
Increase / Decrease in 2009/10		(2,242)	(464)	5,668	-	2,777	5,739	(138,694)	(132,955)
Balance at 31 March 2010 Carried Forward		3,759	5,114	17,078	-	5,297	31,247	710	31,957
Balance at 31 March 2010		3,758	5,114	17,078	-	5,297	31,247	710	31,957
(Surplus) / Deficit on Provision of Services		51,398	889	-	-	-	52,287	-	52,287
Other Comprehensive Income & Expenditure		-	-	-	-	-	-	82,709	82,709
Total Comprehensive Income & Expenditure		51,398	889	-	-	-	52,287	82,709	134,996
Adjustments between accounting basis & funding basis under regulations		(48,449)	-	-	3,957	452	(44,040)	44,040	-
Net Increase / Decrease before Transfers to Earmarked Reserves		2,949	889	-	3,957	452	8,247	126,749	134,996
Transfers to Earmarked Reserves		(707)	746	(40)	(3,957)	(785)	(4,743)	4,743	-
Increase / Decrease in 2010/11		2,242	1,635	(40)	-	(333)	3,504	131,492	134,996
Balance at 31 March 2011 Carried Forward		6,000	6,749	17,038	-	4,964	34,751	132,202	166,953

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

<i>1 April 2009</i>	<i>31 March 2010</i>	Balance Sheet	Notes	31 March 2011
<i>£000</i>	<i>£000</i>			£000
372,025	390,650	Property, Plant & Equipment	19	437,420
50,221	45,945	Investment Property	20	40,012
2,019	2,237	Intangible Assets	21	2,538
7,104	4,862	Assets Held for Sale	22	24,382
7,205	758	Long Term Investments	30	457
299	280	Long term Debtors	30,31	2,334
438,873	444,732	Long Term Assets		507,143
26,790	2,632	Short Term Investments	30	449
555	555	Inventories	33	484
35,235	50,033	Short Term Debtors	34	48,636
15,833	10,051	Cash & Cash Equivalents	40	15,634
1,045	7,780	Assets Held for Sale	22	6,146
79,458	71,051	Current Assets		71,349
(19,278)	(19,272)	Short Term Borrowing	30	(20,883)
(58,839)	(47,799)	Short Term Creditors	35	(53,001)
(4,993)	(4,499)	Provisions	36	(6,011)
(83,110)	(71,570)	Current Liabilities		(79,895)
(92,007)	(230,759)	Long Term Creditors	7	(145,349)
(1,292)	(1,532)	Provisions	36	(1,611)
(117,006)	(117,006)	Long Term Borrowing	30	(115,387)
(48,482)	(46,183)	Other Long Term Liabilities	30,31	(43,688)
(11,522)	(16,776)	Capital Grants Receipts in Advance	35	(25,609)
(270,309)	(412,256)	Long Term Liabilities		(331,644)
164,912	31,957	Net Assets		166,953
(25,508)	(31,247)	Usable Reserves	17, 18	(34,751)
(139,404)	(710)	Unusable Reserves	17	(132,202)
(164,912)	(31,957)	Total Reserves		(166,953)

Cash Flow Statement

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

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

2009/10 £000	Cash Flow Statement	Notes	2010/11 £000
5,491	Net (Surplus) / Deficit on the Provision of Services		(52,287)
(14,464)	Adjust net (Surplus) / Deficit on the Provision of Services for Non Cash Movements		17,933
(27,777)	Adjust for Items Included in the Net (Surplus) / Deficit on the Provision of Services that are Investing & Financing Activities		(24,028)
(36,750)	Net Cash Flows from Operating Activities		(58,382)
57,527	Investing Activities	38	41,049
(14,995)	Financing Activities	39	11,750
5,782	Net (Increase) / Decrease in Cash & Cash Equivalents		(5,583)
15,833	Cash & Cash Equivalents at the Beginning of the Reporting Period		10,051
(5,782)	Increase / (Decrease) in Cash and Cash Equivalents		5,583
10,051	Cash & Cash Equivalents at the end of the Reporting Period	40	15,634

Notes to the Accounts

1 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on a Council-wide basis and for Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010/11 follows:

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

Details of the deployment of DSG receivable for the previous financial year, 2009/10 follows:

<i>Schools Budget Funded by Dedicated Schools Grant</i>	<i>Central Expenditure £000</i>	<i>ISB £000</i>	<i>Total £000</i>
<i>Final DSG for the financial year</i>			(112,941)
<i>Brought forward from 2008/09</i>			6
<i>Carry forward to 2010/11</i>			667
<i>Agreed budgeted distribution in year</i>	(14,697)	(97,571)	(112,268)
<i>Actual central expenditure</i>	14,589	-	14,589
<i>Actual ISB deployed to schools</i>	-	97,571	97,571
<i>Local Authority contribution for 2009/10</i>	-	-	-
<i>Carry Forward to 2010/11</i>	(108)	-	(108)
<i>Total amount carried forward to 2010/11</i>			(775)

2 Pooled Funds and Similar Arrangements

The Council entered into a section 75 Pooled Budget arrangement with NHS Peterborough for the provision of Adult Social Care (ASC). The Partnership provides a robust framework for the provision of integrated Health Services and Social Care Services for adults in Peterborough.

An annual agreement is produced which sets out the Council's contribution to the Pool, the level of performance that NHS Peterborough aims to deliver across a range of ASC performance indicators and key service developments that NHS Peterborough will take forward that are either wholly, or partly, ASC. The pooled budget is hosted by NHS Peterborough who, in accordance with the agreement are responsible for any over spending.

The Council's contributions are shown within the Adult Social Care line in the Comprehensive Income and Expenditure

Statement on page 10. The memorandum account shows total income and expenditure for the pooled fund.

2009/10 £000	Memorandum Account	2010/11 £000
(211,544)	Peterborough PCT	(223,616)
(37,389)	Peterborough City Council Pool Contribution	(38,427)
(4,102)	Peterborough City Council - Grants	(4,637)
(151)	Income from other Organisations	-
(253,186)	Total Gross Funding	(266,680)
174,061	NHS Commissioning	185,082
66,902	Provision of Services	68,050
23,834	Corporate Services	10,396
1,660	Public Health	1,680
266,457	Total Expenditure	265,208
13,271	Actual Over / (Under) spending	(1,472)
(13,271)	Overspend met by PPCT non Pooled	-

3 Members Allowances

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

2009/10 £000	Members Allowances	2010/11 £000
706	Allowances	714
1	Expenses	1
707	Total	715

4 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 statutory inspections and to non-audit services provided by the Council's external auditors, PriceWaterhouseCoopers.

2009/10 £000	External Audit Costs	2010/11 £000
256	Fees payable with regard to external audit services carried out by the appointed auditor	251
18	Fees payable in respect of statutory inspection	-
50	Fees payable for the certification of grant claims & returns carried out by the appointed auditor	45
10	Fees payable in respect of other services provided by the appointed auditor *	15
334	Total	311

* The other fees payable were in respect of a proposed Grant, the purchase of Peterborough United Football Ground and other investigative work during 2009/10. For 2010/11 the fee was in respect of the Private Finance Initiative scheme.

5 Termination Benefits

The Council terminated the contracts of a number of employees as part of the voluntary redundancy programme in 2010/11, incurring liabilities of £3m (£1m 2009/10).

The liabilities were charged to the Comprehensive Income and Expenditure Statement as shown in the table:

	2010/11
Termination Benefits	£000
Central Services to the Public	95
Cultural, Environmental, Regulatory & Planning Services	329
Education & Children's Services	1,173
Highways & Transport Services	153
Other Housing Services	278
Corporate & Democratic Core	60
Trading Operations	549
Support Services*	367
Total	3,004

* Support Services are recharged to the services

6 Pension Schemes Accounted for as Defined Contribution Schemes

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

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the

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

In 2010/11 the Council paid £7.0m to Teachers' Pension in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2009/10 were £7.6m and 14.1%. The contributions reduced between years as two secondary schools have transferred to Academy status during 2010/11. There were no contributions remaining payable at the year-end.

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

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 payment and this needs to be disclosed at the time that employees earn their future entitlement.

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

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

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing the Council's liabilities in the Cambridgeshire County Council's Pension Fund by £53.4m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact on the General Fund.

Transactions relating to post employment benefits

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

2009/10 £000	Comprehensive Income and Expenditure Statement	2010/11 £000
	Cost of Services:	
7,557	Current service cost	12,586
21	Past service cost	(53,405)
842	Curtailment and Settlement	(4,657)
	Financing & Investment Income & Expenditure	
18,935	Interest cost (Note 11)	24,212
(11,700)	Expected return on scheme assets (Note 11)	(18,057)
<u>15,655</u>	Total post employment benefit charged to the (Surplus) / Deficit on the Provision of Services	(39,321)
	Other employment benefit charged to the Comprehensive Income and Expenditure Statement	
<u>137,427</u>	Actuarial (gains) / losses	(31,527)
<u>153,082</u>	Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(70,848)
	Movement in Reserves Statement	
	Reversal of net charges made to the (Surplus) / Deficit on the Provision of Services for post employment benefits in accordance with the code	70,848
	Actual amount charged against the General Fund Balance for pensions in the year:	
14,330	Employer's contributions payable to scheme	14,562
<u>(138,752)</u>	Total Movement in Reserves Statement	85,410

Assets and liabilities in relation to post employment benefits

31 March 2010 £000	Reconciliation of Present Value of Scheme Liabilities (defined benefit obligation)	31 March 2011 £000
270,081	Opening Liability at 1 April	480,626
7,557	Current Service Cost	12,586
18,935	Interest Cost	24,212
4,795	Contributions by Scheme Participants	4,512
185,870	Actuarial (Gains) / Losses	(28,175)
842	Losses on Curtailments (excluding settlement amounts)	456
-	Liabilities Extinguished on Settlements	(22,946)
21	Past Service Costs	(53,405)
(7,475)	Benefits Paid	(10,557)
480,626	Closing Liability at 31 March	407,309

31 March 2010 £000	Reconciliation of the Fair Value of the Scheme Assets	31 March 2011 £000
178,074	Opening Value at 1 April	249,867
11,700	Expected Rate of Return on Assets	18,057
48,443	Actuarial Gains / (Losses)	3,352
-	Assets Distributed on Settlements	(17,833)
14,330	Employer Contributions	14,562
4,795	Contributions by Scheme Participants	4,512
(7,475)	Benefits Paid	(10,557)
249,867	Closing Fair Value of Scheme Assets at 31 March	261,960

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

yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £(16.3)m (2009/10 £(60.1)m).

Scheme history

Local Government Pension Scheme	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Present Value of Liabilities	333,687	272,854	270,081	480,626	407,309
Fair Value of Assets in the Scheme	(240,535)	(210,145)	(178,074)	(249,867)	(261,960)
(Surplus) / Deficit in scheme	93,152	62,709	92,007	230,759	145,349

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £145.3m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, see Note 17, page 36. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

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

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £11.5m.

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 2010.

The principal assumptions used by the actuary have been:

31 March 2010		31 March 2011
	Long-term expected rate of return on assets in the scheme	
7.8%	Equity Investments	7.5%
5.0%	Bonds	4.9%
5.8%	Property	5.5%
4.8%	Cash	4.6%
	Mortality Assumptions	
	Longevity at 65 for Current Pensioners:	
20.8	Men	21.0 years
24.1	Women	23.8 years
	Longevity at 65 for Future Pensioners:	
22.3	Men	22.9 years
25.7	Women	25.7 years
	Financial Assumptions	
3.8%	Rate of inflation	2.8%
3.8%	Rate of increase in pensions	2.8%
5.3%	Rate of increase in salaries	5.1%
7.1%	Expected return on assets	6.8%
5.5%	Rate for discounting scheme liabilities	5.5%
25.0%	Take-up of option to convert annual pension into retirement lump sum	25.0%

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

31 March 2010		31 March 2011
%		%
64	Equity investments	73
17	Bonds	15
10	Property	8
9	Cash	4
100	Total	100

History of Experienced Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2006/07	2007/08	2008/09	2009/10	2010/11
	%	%	%	%	%
Differences between expected and actual return on assets	0.94	(26.75)	(31.15)	19.23	1.27
Experience Gains and Losses on Liabilities *	0.14	12.98	0.16	(0.36)	(5.86)

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

8 Officers' Remuneration

The number of employees whose remuneration, including lump sum retirement payments, was £50,000 or more in bands of £5,000 is shown in the table.

2009/10 No. of Employees	Remuneration Band	2010/11 No. of Employees
83	£50,000 - £54,999	89
49	£55,000 - £59,999	47
28	£60,000 - £64,999	42
18	£65,000 - £69,999	23
10	£70,000 - £74,999	13
8	£75,000 - £79,999	8
7	£80,000 - £84,999	11
-	£85,000 - £89,999	4
9	£90,000 - £94,999	8
-	£95,000 - £99,999	1
1	£100,000 - £104,999	1
-	£105,000 - £109,999	1
1	£110,000 - £114,999	3
-	£115,000 - £119,999	-
1	£120,000 - £124,999	1
1	£125,000 - £129,999	-
1	£130,000 - £134,999	-
1	£135,000 - £139,999	1
1	£140,000 - £144,999	-
1	£145,000 - £149,999	-
-	£150,000 - £154,999	-
-	£155,000 - £159,999	1
1	£170,000 - £174,999	-
-	£175,000 - £179,999	1

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

The larger numbers of employees within the bands in 2010/11 are the result of the redundancy programme. This significantly affects the comparability of data between years, see Note 5.

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

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

Post Holder	Year	Salary*	Bonuses	Expenses allowance	Compensation for loss of Office	Benefits in kind	Election duties +	Total Remuneration (exc. Pension contributions)	Pension Contributions (employers)#	Total Remuneration (inc. Pension contributions)
Chief Executive G Beasley	2010/11	170,175	-	-	-	-	5,000	175,175	29,951	205,126
	2009/10	170,175	-	-	-	-	2,000	172,175	27,909	200,084
Executive Director - Strategic Resources	2010/11	121,192	-	-	-	109	2,308	123,609	21,330	144,939
	2009/10	121,192	-	-	-	231	356	121,779	19,875	141,654
Executive Director - Operations from 25 May 2009	2010/11	108,679	-	-	-	596	865	110,140	19,116	129,256
	2009/10	91,567	-	-	-	24	286	91,877	15,017	106,894
Executive Director - Children Services	2010/11	138,308	-	-	-	-	-	138,308	24,342	162,650
	2009/10	138,308	-	-	-	-	-	138,308	22,683	160,991
Director - Commercial Services to 4 March 2011	2010/11	83,851	-	1,136	-	1,405	383	86,775	14,756	101,531
	2009/10	91,463	-	1,170	-	1,354	-	93,987	15,000	108,987
Director of Adult - Social Services	2010/11	110,235	-	-	-	418	-	110,653	19,401	130,054
	2009/10	110,235	-	-	-	223	-	110,458	18,079	128,537
Solicitor to the Council	2010/11	90,323	-	-	-	171	2,250	92,744	15,897	108,641
	2009/10	90,323	-	-	-	-	356	90,679	14,813	105,492

* Salary includes fees and allowances plus basic arrears

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

+ The Election duties column includes payments for the General Election as well as the local elections in 2010/11, hence why payments are higher than the previous year when only European Parliamentary elections took place.

9 Trading Operations

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

Trading Operations 2010/11	Turnover £000	Income £000	Deficit / (Surplus) £000
Industrial Properties	1,094	(1,577)	(483)
Commercial Properties	584	(2,213)	(1,629)
Market Properties	422	(584)	(162)
Total for Properties	2,100	(4,374)	(2,274)
Building Cleaning	880	(894)	(14)
Building Maintenance	2,603	(2,514)	89
Catering	1,315	(1,314)	1
Grounds Maintenance	3,157	(3,170)	(13)
Refuse Collection	3,825	(3,710)	115
Street Cleaning	2,454	(2,842)	(388)
Vehicle Maintenance	948	(944)	4
Other	7,057	(3,432)	3,625
Inter Departmental Adjustment	(18,119)	18,119	-
Total for City Services	4,120	(701)	3,419
Other Traded Services	1,944	(1,588)	356
Sub Total	8,164	(6,663)	1,501
Capital Charges Adjustment	29,129	-	29,129
Total for Trading Units	37,293	(6,663)	30,630
Revaluation gains Investment Props	-	(16,560)	(16,560)
Total	37,293	(23,223)	14,070

Trading Operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part

of one of the Council's services to the public (eg refuse collection), whilst others are support services to the Council's services to the public (eg schools catering). The expenditure of these operations is allocated or recharged to headings in the Cost of Services.

Trading Operations 2009/10	Turnover £000	Income £000	Deficit / (Surplus) £000
Industrial Properties	504	(8,207)	(7,703)
Commercial Properties	502	(1,660)	(1,158)
Market Properties	417	(583)	(166)
Total for Properties	1,423	(10,450)	(9,027)
Building Cleaning	905	(1,046)	(141)
Building Maintenance	5,427	(5,569)	(142)
Catering	1,753	(1,760)	(7)
Grounds Maintenance	3,001	(3,318)	(317)
Refuse Collection	3,105	(3,930)	(825)
Street Cleaning	2,633	(3,340)	(707)
Vehicle Maintenance	1,023	(1,135)	(112)
Other	6004	(3592)	2,412
Inter Departmental Adjustment	(22,350)	22,350	-
Total for City Services	1,501	(1,340)	161
Other Traded Services	1,503	(1,288)	215
Sub Total	4,427	(13,078)	(8,651)
Capital Charges Adjustment	9,052	-	9,052
Total for Trading Units	13,479	(13,078)	401
Revaluation gains Investment Props	-	(235)	(235)
Total	13,479	(13,313)	166

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

10 Comprehensive Income and Expenditure Statement – Other Operating Expenditure

2009/10 £000		2010/11 £000
	Other Operating Expenditure	
310	Parish Council Precepts	364
539	Drainage & Flood Levies	553
401	(Gains) / Losses on Trading Operations - (Note 9)	30,630
7	Payments to the Government Housing Capital Receipts Pool (Note 17)	10
480	(Gains) / Losses on Disposal of Non Current Assets	827
(627)	(Gains) on Right To Buy Receipts (Note 17)	(714)
<u>1,110</u>	Total	<u>31,670</u>

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

2009/10 £000	Financing & Investment Income & Expenditure	2010/11 £000
10,350	Interest Payable & Similar Charges (Note 30)	10,287
7,235	Pension Interest Cost & Expected Return on Pension Assets (Note 7)	6,155
(1,118)	Interest Receivable & Similar Income (Note 30)	(466)
(235)	Changes in Fair Value of Investment Properties (Note 9)	(16,560)
<u>16,232</u>	Total	<u>(584)</u>

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

2009/10 £000	Taxation & Non-Specific Grant Income	2010/11 £000
(58,685)	Council Tax Income	(60,986)
(60,455)	Distribution of national non-domestic rates (NNDR)	(67,249)
(25,393)	Non-Specific Government Grants (Note 13)	(23,761)
(27,282)	Capital Grants & Contributions	(22,792)
<u>(171,815)</u>	Total Income	<u>(174,788)</u>

13 Grant Income

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

2009/10 £000	Taxation & Non Specific Grant Income	2010/11 £000
(13,954)	Revenue Support Grant	(9,765)
(10,387)	Area Based Grant	(13,996)
(203)	Local Authority Business Growth Incentive Grant	-
(849)	Housing Planning Delivery Grant	-
(25,393)	Total General Government Grants	(23,761)
(60,455)	Distribution of national non-domestic rates (NNDR)	(67,249)
(85,848)	Total from Government	(91,010)

14 Related Parties

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

Central Government has effective control 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 (eg housing benefits). Grants received from government departments are set out in the subjective analysis in Note 16 on amounts reported to decision makers. Grant receipts outstanding at 31 March 2011 are shown in Note 34.

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 3. Members have been consulted over potential related parties and there are no material transactions which require disclosure. The Register of Members' Interest is open to public inspection at the Town Hall during office hours and the details of Members Interests are disclosed in the Democracy area by Member on the Council's website.

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

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

Other public bodies which are subject to common control by central government include the pooled budget arrangement with NHS Peterborough for the provision of Adult Social Care (ASC). Transactions and balances are detailed in Note 2.

The Council is sole trustee for the charity Peterborough Museum and Art Gallery. The charity is responsible for the provision and maintenance of a Museum and Art Gallery for the City of Peterborough and neighbourhood: for the preservation and exhibition of specimens of natural history, geology, archaeology, social history and the fine arts and as a centre for promoting artistic and general knowledge, and providing access to collections for the purpose of knowledge, education, research and learning. From 1 May 2010 Peterborough Museum and Art Gallery ceased to be managed by the Council and all operations were transferred to Vivacity Peterborough Culture and Leisure Trust, however the Council remains sole Trustee.

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

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

15 Interest in Companies

Peterborough Urban Regeneration Company

The registered name of the company is Peterborough Urban Regeneration Company Limited, known as Opportunity Peterborough, and the Company has been set up in conjunction with the Homes and Communities Agency (previously known as English Partnerships) and the East of England Development Agency.

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, £250,000 in 2010/11, along with the funding for seconded staff and specific projects (£255,580 in 2009/10) are included within the Council's Cost of Services.

No shares are held by the participating organisations to this company and the Council's appointees have only one of the ten voting rights.

The net assets of the Company at 31 March 2011 are £219,201 (31 March 2010 £470,404), and the Company made a net deficit of £251,203 in 2010/11 (surplus of £1,165 2009/10). As there are no shares in the Company, no dividend is payable to the Council. No balances are owed to or by the Council.

In the event of the Company being wound up, the Council's liability is limited to £1 and the Council has no rights to any share of its assets. The accounts can be obtained from Opportunity Peterborough, Stuart House, Ground Floor, Zone 5, St John's Street, Peterborough PE1 5DD

16 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Cabinet portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisations

are charged to services in the Comprehensive Income and Expenditure Statement)

- the cost of retirement benefits is based on cash flows (payments of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to portfolios

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

Portfolio Income & Expenditure for 2010/11	Chief Executives £000	Children's Services £000	City Services £000	Operations £000	Strategic Resources £000	Adult Social Care £000	2010/11 Total £000
Fees, charges & other service income	(2,100)	(6,034)	(25,669)	(10,420)	(18,107)	(4,651)	(66,981)
Government Grants	(989)	(150,995)	(47)	(8,644)	(75,973)	(2,284)	(238,932)
Total Income	(3,089)	(157,029)	(25,716)	(19,064)	(94,080)	(6,935)	(305,913)
Employee expenses	5,063	141,120	11,949	13,615	11,297	716	183,760
Other service expenses	6,810	54,782	27,367	32,754	115,116	46,801	283,630
Total Expenditure	11,873	195,902	39,316	46,369	126,413	47,517	467,390
Net Expenditure	8,784	38,873	13,600	27,305	32,333	40,582	161,477
Reconciliation of Portfolio Income & Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement							
							Net Expenditure in the Portfolio Analysis
							161,477
							Net Expenditure of Services & Support Services not Included in the Analysis
							-
							Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis
							(15,942)
							Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement
							(54,120)
							Cost of Services in Comprehensive Income and Expenditure Statement
							91,415

<i>Portfolio Income & Expenditure for 2009/10</i>	<i>Chief Executives</i>	<i>Children's Services</i>	<i>City Services</i>	<i>Operations</i>	<i>Strategic Resources</i>	<i>Adult Social Care</i>	<i>2009/10 Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Fees, charges & other service income</i>	(6,787)	(25,156)	(30,268)	(13,625)	(34,650)	(4,873)	(115,359)
<i>Government Grants</i>	(2,254)	(161,953)	(66)	(12,975)	(72,404)	(1,713)	(251,365)
<i>Total Income</i>	(9,041)	(187,109)	(30,334)	(26,600)	(107,054)	(6,586)	(366,724)
<i>Employee expenses</i>	6,648	141,080	13,981	17,981	9,949	685	190,324
<i>Other service expenses</i>	12,051	91,475	32,217	33,859	112,288	45,419	327,309
<i>Total Expenditure</i>	18,699	232,555	46,198	51,840	122,237	46,104	517,633
<i>Net Expenditure</i>	9,658	45,446	15,864	25,240	15,183	39,518	150,909
<i>Reconciliation of Portfolio Income & Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement</i>							
<i>Net Expenditure in the Portfolio Analysis</i>							150,909
<i>Net Expenditure of Services & Support Services not Included in the Analysis</i>							-
<i>Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis</i>							33,605
<i>Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement</i>							(24,550)
<i>Cost of Services in Comprehensive Income and Expenditure Statement</i>							159,964

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 2010/11	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	(66,981)	4,695	29,344	(90,695)	(123,637)	(30,754)	(154,391)
Interest & Investment Income	-	-	-	-	-	(466)	(466)
Income from Council Tax	-	-	-	-	-	(60,986)	(60,986)
Government Grants & Contributions	(238,932)	-	47	-	(238,885)	(113,849)	(352,734)
Total Income	(305,913)	4,695	29,391	(90,695)	(362,522)	(206,055)	(568,577)
Employee Expenses	183,760	(58,870)	(12,401)	-	112,489	18,556	131,045
Other Service Expenses	283,630	(13,379)	(71,110)	-	199,141	49,030	248,171
Support Services Recharges	-	-	-	90,695	90,695	-	90,695
Depreciation, Amortisation & Impairment	-	51,612	-	-	51,612	(16,560)	35,052
Interest Payments	-	-	-	-	-	10,287	10,287
Precepts & Levies	-	-	-	-	-	917	917
Payments to Housing Capital Receipts Pool	-	-	-	-	-	10	10
(Gains) / Loss on Disposal of Fixed Assets	-	-	-	-	-	113	113
Total Expenditure	467,390	(20,637)	(83,511)	90,695	453,937	62,353	516,290
(Surplus) / Deficit on the Provision of Services	161,477	(15,942)	(54,120)	-	91,415	(143,702)	(52,287)

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

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

<i>Reconciliation to Subjective Analysis 2009/10 – Comparative Figures Table</i>	<i>Portfolio Analysis</i>	<i>Amounts not Reported to Mgmt</i>	<i>Amounts not included in CIES</i>	<i>Allocation of Recharges</i>	<i>Cost of Services</i>	<i>Corporate Amounts</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Fees, Charges & Other Service Income</i>	(115,359)	7,359	40,292	47,382	(20,326)	(39,726)	(60,052)
<i>Interest & Investment Income</i>	-	-	-	-	-	(1,118)	(1,118)
<i>Income from Council Tax</i>	-	-	-	-	-	(58,685)	(58,685)
<i>Government Grants & Contributions</i>	(251,365)	-	1,097	-	(250,268)	(113,175)	(363,443)
<i>Total Income</i>	(366,724)	7,359	41,389	47,382	(270,594)	(212,704)	(483,298)
<i>Employee Expenses</i>	190,324	(6,637)	(13,072)	-	170,615	20,317	190,932
<i>Other Service Expenses</i>	308,785	(13,426)	(51,759)	-	243,600	25,982	269,582
<i>Support Services Recharges</i>	18,524	-	(1,108)	(47,382)	(29,966)	1,108	(28,858)
<i>Depreciation, Amortisation & Impairment</i>	-	46,309	-	-	46,309	(235)	46,074
<i>Interest Payments</i>	-	-	-	-	-	10,350	10,350
<i>Precepts & Levies</i>	-	-	-	-	-	849	849
<i>Payments to Housing Capital Receipts Pool</i>	-	-	-	-	-	7	7
<i>(Gains) / Loss on Disposal of Fixed Assets</i>	-	-	-	-	-	(147)	(147)
<i>Total Expenditure</i>	517,633	26,246	(65,939)	(47,382)	430,558	58,231	488,789
<i>(Surplus) / Deficit on the Provision of Services</i>	150,909	33,605	(24,550)	-	159,964	(154,473)	5,491

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

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

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

• Summary of Useable and Unusable Reserves

<i>1 April 2009</i>	<i>Movement</i>	<i>31 March 2010</i>	Summary of Useable and Unusable Reserves	1 April 2010	Movement	31 March 2011
<i>£000</i>	<i>£000</i>	<i>£000</i>		£000	£000	£000
			Usable Reserves			
(6,000)	2,242	(3,758)	General Fund Balance	(3,758)	(2,242)	(6,000)
(5,578)	464	(5,114)	School Balances	(5,114)	(1,635)	(6,749)
(11,410)	(5,668)	(17,078)	Specific Earmarked Reserves (Note 18)	(17,078)	40	(17,038)
-	-	-	Capital Receipts Reserve	-	-	-
(2,520)	(2,777)	(5,297)	Capital Grants Unapplied Account	(5,297)	333	(4,964)
(25,508)	(5,739)	(31,247)	Total Usable Reserves	(31,247)	(3,504)	(34,751)
			Unusable Reserves			
(44,731)	(13,906)	(58,637)	Revaluation Reserve	(58,637)	(41,517)	(100,154)
(190,561)	14,491	(176,070)	Capital Adjustment Account	(176,070)	(1,194)	(177,264)
(55)	6	(49)	Deferred Capital Receipts	(49)	(2,922)	(2,971)
(799)	-	(799)	Donated Assets Account	(799)	(1,749)	(2,548)
1,855	(475)	1,380	Financial Instruments Adjustment Account	1,380	(876)	504
92,007	138,752	230,759	Pension Fund Reserve	230,759	(85,410)	145,349
(1,188)	543	(645)	Collection Fund Adjustment Account	(645)	1,008	363
4,068	(717)	3,351	Accumulating Compensated Absences Adjustment Account	3,351	1,168	4,519
(139,404)	138,694	(710)	Total Unusable Reserves	(710)	(131,492)	(132,202)
(164,912)	132,955	(31,957)	Total Usable and Unusable Reserves	(31,957)	(134,996)	(166,953)

- **Capital Receipts Reserve**

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

		Usable Reserves				
2009/10	Capital Receipts Reserve:	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Movement in Unusable Reserves	Total Reserve 2010/11
	£000	£000	£000	£000	£000	£000
	- Balance Brought Forward					-
(498)	Transfer of Sale Proceeds Credited as part of the (Gains) / Losses on Disposals to the Comprehensive Income and Expenditure Statement	3,253	(3,253)			(3,253)
(627)	Use of Right To Buy Receipts to Finance New Capital Expenditure	714	(714)			(714)
(33)	Use of Other Capital Receipts to Finance New Capital Expenditure		(16)		10	(6)
1,151	Use of the Capital Receipts Reserve to Finance New Capital Expenditure		3,973		(3,973)	3,973
7	Contribution from the Capital Receipts Reserve to Finance the Payments to the Government Capital Receipts Pool	(10)	10			-
	- Balance Carried Forward	3,957	-	-	(3,963)	-

- **Capital Grants Unapplied Account**

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

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

		Usable Reserves				
2009/10	Capital Grants Unapplied Account:	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Movement in Unusable Reserves	Total Reserve 2010/11
	£000	£000	£000	£000	£000	£000
(2,520)	Balance Brought Forward					(5,297)
(3,539)	Reversal of Unapplied Capital Grant & Contributions Credited to the Comprehensive Income and Expenditure Statement	452		(452)		(452)
762	Application of Grants to Capital Financing			785	(785)	785
	(5,297) Balance Carried Forward	452	-	333	(785)	(4,964)

- **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.

		Usable Reserves				
		General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Movement in Unusable Reserves	Total Reserve 2010/11
		£000	£000	£000	£000	£000
2009/10	Revaluation Reserve:					
	£000					
(44,731)	Balance Brought Forward					(58,637)
(26,271)	Upward revaluation of assets				(84,434)	(84,434)
-	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				3,783	3,783
11,512	Surplus or deficit on revaluation of non-current assets posted to the Comprehensive Income and Expenditure Statement				32,878	32,878
677	Difference between fair value depreciation and historical cost depreciation				1,420	1,420
176	Release of revaluation gains on disposals				4,836	4,836
-	Amount written off the Capital Adjustment Account					-
(58,637)	Balance Carried Forward	-	-	-	(41,517)	(100,154)

- **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.

		Usable Reserves				
2009/10	Capital Adjustment Account	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Movement in Unusable Reserves	Total Reserve 2010/11
		£000	£000	£000	£000	£000
	£000					
(190,561)	Balance Brought Forward					(176,071)
35,969	Charges for Depreciation & Impairment of Non Current Assets	(45,196)			45,196	45,196
-	- Movement in the Market Value of Investments	16,560			(16,560)	(16,560)
1,203	Amortisation of Intangible Assets	(1,094)			1,094	1,094
(28,947)	Capital Grants & Contributions that have been applied to Capital Financing	31,670			(31,670)	(31,670)
13,989	Revenue Expenditure Funded from Capital under Statute	(14,653)			14,653	14,653
978	Amounts of Non Current Assets written off on disposal or sale as part of the (Gains) / Losses on Disposal in the Comprehensive Income and Expenditure Statement	(7,015)			7,015	7,015
772	Capitalisation Direction	(502)			502	502
(8,015)	Statutory Provision for the Financing of Capital Investment (MRP)	8,753			(8,753)	(8,753)
(4,276)	Application of Grants to Capital Financing from the Capital Grants Unapplied Account			785	(785)	(785)
(54)	Revaluation Losses - write down to Revaluation Reserve					-
(623)	Depreciation & Impairment write down to Revaluation Reserve					(3,081)
(176)	Transfer of revaluation reserve on disposal					(4,837)
(1,151)	Capital Receipts transferred from Useable Capital receipts		3,973		(3,973)	(3,973)
27	Repayment of loan				6	6
5,567	Write Off Rented Premises					-
(772)	Write Off Rented Premises - Revaluation Reserve Balances					-
(176,070)	Balance Carried Forward	(11,476)	3,973	785	6,713	(177,264)

- **Deferred Capital Receipts Reserve**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these

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

		Usable Reserves				Total Reserve 2010/11 £000
2009/10	Deferred Capital Receipts Reserve:	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Movement in Unusable Reserves £000	
£000	(55) Balance Brought Forward					(49)
-	Transfer of Deferred Sale Proceeds Credited as part of the (Gains) / Losses on Disposals to the Comprehensive Income and Expenditure Statement	2,933			(2,932)	(2,932)
6	Transfer to the Capital Receipts Reserve upon receipt of cash		(10)		10	10
(49)	Balance Carried Forward	2,933	(10)	-	(2,922)	(2,971)

- **Donated Assets Account**

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

		Usable Reserves				Total Reserve 2010/11 £000
2009/10	Donated Assets Account:	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Movement in Unusable Reserves £000	
£000	(799) Balance Brought Forward					(799)
-	Upward Revaluation of assets				(1,804)	(1,804)
-	Impairment of assets - Change in market value (including 09/10 adjustment)					-
-	Adjustment between historic cost and current value depreciation (including 09/10 adjustment)				55	55
(799)	Balance Carried Forward	-	-	-	(1,749)	(2,548)

- **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.

		Usable Reserves				Total Reserve
		General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Movement in Unusable Reserves	2010/11
		£000	£000	£000	£000	£000
2009/10	Financial Instruments Adjustment Account:					
	£000					
	1,855 Balance Brought Forward					1,380
	Amount by which Finance Costs charged to the Comprehensive Income and Expenditure Statement are different from the Finance Costs chargeable in the Year in Accordance with Statutory Requirements in relation to:					
	(7) Interest Paid on Short Term Loans	7			(7)	(7)
	(468) Icelandic Banks	869			(869)	(869)
	1,380 Balance Carried Forward	876	-	-	(876)	504

Movement in FIAA for Iceland	Heritable Bank	Kaupthing Singer & Friedlander Ltd	Total
	£000	£000	£000
Impairment 2008/09	326	1,190	1,516
Impairment Adjustment 2009/10	(61)	(310)	(371)
Total Impairment to Date	795	880	1,145
Interest Accrued 2008/09	(61)	(117)	(178)
Interest Accrued 2009/10	(40)	(58)	(98)
Total Interest Posted to FIAA	(101)	(175)	(276)
Icelandic Impairment to General Fund in 2010/11	694	705	869
Impairment Adjustment 2010/11 posted directly to General Fund	-	(325)	(325)
Use of Reserve in 2010/11			544

- **Pensions Reserve**

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

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

		Usable Reserves				Total Reserve
		General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Movement in Unusable Reserves	2010/11
		£000	£000	£000	£000	£000
2009/10	Pension Reserve					
	<i>£000</i>					
	92,007 Balance Brought Forward					230,759
	137,427 Actuarial gains or losses on pensions assets and liabilities	31,527			(31,527)	(31,527)
	Reversal of Items Relating to Post Employment Benefits Debited or Credited to the (Surplus) /					
	15,655 Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement (Note 7)	39,321			(39,321)	(39,321)
	(14,330) Employer's Pensions Contributions & Direct Payments to Pensioners Payable in Year	14,562			(14,562)	(14,562)
	230,759 Balance Carried Forward	85,410	-	-	(85,410)	145,349

- **Collection Fund Adjustment Account**

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

with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. For further details on the Collection Fund, see page 67

		Usable Reserves				Total Reserve 2010/11 £000
		General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Movement in Unusable Reserves £000	
2009/10	Collection Fund Adjustment Account					
	£000					
	(1,188) Balance Brought Forward					(645)
	543 Amount by which Council Tax income Credited to the Comprehensive Income and Expenditure Statement is Different from Council Tax Income Calculated for the Year in Accordance with Statutory Requirements	(1,008)			1,008	1,008
	(645) Balance Carried Forward	(1,008)	-	-	1,008	363

- **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.

		Usable Reserves				Total Reserve 2010/11 £000
		General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Movement in Unusable Reserves £000	
2009/10	Accumulating Compensated Absences Adjustment Account (Note 35)					
	£000					
	4,068 Balance Brought Forward					3,351
	(717) Amount by which Officer remunerations charged to the Comprehensive Income and Expenditure Statement on an Accruals Basis is Different from the Remuneration chargeable in the Year in Accordance with Statutory Requirements	(1,168)			1,168	1,168
	3,351 Balance Carried Forward	(1,168)	-	-	1,168	4,519

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

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

1 April 2009	General Fund Earmarked Reserves	1 April 2010	Transfers Out	Transfers In	Movement between Reserves	31 March 2011	Purpose of the Earmarked Reserve
£000		£000	£000	£000	£000	£000	
5,578	Schools Balances	5,114	(749)	2,384	-	6,749	Balances held by schools under a scheme of delegation. Balances are available for each school in future years.
38	Local Government Reorganisation	-	-	-	-	-	To meet future repayments due in respect of Local Government Reorganisation.
3,751	Departmental Reserves	3,466	(2,437)	2,302	6	3,337	These will have been identified by the Cabinet or the Corporate Management Team and are incorporated within the Medium Term Financial Strategy for Departmental use.
-	Commercial Property Portfolio	6,000	(1,217)	-	(1,442)	3,341	To meet the future costs associated with the Council's property portfolio to mitigate the effects of the recession, and impact of void and vacant properties.
4,541	Insurance	2,408	-	599	-	3,007	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.
2,080	Schools Capital	1,306	(722)	-	-	584	School revenue reserves put aside for funding future school capital schemes.
-	Grant Certification	250	-	-	-	250	Possible repayment of grant allocations which are subject to audit certification.
-	Icelandic Bank Investment	838	(545)	-	(293)	-	The cost associated with the Icelandic Banks and the resultant impairment to the sums invested. (See Note 17 for further detail)
1,000	Available for Capacity Building	2,810	(3,683)	5,288	1,729	6,144	The balance of the sums set aside which can be utilised to fund one-off type expenditure which will improve the longer term financial position of the council.
-	Salix Carbon Reduction	-	-	375	-	375	To fund specific carbon reduction projects
16,988	Total Reserves	22,192	(9,353)	10,948	-	23,787	

19 Property, Plant and Equipment

Property, Plant & Equipment (PPE) – 2010/11	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Assets under Construction	Total PPE
Cost or Valuation	£000	£000	£000	£000	£000	£000
At 1 April 2010	259,139	40,021	145,646	5,361	17,774	467,941
Additions	13,711	5,221	16,950	41	7,089	43,012
Revaluation increase / (decreases) recognised in the Revaluation Reserve	32,514	-	-	238	-	32,752
Revaluation increase / (decreases) recognised in the (Surplus) / Deficit on Provision of Services	9,147	-	-	53	-	9,200
Derecognition - Disposals	(272)	(1,633)	-	-	-	(1,905)
Assets reclassified (to) / from Held for Sale	(1,625)	-	-	(4)	-	(1,629)
Assets Under Construction Completed In Year	7,202	2,256	1,793	447	(13,160)	(1,462)
At 31 March 2011	319,816	45,865	164,389	6,136	11,703	547,909
Accumulated Depreciation & Impairment						
At 1 April 2010	(14,433)	(21,682)	(41,166)	(10)	-	(77,291)
Depreciation Charge	(7,111)	(5,368)	(6,875)	(3)	-	(19,357)
Depreciation written out to the Revaluation Reserve	8,042	-	-	8	-	8,050
Depreciation written out to the (Surplus) / Deficit on Provision of Services	8,197	932	-	-	-	9,129
Impairment losses / (reversals) recognised in the Revaluation Reserve	(8,576)	(29)	-	(30)	-	(8,635)
Impairment losses / (reversals) recognised in the (Surplus) / Deficit on Provision of Services	(21,112)	(1,958)	-	(554)	-	(23,624)
Derecognition - Disposals	1	1,238	-	-	-	1,239
Elimination on reclassification to Assets Held for Sale	-	-	-	-	-	-
At 31 March 2011	(34,992)	(26,867)	(48,041)	(589)	-	(110,489)
Net Book Value - At 31 March 2011	284,824	18,998	116,348	5,547	11,703	437,420
<i>Net Book Value - At 31 March 2010</i>	<i>244,708</i>	<i>18,338</i>	<i>104,479</i>	<i>5,350</i>	<i>17,775</i>	<i>390,650</i>

Comparative Movements in 2009/10

<i>Property, Plant & Equipment (PPE) – 2009/10</i>	<i>Other Land & Buildings</i>	<i>Vehicles, Plant & Equipment</i>	<i>Infra-structure Assets</i>	<i>Community Assets</i>	<i>Assets under Construction</i>	<i>Total PPE</i>
<i>Cost or Valuation</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>At 1 April 2009</i>	253,509	42,973	131,394	2,844	9,454	440,174
<i>Additions</i>	8,563	4,075	13,457	416	12,033	38,544
<i>Revaluation increase / (decreases) recognised in the Revaluation Reserve</i>	15,067	142	-	3,284	-	18,493
<i>Revaluation increase / (decreases) recognised in the (Surplus) / Deficit on Provision of Services</i>	2,669	-	-	-	-	2,669
<i>Derecognition - Disposals</i>	(317)	(4,704)	-	-	-	(5,021)
<i>Derecognition - Other</i>	-	-	-	-	-	-
<i>Assets reclassified (to) / from Held for Sale</i>	-	-	-	2,810	-	2,810
<i>Assets Under Construction Completed In Year</i>	632	50	794	-	(3,712)	(2,236)
<i>At 31 March 2010</i>	<u>280,123</u>	<u>42,536</u>	<u>145,645</u>	<u>9,354</u>	<u>17,775</u>	<u>495,433</u>
<i>Accumulated Depreciation & Impairment</i>						
<i>At 1 April 2009</i>	(11,996)	(21,392)	(34,629)	(8)	-	(68,025)
<i>Depreciation Charge</i>	(10,818)	(7,356)	(6,537)	-	-	(24,711)
<i>Depreciation written out to the Revaluation Reserve</i>	-	-	-	-	-	-
<i>Depreciation written out to the (Surplus) / Deficit on Provision of Services</i>	4,210	-	-	-	-	4,210
<i>Impairment losses / (reversals) recognised in the Revaluation Reserve</i>	(10,010)	-	-	-	-	(10,010)
<i>Impairment losses / (reversals) recognised in the (Surplus) / Deficit on Provision of Services</i>	(6,805)	(154)	-	(3,993)	-	(10,952)
<i>Derecognition - Disposals</i>	4	4,704	-	-	-	4,708
<i>Other movements in Depreciation & Impairment</i>	-	-	-	(3)	-	(3)
<i>At 31 March 2010</i>	<u>(35,415)</u>	<u>(24,198)</u>	<u>(41,166)</u>	<u>(4,004)</u>	<u>-</u>	<u>(104,783)</u>
<i>Net Book Value - At 31 March 2010</i>	<u>244,708</u>	<u>18,338</u>	<u>104,479</u>	<u>5,350</u>	<u>17,775</u>	<u>390,650</u>
<i>Net Book Value - At 31 March 2009</i>	<u>241,389</u>	<u>21,581</u>	<u>96,765</u>	<u>2,836</u>	<u>9,454</u>	<u>372,025</u>

151

20 Investment Properties

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

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

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

2009/10 £000		2010/11 £000
50,221	Balance at start of year	45,945
	Additions:	
8,407	Purchases	-
45	Subsequent Expenditure	192
-	Disposals	(955)
3,451	Revaluations	16,560
(12,016)	Impairments	(21,730)
(4,153)	Assets Written Out	-
<u>45,955</u>	Balance at end of the Year	<u>40,012</u>

21 Intangible Assets

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

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

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

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

31 March 2010 £000	Intangible Assets	Remaining Amortisation Period Years	31 March 2011 £000
752	EDRM Software	2	550
812	Integrated Case Management System	2.5	530
<u>1,564</u>	Total		<u>1,080</u>

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

<i>Internally Generated Asset</i> £000	<i>Software & Other Assets</i> £000	<i>2009/10 Total</i> £000	Intangible Assets	<i>Internally Generated Asset</i> £000	<i>Software & Other Assets</i> £000	<i>2010/11 Total</i> £000
91	4,105	4,196	Balance at 1 April:	147	5,244	5,391
(13)	(2,164)	(2,177)	Gross Carrying Amounts	(57)	(3,097)	(3,154)
78	1,941	2,019	Accumulated Amortisation	90	2,147	2,237
			Net Carrying Amount at Start of the Year			
			Additions			
56	-	56	Internal Development	-	-	-
-	1,302	1,302	Purchases	-	1,393	1,393
-	83	83	Assets Under Construction Completed in Year	-	20	20
-	(19)	(19)	Impairment Losses Recognised in the (Surplus) / Deficit on the Provision of Services	(5)	(13)	(18)
(44)	(1,160)	(1,204)	Amortisation for the period	(30)	(1,064)	(1,094)
90	2,147	2,237	Net Carrying Amount at the End of Year	55	2,483	2,538
147	5,244	5,391	Gross Carrying Amounts	142	6,644	6,786
(57)	(3,097)	(3,154)	Accumulated Amortisation	(87)	(4,161)	(4,248)
90	2,147	2,237	Net Carrying Amount at the End of Year	55	2,483	2,538

22 Assets Held for Sale

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

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

2009/10			2010/11	
Non Current Asset £000	Current Asset £000	Assets Held for Sale	Non Current Asset £000	Current Asset £000
7,104	1,045	Balance at 1 April:	4,862	7,780
362	2,242	Property, Plant and Equipment Newly Classified as Held for Sale	-	1,629
-	(75)	Revaluation Losses	-	-
100	5,150	Revaluation Gains	19,930	2,224
(8)	(210)	Impairment Losses	(543)	(1,369)
(2,807)	-	Property, Plant and Equipment Declassified as Held for Sale	-	(7)
-	(398)	Assets Sold	(228)	(5,003)
117	-	Transfers from Non Current to Current	(148)	148
-	-	Other movements:	-	-
(14)	-	Depreciation Charged In Year	(21)	-
8	-	Additions	19	122
-	26	Completed AUC in year	511	622
4,862	7,780	Balance Outstanding	24,382	6,146

23 Capital Commitments

As at 31 March 2011 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2010/11 and future years budgeted to cost £30.0m as approved within the MTFS. Similar commitments at 31 March 2010 were £5.9m. The major commitments are:

Description of Contract / Capital Scheme	Value of contract	Value outstanding at 31/3/11
	£000	£000
Roads and Bridges	6,300	1,012
Peterborough Museum	120	96
School Works	10,628	5,806
Building of Ormiston Bushfield Academy	20,667	17,958
Affordable Housing Grants	4,403	4,403
Sports Centre & Swimming Pools	718	656
Werrington Car Park	257	113
Total	43,093	30,044

24 Effects of Changes in Estimates

The Code places greater emphasis on accounting for component parts of individual assets. For assets that have been revalued during 2010/11, where the asset value is material, components have been separately identified and depreciation charged accordingly.

The change in methodology has resulted in a depreciation charge of £514k lower than would have been calculated under the previous methodology. The impact of this change will carry forward into future years and apply to a greater number of

assets as the Council's assets are revalued as part of the rolling revaluation programme.

25 Revaluations

The Council has a rolling programme that ensures that all Property, Plant and Equipment is required to be measured at fair value is revalued at least every four years. The valuations in 2010/11 were carried out by Wilks Head & Eve and totalled £42m. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for condition of the asset.

The significant assumptions applied in estimating the fair values are:

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

is the least cost of purchasing the remaining service potential of the asset at the date of valuation

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Surplus Assets £000	Total £000
Valued at fair value as at:				
31 March 2011	22,146	(73)	19,443	41,516
31 March 2010	12,871	116	919	13,906
31 March 2009	6,417	-	595	7,012
31 March 2008	37,420	-	299	37,719
Total Cost or Valuation	78,854	43	21,256	100,153

26 Impairment Losses

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

During 2010/11 the Council has recognised an impairment loss of £6.0m for Ken Stimson School. This is due to a timing issue relating to the difference between the carrying value of the asset and the PFI Asset value in reference to the Unitary Charge. The recoverable amount of the asset has been revalued on the Depreciated Replacement Cost (DRC) methodology, with the resultant impairment loss charged to the Education & Children's Services line in the Comprehensive Income and Expenditure Statement. The Council's valuers Wilks Head & Eve (WHE) have used DRC where fair value cannot be determined from market evidence.

For both the Bretton Crematorium and the Oxney Road Traveller's Site the useful economic life's of these assets have been revised. The Council has recognised an impairment loss of £1.2m and £1.1m respectively to adjust the depreciation charge not charged in previous years, due to the use of longer life estimations. The impairment losses have been charged to the Cultural, Environmental, Regulatory & Planning service line in the Comprehensive Income and Expenditure Statement.

A secure Children's Home facility was enhanced in 2010/11. Whilst capital expenditure of £6.7m has been spent on improving the facilities at the Home it has not significantly increased the value of the building under the current valuation methodology. The Council has recognised an impairment loss of £5.1m, which has been charged to the Education & Children's Services line in the Comprehensive Income and Expenditure Statement.

During 2010/11 the Corn Exchange Building was demolished to make way for the Public Realm works. As a result of this regeneration project the Council has recognised an impairment loss of £3.5m, and changed the asset classification from Investment Property to Open Space therefore requiring different valuation methodologies to be applied. The impairment loss has been charged to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

27 Capital Expenditure and Capital Financing

2009/10 £000		2010/11 £000
196,339	Opening Capital Financing Requirement	216,046
	Capital Investment	
26,900	Property, Plant and Equipment	35,924
12,033	Assets Under Construction	7,089
8,452	Investment Properties	192
-	Assets Held for Sale	141
1,358	Intangible Assets	1,393
12,571	Revenue Expenditure Funded from Capital under	14,502
772	Capitalisation Direction	502
10	Loans to Third Parties	-
	Sources of Finance	
(1,151)	Capital Receipts	(3,973)
(33,223)	Capital Grants & Contributions	(32,456)
(8,015)	Sums set aside from revenue (inc.direct revenue financing and (MRP)	(8,753)
216,046	Closing Capital Financing Requirement	230,607
	Explanation of movements in year	
	Increase in underlying need to borrow:	
7,696	Supported borrowing	6,192
19,764	Unsupported / Prudential borrowing	17,035
262	Assets acquired under finance leases	87
	Decrease in underlying need to borrow:	
(8,015)	MRP	(8,753)
-	Capital receipts set aside to repay debt	-
19,707	Increase in Capital Financing Requirement	14,561

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

financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2009/10 £000	Body of Grant Funding Applied	2010/11 £000
130	Big Lottery Fund	233
8,191	Department for Communities & Local Government	5,048
378	Department for the Environment, Farming and Rural Affairs	72
7,065	Department for Transport	6,273
13,529	Department of Education	14,582
179	Department of Health	219
497	East of England Development Agency	613
288	English Partnerships (Padholme Drain Scheme)	145
-	Homes and Communities Agency	175
-	Partnership for Schools	3,128
-	The Home Office	17
329	Government Offices (East of England)	500
780	Various	-
31,366	Total Grants Applied	31,005
817	Section 106 Contributions	923
1,040	Third Party Contributions	528
1,857	Total Contributions applied	1,451
33,223	Total Grants & Contributions applied	32,456

2009/10 £000	Reconciliation of Grant Funding Applied to Capital Financing	2010/11 £000
27,282	Grants Received in 2010/11	22,792
8,728	Grants used to Fund Revenue Expenditure Funded from Capital under Statute	9,331
(3,539)	Grants Received in 2010/11 not applied in year	(452)
762	Grants applied from Capital Grants Unapplied Account	785
33,233	Total Grants & Contributions applied	32,456

28 Private Finance Initiatives (PFI) and Similar Contracts

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

Two of the schools have Foundation status, and in line with the Audit Commission guidance, are not recognised on the Council's Balance Sheet, see Note 47 for additional information.

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 2011

(excluding any estimation of inflation and availability / performance deductions) are as follows:

Repayment of:	Finance Lease Liability	Interest	Service Charges	Total
	£000	£000	£000	£000
Payable:				
In 2011/12	1,442	3,186	3,102	7,730
Within two to five years	5,821	11,680	14,188	31,689
Within six to ten years	5,234	11,199	25,055	41,488
Within 11 to 15 years	5,486	8,684	29,661	43,831
Within 16 to 20 years	9,011	7,662	29,805	46,478
Within 21 to 25 years	11,312	3,678	34,486	49,476
Within 26 to 30 years	3,079	(456)	11,818	14,441
Total	41,385	45,633	148,115	235,133

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 2010 £000		31 March 2011 £000
(44,124)	Balance brought forward	(42,784)
1,340	Lease liability redemption in the year	1,399
(42,784)	Value of Total Liability carried forward	(41,385)
(1,399)	Short Term Liability	(1,442)
(41,385)	Long Term Liability	(39,943)
(42,784)	Value of Total Liability carried forward	(41,385)

29 Council as Lessee - Finance Leases

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

31 March 2010		31 March 2011	
£000	Council as Lessee - Finance Leases	£000	
2,416	Other Land & Buildings	2,946	
3,056	Vehicles, Plant Furniture & Equipment	2,208	
5,472	Total	5,154	

Two land leases, held on 999 year leases, are at peppercorn rent, whilst the two industrial site units are carried on the Council's Balance Sheet as Investment Property at the net book values shown above.

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

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

31 March 2010		31 March 2011	
£000	Finance Lease Liabilities (net present value of minimum lease payments)	£000	
1,074	Current	1,102	
4,628	Non-current	3,596	
22,546	Finance costs payable in future years*	21,734	
28,248	Minimum lease payments	26,432	

* Leases range from five to ninety five years outstanding

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

31 March 2010			31 March 2011	
Min. Lease Payment	Finance Lease Liabilities	Minimum lease payments	Min. Lease Payment	Finance Lease Liabilities
£000	£000		£000	£000
1,893	1,074	Not later than one year	1,757	1,102
3,850	2,106	Later than one year & not later than five years	2,457	1,074
22,505	2,522	Later than five years *	22,218	2,522
28,248	5,702	Total	26,432	4,698

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 2011 the minimum payments expected to be received under these sub-leases was £277k (£254k in 2009/10). The majority of the vehicles held under finance leases were used within City Services. When this department was transferred to Enterprise Peterborough the leases were retained and the vehicles sub-leased to Enterprise Peterborough. In order to achieve Best Value from the charges made by Enterprise Peterborough to the Council these sub-leases are at zero cost, offset by a reduction in the overall contract sum paid.

Council as Lessee - Operating Leases

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

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

31 March 2010		31 March 2011	
£000	Council as Lessee - Operating Leases	£000	
824	Not later than one year	645	
2,714	Later than one year & not later than five years	2,568	
1,297	Later than five years	812	
4,835	Total	4,025	

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

31 March 2010		31 March 2011	
£000	Council as Lessee - Operating Leases	£000	
875	Minimum lease payments	851	
-	Contingent rents	-	
(17)	Sublease payment receivable	(17)	
858	Total	834	

Council as Lessor - Finance Leases

The Council has leased land on long term leases, these include playing fields and Nene Park. The leases are at peppercorn or minimal value rents only.

Council as Lessor – Operating Leases

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

- For the provision of community services, such as sports facilities and community centres
- For economic development purposes to provide suitable affordable accommodation for local businesses

- To generate an income from property owned as investment property

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

31 March 2010		31 March 2011	
£000	Council as Lessor - Operating Leases	£000	
2,850	Not later than one year	2,655	
10,036	Later than one year & not later than five years	8,575	
29,155	Later than five years*	28,214	
42,041	Total	39,444	

* Leases range from five to one hundred and fifteen years outstanding

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

30 Financial Instruments

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

2009/10		2010/11	
£000	Financial Assets	£000	
747	Interest income	141	
371	Impairment Adjustment	325	
1,118	Total for Financial Assets	466	
	Financial Liabilities		
(3,265)	Interest payable relating to PFI	(3,338)	
(7,085)	Interest payable on borrowings	(6,949)	
(10,350)	Total for Financial Liabilities	(10,287)	
(9,232)	Net gain / (loss) for the year	(9,821)	

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

31 March 2009		31 March 2010		Financial Instruments Balances	31 March 2011	
Long Term	Current	Long Term	Current		Long Term	Current
£000	£000	£000	£000		£000	£000
7,205	26,790	758	2,632	Investments - Loans & Receivables	457	449
299	23,312	280	25,242	Debtors - Loans & Receivables	2,334	24,842
(117,006)	(19,278)	(117,006)	(19,272)	Borrowings - Financial Liabilities at Amortised Cost	(115,387)	(20,883)
(48,482)		(46,183)		Other Long Term Liabilities - PFI & Finance Lease Liabilities	(43,688)	
	(9,534)		(9,664)	Creditors- Financial Liabilities at Amortised Cost		(8,385)

31 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 2011 have been used for loans from the PWLB

- the prevailing rate of a similar instrument with a published market rate has been used as the discount factor for other loans receivable and payable
- no early repayment is recognised
- the Fair Value of trade debtors is taken to be the invoiced or billed amount

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

31 March 2009		31 March 2010		Fair Value of Assets and Liabilities Carried at Amortised Cost	31 March 2011	
Carrying Amount	Fair Value	Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000	£000	£000		£000	£000
(145,818)	(147,603)	(145,942)	(145,093)	Financial Liabilities	(144,655)	(133,197)
(48,482)	(48,482)	(46,183)	(46,183)	Long Term Creditors	(43,688)	(43,688)
57,307	57,545	28,632	28,639	Loans & Receivables	25,748	25,746
299	299	280	280	Long Term Debtors	2,334	2,334

The Fair Value of the liabilities in 2010/11 is lower than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest payable is lower than the rates available for similar loans at the Balance Sheet date.

The Fair Value of the assets in 2010/11 is lower than the carrying amount because the Council's portfolio of investments includes a number of fixed rate investments where the interest rate receivable is lower than the rates available for similar investments at the Balance Sheet date,

32 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit risk

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

The risk is minimised through the Annual Investment Strategy, which requires that investments are not made with financial institutions unless they meet minimum credit criteria. This Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

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

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

Whilst the Council was able to invest as per the above criteria, it actually minimised the risk further by only investing with the Debt Management Office, its banking provider and other Local Authorities.

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

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

Deposits with UK banks & building societies (excluding Icelandic Banks)		£000
Amount as at 31 March 2011		18,272
Historical Experience of Default %		-
Historical Experience Adjusted for Market Conditions as at 31 March 2011		-
Estimated Maximum Exposure to Default & Uncollectability Total		-
Estimated Maximum Exposure at 31 March 2011		-

Bank	Heritable Bank	Kaupthing Singer & Friedlander Ltd	Total
	£000	£000	£000
Date Invested	02/04/07	03/04/07	
Interest Rate	6.07%	5.90%	
Principal Amount Invested	1,000	2,000	3,000
Interest Accrued 2008/09	61	117	178
Carrying Amount	1,061	2,117	3,178
Impairment 2008/09	(326)	(1,190)	(1,516)
Impairment 2009/10	61	310	371
Impairment 2010/11	-	325	325
Total Impairment to Date	(265)	(555)	(820)
Recoverable Amount	796	1,562	2,358
Principal Default	1.83%	3.66%	

Prior to 2008/09 and the experience in relation to the investments in Icelandic Banks, the Council had no experience of default.

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

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

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

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

<i>2008/09</i>	<i>2009/10</i>		2010/11
<i>£000</i>	<i>£000</i>	Age of Trade Debt	£000
5,349	12,200	Less than three months	5,732
1,133	929	Three to six months	443
140	311	Six months to one year	550
857	1,752	More than one year	2,482
7,479	15,192	Total	9,207

Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board (PWL) and the money market generally,

there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

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

The maturity analysis of financial liabilities is as follows:

2008/09 £000	2009/10 £000	Maturity analysis of financial liabilities	2010/11 £000
(28,849)	(28,936)	Less than one year	(29,268)
(2,444)	(4,171)	Between one and two years	(2,247)
(9,476)	(6,842)	Between two and five years	(5,888)
(153,531)	(152,176)	More than five years	(150,940)
(194,300)	(192,125)	Total	(188,343)

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

Market risk

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and

investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

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

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

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

- the borrowing preference is to negotiate fixed rate terms at acceptable rates for budget certainty
- depending upon economic conditions the Council may maintain variable rate short or long term borrowings to offset the risk of diminishing receipts from its investment portfolio or at times when current fixed interest rate levels are deemed to be too high

- variable interest rate borrowings should not exceed 25% of total gross borrowing
- during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans may be repaid early to exploit market conditions and further reduce the interest payable burden
- the risk of increasing interest outlay is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provides compensation for a proportion of any higher costs

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

According to this assessment strategy, at 31 March 2011, 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 £17.3m but this would have no impact on the (Surplus) / Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

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

Price Risk

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

Foreign Exchange Risk

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

33 Inventories

<i>1 April 2009</i>	<i>31 March 2010</i>	Inventories	31 March 2011
<i>£000</i>	<i>£000</i>		£000
204	431	City Services Stores	187
351	124	Other Stock Balances	297
555	555	Total	484

Landfill Allowance Trading Scheme

Costs in relation to the Landfill Allowance Trading Scheme are reflected within the Cultural, Environmental and Planning service line in the Comprehensive Income and Expenditure Statement. The Council received allowances for 30,335 tonnes (34,135 in 2009/10), and used 30,000 tonnes during the year (30,367 in 2009/10). The balance of stock was not deemed to have a value as at 31 March 2011 (also nil value in 2009/10).

34 Debtors

1 April 2009	31 March 2010	Debtors (Each item is net of impairment)	31 March 2011
£000	£000		£000
9,259	9,118	Central Government Departments	13,546
-	8,049	NNDR reimbursement from pool	7,709
611	572	Cambridgeshire County Council	502
182	46	National Heritage (Lottery)	178
4,685	2,936	Cross Keys Homes	2,004
344	25	Council House Tenants	18
3,215	4,205	Council Tax Arrears	4,738
1,922	1,876	Payments in Advance	2,466
15,003	23,169	General Debtors	17,433
35,221	49,996		48,594
		Outstanding Balances on Loans	
14	37	Loans to Employees (Car Purchase)	42
35,235	50,033	Total Debtors	48,636

conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

1 April 2009	31 March 2010	Capital Grants Receipts in Advance	31 March 2011
£000	£000		£000
-	-	Department for Communities & Local Government	(4)
-	-	Department for the Environment, Farming & Rural Affairs	(18)
(4,199)	(9,226)	Department of Education	(14,589)
-	(9)	East of England Development	(9)
(580)	(365)	Homes and Communities Agency	(219)
-	-	Other third party contributions	(126)
-	-	Partnership for Schools	(2,762)
(6,743)	(7,176)	Section 106 Contributions	(7,882)
(11,522)	(16,776)	Total	(25,609)

35 Creditors

1 April 2009	31 March 2010	Creditors	31 March 2011
£000	£000		£000
(1,511)	(415)	Central Government Departments	(415)
(5,594)	-	Peterborough Primary Care Trust	-
(753)	(335)	Council Tax Overpaid	(460)
(708)	(666)	NNDR Overpaid	(1,104)
(1,727)	(851)	Capital Schemes	-
(13,768)	(13,271)	Deposits / Receipts in Advance	(7,198)
(34,778)	(32,261)	General Creditors	(43,824)
(58,839)	(47,799)	Total Creditors	(53,001)

The Council has received a number of grants and contributions that have yet to be recognised as income as they have

36 Provisions

1 April 2009	Provision Description	1 April 2010	Additional Provision	Amounts Used or Reversed	31 March 2011
£000		£000	£000	£000	£000
	Long Term Provisions				
(68)	<u>Social Care Repayment</u> - Following a House of Lords Judgement, services provided under Section 117 of the Mental Health Act were adjudged to be free. The provision represents the liability due to be repaid.	(68)	-	-	(68)
(1,224)	<u>Insurance Claims</u> - This represents the current balance set aside to meet the expected total cost of uninsured losses arising from public liability, employer's liability and property damage. The amount and timing of these payments are uncertain. This provision is split into short and long term.	(1,464)	(43)	-	(1,507)
-	<u>Appointee Provision</u> - Client money held on account to be repaid	-	(36)	-	(36)
	Short Term Provisions				
(4,068)	<u>Accumulated Absences</u> - employee holiday and flexi-time accumulated in 2010/11 and carried forward into 2011/12	(3,351)	(4,519)	3,351	(4,519)
(183)	<u>Insurance Claims</u> - see above.	(219)	(57)	-	(276)
(737)	<u>Payroll</u> - Redundancy related payments, regarding decisions made in 2009/10 but paid in 2010/11	(482)	-	482	-
(5)	<u>Lenders Option Borrowing Rates</u> - provision to equalise revenue charges on low interest rate loans	-	-	-	-
-	<u>Charges from suppliers which are uncertain or in dispute</u> - These represent two charges from suppliers that are currently in dispute and three charges from suppliers that are of an uncertain amount.	(177)	(313)	158	(332)
-	<u>Legal/Grant Penalty Payment</u> - Under the terms of a Grant that has been received in full, there is a possibility that the Council may have to repay a proportion under penalty clauses. The additional provision is for a potential fine against the council and for legal claims which are dependant on the result of a government or court decision.	(240)	(614)	-	(854)
	<u>Children's Services</u> - Costs dependant on the results of an investigation	(30)	-	-	(30)
(6,285)	Total	(6,031)	(5,582)	3,991	(7,622)

37 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
(1,933)	Interest Received	(341)
10,361	Interest Paid	10,289

38 Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

2009/10 £000		2010/11 £000
46,522	Purchase of Property, Plant & Equipment, Investment Property & Intangible Assets	39,456
-	Purchase of Short-Term & Long-term Investments	-
13,330	Other Payments for Investing Activities	14,314
(2,325)	Proceeds from the Sale of Property, Plant & Equipment, Investment Property & Intangible Assets	(2,818)
-	Proceeds from Short-Term & Long-Term Investments	(573)
-	Other Receipts from Investing Activities	(9,330)
57,527	Net cash flows from investing activities	41,049

39 Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

2009/10 £000		2010/11 £000
(31,208)	Cash Receipts of Short & Long Term Borrowing	-
-	Other receipts from Financing Activities	-
2,279	Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and On-Balance Sheet PFI Contracts	2,489
-	Repayments of Short- & Long-Term Borrowing	-
13,934	Other Payments for Financing Activities	9,261
(14,995)	Net cash flows from financing activities	11,750

40 Cash Flow Statement – Cash and Cash Equivalents

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

2008/09 £000	2009/10 £000		2010/11 £000
14,500	10,272	Short Term Cash Investments	18,272
126	110	Petty Cash & Imprest	79
1,207	(331)	Bank Current Accounts	(2,717)
15,833	10,051	Total Cash & Cash Equivalents	15,634

41 Trust Funds

The Council administers 14 trust funds for the benefit of children in specific schools or in care. The total value invested as at 31 March 2011 was £94,638 (£105,008 at 31 March 2010). 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 £13,284 (£60,400 at 31 March 2010) all invested internally.

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

The Council is sole trustee of Nene Park Endowment Charity that manages various commercial properties for the benefit of Nene Park Trust.

These Trust Funds are not included in the Council's balance sheet and not subject to separate audit.

42 Contingent Liabilities

- There are a number of issues relating to decisions taken by the Council that might result in claims being made against the Council. Those relating to Planning may end up in Appeals or Judicial Review and those relating to dismissals of staff for disciplinary and redundancy reasons may end up at Employment Tribunals. At this stage, there is no certainty that costs will be awarded against the Council and, therefore, nothing has been included in the Accounts for any of these issues. Additionally, there are Adoption processes in progress at year end that, when completed, may result in future financial implications for the Council.
- There are potential unknown environmental issues relating to land and buildings that the Council owns, or has owned, such as contaminated land or asbestos in buildings, for which costs are difficult to estimate.

- The Council has a disposal programme which may include sale of assets that could be subject to a claw back agreement. This would mean that a proportion of the sale proceeds would require payment to the interested party.
- Municipal Mutual Insurance (MMI) - In 1992-93 the Council's insurers, MMI, ceased taking new business and are now being managed under a "scheme of arrangement". The amount paid to the Council under this arrangement is £316,000. It is possible that a proportion of this may need to be repaid by the Council if the scheme of arrangement is triggered by insolvency, but the amount cannot be quantified at this stage. The Company still predicts a solvent run off.
- As part of the single status agreement, made between the National Joint Council (NJC) and Councils, the Council has reviewed the pay and grading structure to ensure equal pay for work of equal value. The new structure was implemented on the 1 March 2008, backdated to the 1 April 2007. Employees have the option to appeal against the initial outcomes of the re-grading process. The majority of these have now been settled but there are a small number of legal claims in process.
- As part of the delivery of services, expenditure is incurred by the Council which in turn may be funded directly from grants. Some grants are allocated to the Council for specific purposes, and as such may require an audit certification to be completed to ensure the grant had been correctly applied. Reimbursement of grants may be necessary if it is found that the Council has not met the term and conditions of use of the grant. Amount and timings are dependent upon the results of any claim certification.

- In addition to information provided from the land charges register, from 1 April 2009 the Local Authorities (England)(Charges for property searches) Regulations 2008 authorised the Council to sell additional information eg on building control information, to personal search agencies. The Information Commission has since decided that certain classes of information and environmental information can be inspected free of charge. Personal search agencies are now in the process of reclaiming the amounts they paid. The liability to repay these amounts has not yet been fully established, but if it is, it could be in the order of £200k.

43 Contingent Assets

The Council's disposal programme has given rise to a contingent asset, in relation to funds held in retention by the purchaser. The amount receivable by the Council is dependent upon the value of the work required to be carried out, and the timeframe involved for the completion of this work.

44 Accounting Standards That Have Been Issues but Have Not Yet Been Adopted

a) Heritage Assets: Impact of the Adoption of the New Standard on the 2011/12 Financial Statements.

The Code has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council, which will need to be adopted fully by the Council in the 2011/12 financial statements.

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as

a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Council, in this case, heritage assets. Full adoption of the standard will be required for 2011/12 financial statements. However, the Council is required to make disclosure of the estimated effect of the new standard in the 2010/11 financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the Council's Balance Sheet in the 2011/12 statements.

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. The heritage assets held by the Council include:

Heritage Assets:	Approx. Value for Insurance Purposes £000
Items held in trust at the Museum, which include:	
• Library Collection	
• Fossils	4,824
• Paintings	
• Archaeological Collection	
Libraries Archive Collection	35
Civic Insignia	156
Guildhall Property	440

Heritage assets, as listed above, are not currently recognised in the financial statements as no information is available on the cost of the assets.

The Code will require that heritage assets are measured at valuation in the 2011/12 financial statements (including the

2010/11 comparative information). The 2011/12 Code will permit some relaxations in the valuation requirements of heritage assets and this will mean that the Council is able to recognise its collections of heritage assets in the Balance Sheet. The Council anticipates that it will be able to recognise the above listed assets on the Balance Sheet using as its base the detailed insurance valuations (which are based on market values) held by the Council in respect of the collection.

The Council estimates that the value of its heritage assets from its insurance records is £5.5m as at 1 April 2010. As these assets have not yet been recognised in the Balance Sheet this will require a corresponding increase in the Revaluation Reserve of £5.5m, ie a revaluation gain.

The Council considers that the heritage assets held will have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the Council's heritage assets.

b) Community Assets Measurement: Impact of the Change in Accounting Policies on the 2011/12 Financial Statements

As a consequence of the adoption of FRS30 in the Code, see element a) above, the Code added the option for local authorities to extend the measurement and disclosures required by heritage assets to community assets, a sub classification of Property, Plant and Equipment in the Balance Sheet. The Council has opted to change its accounting policy in the financial year 2011/12 as it believes that valuation is a better measurement of economic benefits and service potential of the assets.

The Council is required to disclose information relating to the impact of this change in accounting policy in the 2011/12 financial statements in a note to the 2010/11 financial statements.

The carrying amount for community assets at the 1 April 2010 is £5.4m. The adoption of the heritage assets standard will mean that the Guildhall property, currently classified as community assets within Property, Plant and Equipment will be reclassified as heritage assets.

The Code will permit a move to a valuation basis for community assets in 2011/12. The Council plans to recognise the remaining community assets in the balance sheet at existing use value in property, plant and equipment. This valuation has been provided by the Council's valuers, WHE.

The remaining community assets of the Council are all land assets which have an unlimited useful life and therefore depreciation is not charged. As this is consistent with the current accounting policy there are no changes to the depreciation charged.

45 Critical Judgement in Applying Accounting Policies

In applying the accounting policies, set out from page 67, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a degree of uncertainty about future levels for funding for local government. The current local government settlement is for two years only. The Council has produced

a five year Medium Term Financial Strategy (MTFS), which anticipates future funding reductions and the actions which will be taken in order to achieve a balanced budget. The current MTFS delivers a balanced budget for the Council for the next three years from 2011/12 to 2013/14. This plan is refreshed and approved in February each year, and work is currently underway on the next refresh, including tackling the financial challenges after the next three years. Therefore the Council has determined that there is no additional impact on the accounts or accounting policies.

- During 2010/11 the coalition government invited all schools in England to become Academies and encourage parents to set up their own schools, called free schools. Some schools within the Peterborough area already have Academy status with a few more expressing interest. Academies do not fall within the remit of the Local Education Authority. The Council would be required to remove assets linked to the school from the Balance Sheet and not consolidate the income and expenditure in the Comprehensive Income and Expenditure Statement.
- The Council has applied its judgement in the classification of investment properties. Investment properties are held to earn rentals or for capital appreciation or both. Some properties earn rentals but are held for regeneration purposes or wider socio-economic reasons. Where this is the case, these properties have been classed as Property, Plant and Equipment. Further information can be found in Note 20, page 43.
- The Council has three arrangements which it has considered against the Group Accounting criteria. The

Council has not included these arrangements as Group Accounts in the Statement for the following reasons:

- Opportunity Peterborough – the company exists to promote and secure regeneration activities within the Peterborough area. Due to the nature of its activities and its small size, the consolidation of the figures would be immaterial and would not add any additional value to the reader of the accounts that a note would not provide. Further information can be found in Note 15 Interest in Companies.
- Peterborough Museum and Art Gallery – the Council is sole trustee of the trust set up to provide the City with access historic artefacts to promote artistic and general knowledge. Due to the nature of its activities and its small size, the consolidation of the figures would be immaterial and would not add any additional value to the reader of the accounts that a note would not provide. Further information can be found in Note 14 Related Party Transactions.
- Vivacity Peterborough Culture and Leisure – during the year the Council set up a charitable organisation to manage its cultural and leisure facilities and services. The Council does not have control of the Trust and it is not a subsidiary of the Council.

46 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined

with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2011 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual results Differ from Assumptions
Property, Plant and Equipment	Depreciation and amortisation is provided for Property, Plant and Equipment and Intangible assets respectively. This enables the assets to be written down to their residual value over their estimated useful lives and show an appropriate cost of the use of the asset in the Comprehensive Income and Expenditure Statement. Management judgement is used to determine the useful economic lives of the Plant and Equipment and the Council's valuers for lives of Property.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £289k for every year that useful life is reduced</p>
Property, Plant and Equipment	Property, Plant and Equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Each year the Council's valuers complete an impairment assessment. The recoverable amount is then estimated having regard to the application of the concept of materiality.	<p>If an asset is impaired the carrying value of the asset is reduced.</p> <p>It is estimated that a 1% fall in market value would reduce the Council's Investment Properties and Assets Held for Sale balances by a total of £146k.</p> <p>7% of the Council's asset base is valued at Market Value, so the impact of a change in market value is limited.</p>
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. These judgements are completed by the Cambridgeshire County Council Pension Fund actuaries.	<p>The effects on net pensions liability of changes in individual assumptions can be measured. For instance,</p> <ul style="list-style-type: none"> a 0.5% decrease in discount rate assumption would result in an increase in pension liability of 10% or £41m a 1 year increase in member life expectancy would result in an increase in pension liability of 3% or £12m

Item	Uncertainties	Effect if Actual results Differ from Assumptions
		<ul style="list-style-type: none"> a 0.5% increase in the salary increase rate would result in an increase in pension liability of 12% or £8m a 0.5% increase in the pension increase rate would result in an increase in pension liability of 8% or £32m
Arrears	At 31 March 2011 the Council had a balance of £8.6m for sundry debtors. A review of balances suggested that an impairment of doubtful debts, based on age profile, of 16% or £1.4m was appropriate.	<p>If collection rates were to deteriorate and sundry debt increased by 10% with the same debt profile, an additional contribution of £139k would be set aside as an allowance.</p> <p>If 10% of the debt portfolio was one year older, a contribution of £94k would be set aside as additional allowance.</p>
Icelandic Investments	The investment has been impaired to reflect the recovery rates expected as at 26 May 2011. The final repayments are not anticipated until January 2013 for Kaupthing Singer & Friedlander Ltd, and October 2012 for Heritable Bank. The final cost therefore could be greater or lower depending on the final recoverable amounts and the timings of payments.	<p>If the expected dividend was increase by 1% the amount the carrying value of the asset would increase by £146k.</p> <p>If the final dividend was received a year earlier than currently anticipated, the carrying value of the asset would increase by £15k.</p>

47 Transition Arrangements from UKGAAP to IFRS

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based code has resulted in the restatement of various balances and transactions, with the results that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts 2009/10.

The following table, on page 66, shows the differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

- **Short-term accumulating compensated absences**

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required

to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefit. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

- **Leases**

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Council is lessee) will be unchanged. Where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the code.

- **Government Grants**

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred

account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Elements of government grant deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- Grants were received in 2009/10 but not used. Previously, no income was recognised in respect of this grant, which was shown in the Grants Unapplied Account within the Liabilities section of the Balance Sheet. Following the change in accounting policy, the grant has been recognised in full, and transferred to the Capital Grants Unapplied Account within the Reserves section of the Balance Sheet.
- **Capital**
 - Assets held for sale – under the code assets to be classified as ‘held for sale’ must meet strict criteria, and are shown as current assets. Previously assets were held on the Balance Sheet as Surplus Assets when they were no longer used for service delivery.
 - Investment properties – under the Code assets are classed as investment properties when they are held solely

for the purpose of income generation or capital appreciation. Property held for service reasons ie economic development, but not for service delivery are not classed as investment properties as was previously the case.

- Donated assets – under the Code assets that have been acquired at a reduced to nil or a nominal amount for non-commercial reasons eg a property bequeathed to the Council requires a donated asset to be recognised.

The Council has amended the financial statements to recognise the Peterborough museum and art galley, and the EG1 number plate that were both donated to the Council during the 1960's.

- **Private Finance Initiative (PFI)**

For 2010/11 the Council received clarification with regards to the treatment of schools with Foundation status which occupy an asset that was funded via the PFI arrangement. Previously the asset and liability of PFI arrangement were brought onto the Council's Balance Sheet, however this treatment was in conflict with the Foundation status. Two of the three schools covered by the PFI arrangement have Foundation status and therefore the Council's Balance Sheet has now been amended to de-recognise the school's assets.

The Council's balance sheet continues to show the whole PFI liability as this arises from the capital element of the PFI arrangement. The liability is financed via the PFI grant which continues to be paid to the Council as part of the Revenue Grant. The PFI grant is not guaranteed and as such the Council continues to have primary responsibility.

- **Provisions**

Under the Code, provisions are required to be classified as current liabilities or non-current liabilities. Previously all Provisions were classed as long term liabilities, regardless of the timing of payment. Provisions are classified as a current liability when:

- it is expected to settle the provision in its normal operating cycle (normally within 12 months)
- the liability is due to be settled within 12 months after the reporting period, or
- the Council does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Provisions which do not meet these criteria are classified as long-term liabilities.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended by increasing current liabilities by £1.1m and decreasing non-current liabilities by £1.1m

48 Authorisation of the Accounts

The Executive Director - Strategic Resources authorises these accounts to be issued on 27 June 2011.

Transition Arrangements to IFRS	2009/10 Statements	Accumulating Absences Adjustment	Leases	Government Grants	Capital	PFI	Provisions	2009/10 Restated
	£000	£000	£000	£000	£000	£000	£000	£000
Comprehensive Income & Expenditure Statement								
Central Services to the Public	2,055	4	-	87	-	-	-	2,146
Court Services	298	-	-	-	-	-	-	298
Cultural, Environmental, Regulatory & Planning Services	39,089	11	(2)	1,406	(19)	-	-	40,485
Education & Children's Services	53,503	(750)	(125)	2,815	(116)	(1,825)	-	53,502
Highways & Transport Services	14,924	4	-	2,380	-	-	-	17,308
Other Housing Services	2,095	1	-	-	-	-	-	2,096
Adult Social Care	39,740	-	-	20	-	-	-	39,760
Corporate & Democratic Core	3,313	2	-	38	-	-	-	3,353
Non Distributed Costs	1,016	-	-	-	-	-	-	1,016
Cost of Services	156,033	(728)	(127)	6,746	(135)	(1,825)	0	159,964
Other Operating Expenditure	2,964	10	(861)	358	(1,361)	-	-	1,110
Financing & Investment Income & Expenditure	15,508	-	960	-	(236)	-	-	16,232
Taxation & Non-Specific Grant Income	(143,683)	-	-	(28,132)	-	-	-	(171,815)
(Surplus) / Deficit on Provision of Services	30,822	(718)	(28)	(21,028)	(1,732)	(1,825)	(1,825)	5,491
Other Comprehensive Income & Expenditure	132,984	-	-	-	(5,520)	-	-	127,464
Total Comprehensive Income & Expenditure	163,806	(718)	(28)	(21,028)	(7,252)	(1,825)	(1,825)	132,955
Balance Sheet								
Long Term Assets	505,441	-	5,473	-	(6,874)	(59,308)	-	444,732
Current Assets	63,271	-	-	-	7,780	-	-	71,051
Current Liabilities	(99,339)	(3,351)	(1,071)	33,339	-	-	(1,148)	(71,570)
Long Term Liabilities	(493,324)	-	(4,618)	83,723	815	-	1,148	(412,256)
NET ASSETS	(23,951)	(3,351)	(216)	117,062	1,721	(59,308)	-	31,957
Usable Reserves	(25,698)	-	-	(5,467)	(82)	-	-	(31,247)
Unusable Reserves	49,649	3,351	216	(111,595)	(1,639)	59,308	-	(710)
TOTAL RESERVES	23,951	3,351	216	(117,062)	(1,721)	59,308	-	(31,957)

The Collection Fund and Notes

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2009/10		Collection Fund		Notes	2009/10	
£000	£000				£000	£000
		Income				
(59,825)		Council Tax (net)		1	(61,948)	
(11,548)		Transfer from General Fund - Council Tax benefits			(12,321)	
(82,662)		Business Ratepayers (NNDR)		2	(80,410)	
	<u>(154,035)</u>	Total Income				(154,679)
		Expenditure				
9,031		Cambridgeshire Police Council Precept		3	9,393	
3,090		Cambridgeshire Fire Council Precept		3	3,206	
58,928		Demand by Peterborough City Council			61,060	
	<u>71,049</u>	Total Precepts				<u>73,659</u>
81,130		Payment to NNDR National Pool			79,519	
278		NNDR cost of collection allowance			273	
	<u>81,408</u>	Total Business Rates				<u>79,792</u>
1,870		Change in provision		4	1,317	
	<u>1,870</u>	Total Bad and Doubtful Debts				<u>1,317</u>
		Contribution to previous year's estimated surplus:				
45		Cambridgeshire Police Council			143	
16		Cambridgeshire Fire Authority			49	
300		Cambridgeshire Fire Council			934	
	<u>361</u>	Total surplus				<u>1,126</u>
	<u>154,688</u>	Total Expenditure				<u>155,894</u>
	<u>653</u>	Deficit / (surplus) for the year				<u>1,215</u>

1 Calculation of Council Tax Base

Council Tax Band	Ratio to Band D	No. of Dwellings	Band D Equivalent
A	6/9	33,368	22,245
B	7/9	18,385	14,299
C	8/9	12,149	10,799
D	9/9	6,663	6,663
E	11/9	3,949	4,827
F	13/9	1,719	2,483
G	15/9	827	1,378
H	18/9	62	124
Total		77,122	62,818

The Band D Equivalent shown above is calculated by applying the relevant factor but is before statutory discounts, exemptions, etc., and any allowance for non-payment which is at the discretion of each Council. The tax base used for Council Tax setting purposes after taking account of these factors was 55,395 (54,835 in 2009/10).

2 National Non-Domestic Rates

As at 31 March 2011 the total national non-domestic rateable value against the 2010 list was £229,205,560 (£229,870,746 at 1 April 2010) linked to 5,375 properties with the national multiplier set at 43.3p.

The amount due is calculated by reference to the actual charge during the year, which changes on a daily basis. The gross charge is further reduced because of reductions due to successful appeals, voids, interest on refunds and reliefs.

3 Precepting Authorities

The Precepting Authorities are those as shown in the statement.

2009/10	Preceptor	Precept / Demand	Share at 31 March 2011	2010/11 Total
£000		£000	£000	£000
58,685	Peterborough City Council	61,994	(1,008)	60,986
8,994	Cambridgeshire Police	9,536	(155)	9,381
3,078	Cambridgeshire Fire	3,255	(52)	3,203
70,757		74,785	(1,215)	73,570

4 Provision for Doubtful Debts

The provision for doubtful debts for Council Tax stood at £2.4m as at 31 March 2011 against arrears of £6.7m. At 31 March 2010, the provision stood at £2.4m against arrears of £6.2m.

Statement of Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year end 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or

service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Where the Council is acting as an agent for another party (eg in the collection of NNDR and Council Tax), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

A number of items are not accrued for, but the effect is not material, e.g. gas bills where four quarterly bills are included, and

staff car allowances where twelve months' payments (one month in arrears) are included. In addition, unless where material, no accruals are entered in the accounts for alterations required to Council Tax/NNDR Bills for the financial year, which have not been actioned in time for year end.

Cash and Cash Equivalents

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices of the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position of 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 fixed 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 fixed assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by contribution in the General Fund Balance (MRP), 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 within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable at 31st March of the reported period. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that the holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves

Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of two 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).

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Cambridgeshire County Council pension fund attributable to the Council are included in the Balance

Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using an appropriate discount rate (based on the indicative rate of return on high quality corporate bond as identified by the actuary)
- The assets of the Cambridgeshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value
- The change in the net pension liability is analysed into seven components:
 - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pension Reserve
- contributions paid to the Cambridgeshire County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to

remove the notional debits and credits for retirement benefits and replace them debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Exceptional Items

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

Financial Instruments

Financial Liabilities

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

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

For the three stepped rate loans, the amount charged to revenue is based on the effective interest rate and the difference between that and the cash paid is reversed out in the Movement in Reserves Statement.

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

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

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

Loans and Receivables

Loans and Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations as less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial

Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

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

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

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations

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

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

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non 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.

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 restricted to that incurred during the development phase (research expenditure is not capitalised).

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the

relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve

Inventories

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.

Investment Properties

Investment properties are those that are used solely to earn rentals and / or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually

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

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

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfillment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the

lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

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

Operating Leases

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

Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Asset Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principals of the CIPFA *Best Value Accounting Code of Practice 2010/11 (BVACOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the 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 BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Cost of Services.

The treatment of Office Accommodation does not strictly comply with BVACOP. The final choice on the basis of location of staff, based on availability, department size etc is taken at a corporate level, outside the direct influence of departments. It is Council policy, therefore, that the costs of the main office buildings be accumulated and charged to users at a uniform rate on a full time employee basis, regardless of actual location.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administration purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets' potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive

Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost.
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (EUV)

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

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every four years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written

down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

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

Foundation Schools, Voluntary Aided (VA) and Voluntary Controlled (VC) Schools are not shown on the Council's Balance Sheet. Some elements of the VA and VC schools land is still owned by the Council and is shown on the Balance Sheet.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written

down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and Non-current Assets Held for Sale

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant

and Equipment or Asset Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years

Where an item of Property, Plant and Equipment asset has a major component whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI scheme and as ownership of property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contract on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the balance sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operator each year are analysed into four elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principals as for a finance lease)

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The

liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

The Council sets aside specific amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the

Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

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 City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

This statement explains how the City Council endeavours to deliver good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (England) Regulations 2011, which requires the City Council to publish a statement on internal control in accordance with proper practice. Proper practice has been defined as an Annual Governance Statement.

The Purpose of the Governance Framework

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

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

The Governance Framework

The Council is a complex organisation with an appropriately comprehensive governance framework. The Council works in a dynamic environment and keeps its processes under constant review. Our governance framework derives from six core principles identified in a 2004 publication entitled *The Good Governance Standard for Public Services*. This was produced by the

Independent Commission on Good Governance in Public Services - a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office of Public Management. The commission utilised work done by, amongst others, Cadbury (2002), Nolan (1995) and CIPFA / SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007. The six core principles state that good governance means:

- Focusing on the purpose of the Authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting the values of the Authority and demonstrating the values of good governance through behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members to be effective and ensuring that officers (including the statutory officers) also have the capability and capacity to deliver effectively; and
- Engaging with local people and other stakeholders to ensure robust local public accountability.

In March 2008, the City Council approved and adopted a Local Code of Corporate Governance, which provided in-depth details of the framework the City Council has in place to meet the six core principles of effective governance, as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) guidance “*Delivering*

Good Governance in Local Government”. The following paragraphs summarise the City Council’s Governance Framework which has been in place for the year ended 31st March 2011 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 City Council, on outcomes for the community and creating and implementing a vision for the local area. The following describe how the City Council achieves this:

- The Council has a clear statement of its purpose and vision as set out in the Sustainable Community Strategy (SCS). This sets out the overarching strategy for the Council including its priorities and the outcomes that it is seeking to achieve. This Single Delivery Plan, together with Departmental Business Plans provides a clear basis for corporate and service planning which is carried out in accordance with the Corporate Planning Cycle..
- The SCS for Peterborough was agreed by the Greater Peterborough Partnership in 2005 and fully refreshed to set out vision for Peterborough covering 2008 - 2021. It sets out a vision and overall strategy for the future of the city and the surrounding villages and rural areas. It reflects both the agenda for growth and the clear desire to ensure that Peterborough grows the right way, so that economic and population growth leads to genuine improvements in key areas, particularly those where Peterborough currently has specific problems or issues. It recognises that in order to create a bigger and better Peterborough, then the city will have to deal

quickly and effectively with the pressing issues of today as well as the plans for tomorrow.

- The SCS vision is to create:
 - *A bigger and better Peterborough that grows the right way, and through truly sustainable development and growth;*
 - *Improves the quality of life of all its people and communities, and ensure that all communities benefit from growth and the opportunities it brings;*
 - *Creates a truly sustainable Peterborough, the urban centre of a thriving sub-regional community of villages and market towns, a healthy, safe and exciting place to live, work and visit, famous as the environment capital of the UK.*
- There are four priorities for areas of work which are needed in order to achieve the vision and each of these is supported by four high level outcomes that form the basis of the Local Area Agreement. The four priorities are:
 - Creating Opportunities - Tackling Inequalities
 - Creating Strong and Supportive Communities
 - Creating the UK's Environment Capital
 - Delivering Substantial and Truly Sustainable Growth
- Led by the City Council, the SCS is a shared view across partners and the community about what needs to be done to improve the economic, social and environmental wellbeing of the local area. Partner organisations are expected to take account of the SCS when they prepare their own organisation's business plan.

- The Vision is reviewed through a variety of means including ongoing analysis of performance information; a review of national and local drivers for change; consultation with stakeholders, including residents, businesses and partner organisations. This is structured around the Corporate Planning Cycle, so that any changes made are cascading through the organisation to inform and amend departmental delivery contracts, service plans and business plans.
- The SCS contains a statement of objectives within each corporate priority. This describes the areas where we are focussing our activities over a three year period. This document also records information about the Council's services and finances, and lists targets for the next three years together with planned improvements. Performance is normally reported to Cabinet on a quarterly basis and is monitored through various Scrutiny Committees. Performance information is available across the council through the council's corporate project management system, Verto.
- The Council has a medium term financial plan (MTFP) and capital programme to ensure that resources are aligned to priorities. The budget process incorporate consideration of the allocation of resources to the corporate aims. The MTFP allows annual strategic review in the context of performance against aims and sets targets of efficiency improvement to release resources for deployment. Monitoring reports are submitted to the Corporate Management Team, (CMT) and to Cabinet and issues are referred to other Scrutiny Commissions as appropriate.
- Value for money is embedded in the Council's culture, and underpins the strategic priorities. Through reviews by External Audit, external agencies, Internal Audit, and internal review

teams, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which functions are exercised. The council has an ambitious business transformation programme to take the council forward.

- There are two work streams for the transformation programme.
 - Focus on procurement - aiming to deliver ongoing annualised savings. A range of corporately negotiated contracts mean that purchasing across the organisation is consistent and offers best value for money for the council as a whole. These achievements have resulted in the Council being nominated for, and also winning a number of national awards.
 - Driving efficiency – with the successes of the procurement strand providing funding for the efficiency agenda. The efficiency focus is on the use of ICT to simplify processes; reducing the cost of business support; and rationalising current ICT-related supplies and service contracts. The organisation will become smaller and there will be a number of restructures to equip the council for its future activity.
- Regular revisions are made to the Constitution to ensure continuing improvement and simplification, whilst maintain appropriate governance checks. The Council continues to develop and refine systems for identifying and evaluating all significant risks, via CMT. Council approved a Risk Management Strategy in October 2004 and this has been annually refreshed through the Audit Committee. Changes to the overall risk profile of the council are reported through to members on the Audit Committee on a periodic basis, the most recent being in the March 2011 committee cycle.

- When the Council works in partnerships, it has a methodology which ensures that there is a common vision underpinning the work of the partnership that is understood and agreed by all partners. The Council works in many different partnerships, ranging from the strategic to the operational. The overarching vision for partnership working is set out in the SCS supported by the Local Area Agreement which articulates it.
- The Council has a comprehensive comments, compliments and complaints scheme. This is used to identify areas where service quality is not satisfactory and to take action to improve. As an organisation, the Council is committed to meeting the service needs of a very diverse community, and looks to meet the "*Equality Framework for Local Government*".

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. The Council appoints a Cabinet. Made up of the Leader, Deputy Leader and 8 other members, who are responsible for proposing budgets and policies and taking key decisions in relation to their various portfolios. In addition, the Cabinet have appointed 1 other member to act as Cabinet Advisor on strategic portfolio activities. The manner in which Cabinet business is transacted is governed by written procedures and principles contained in the Executive Decisions within and outside the Policy Framework within the Constitution. Individual Cabinet members receive regular

feedback from the senior officers within their portfolios on the progress of objectives. Issues of strategic and corporate importance are referred to Cabinet.

- As well as Cabinet, other Committees are in place to cover the functions of Scrutiny, Regulatory and Neighbourhood Committees.
 - The Council has 6 Scrutiny Committees which can hold the Cabinet to account by reviewing decisions, undertaking reviews of the Council's functions, and consider any relevant matters affecting the city or its residents. Although they have no decision making powers, the Commissions / Committees are able to "Call In" and review certain decisions of Cabinet. Until the call-in process is completed the decision cannot be implemented.
 - These non-executive members also serve on 8 Regulatory Committees which consider a variety of non-executive functions which Cabinet, by law, cannot undertake or has been agreed should not be considered by Cabinet. The committees are all cross-party and can include cabinet members.
 - Neighbourhood Committees have been set upon across the city. These will deliver improvements for the local area by identifying, overseeing, monitoring and driving actions to support all issues relevant to the area, including service delivery, service improvements and area developments.
- All Committees have clear terms of reference and work programmes to set out their roles and responsibilities. An Audit Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment. The

Council's Constitution contains a Code of Conduct for Councillors, protocols advising on the Code of Conduct of Officers and a specific protocol on Member / Officer Relations.

- Information bulletins are circulated to councillors on current local government issues and publications and regular briefings are provided on their role. Notices of all key decisions to be taken are published in the Council's Forward Plan in which the community is advised firstly that the decision is to be taken and secondly to whom representations can be made. In this was the public interest in major decisions to be taken by the Council is stimulated. Agendas, reports and published decisions are available to councillors and the general public via the Council's web pages.
- The Council ensures that effective management arrangements are in place at the top of the organisation. The Council's Chief Executive (and Head of Paid Service) leads the Council's officers and Chairs the Corporate Management Team.
- The Executive Director (Strategic Resources) as the s.151 Officer appointed under the 1972 Local Government Act carries overall responsibility for the financial administration of the City Council. The Executive Director is 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.
- The Solicitor to the Council, as Monitoring Officer, carries overall responsibility for legal compliance and the maintenance of high standards of conduct by providing advice and support to Members and Officers.
- Regular CMT meetings are held. In addition, Executive Directors meet their respective Cabinet Members on a regular

basis. A Heads of Service Forum supports the work of CMT on a number of issues. In addition, there are a series of officer working groups who meet to deal with a range of specific service as well as cross cutting issues.

- All staff, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities. Terms and conditions of employment are in line with the harmonisation agreement implemented in 2008, and are regularly refreshed and amended following consultation with Unions. The terms and conditions of members are clearly set out in the Members' Allowances Scheme within the Council's Constitution. The Scheme covers basic and special responsibility allowances, and pensions. The Scheme is approved by the 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 Solicitor to the Council, after consultation with the Chief Executive and Executive Director (Resources) can report to Full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or

decision being implemented until the report has been considered.

- The Council has developed and 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
 - Grievance procedures
- The Council takes fraud, corruption and maladministration very seriously and has the following policies which aim to prevent or deal with such occurrences:
 - Anti Fraud and Corruption Policy and Fraud Response Plan
 - Confidential Reporting Code (Whistleblowing Policy);
 - Human Resources policies regarding disciplinary of staff involved in such incidents.
- Member and Officer behaviour is governed by separate Codes of Conduct. These include a requirement for declarations of interest to be completed. Conduct of Members is monitored by a Standards Committee, independently chaired, which also investigates allegations of misconduct of Members. The Standards Committee has a defined work programme which it

reviews at each meeting which includes planned reviews of relevant codes and protocols within the Constitution.

- The Corporate Complaints procedures enables the Council to receive and investigate any complaint made against it, a Member or a member of staff.
- Many services across the organisation abide by, or have achieved various accredited status of excellence, as well as being shortlisted for and winning a number of national awards. These include:
 - The Council has maintained Investors in People accreditation, and has been awarded “bronze” status for the whole Council.
 - Legal Services has achieved Lexcel accreditation, which is the Law Society's practice management standard, only awarded to solicitors who meet the highest management and customer care standards.
 - Strategic Resources achieved a number of successes in recent years with the LGS Awards, Government Business Awards, and Municipal Journal Awards. It was the LGC Finance Winner for Efficiency 2009 for Manor Drive and Customer Services and shortlisted for the LGC Main Award for Efficiency and Transformational Government in March 2010. From the Government Business Awards in March 2010 it was winners for Procurement and Waste, and shortlisted for Finance.
- 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 with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). Executive salaries and £500 spending transactions are disclosed in order to maintain transparency.

- Full Council approves a balanced budget before the start of each financial year. This includes a Medium Term Financial Strategy, annual reviewed, under which it plans its finances, target efficiency savings required and potential council tax implications over a three year rolling period. During the year, budget monitoring reports are taken to Management Teams and Members on a regular basis.

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.
- The 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.

- The Council has several committees which carry out regulatory or scrutiny functions which encourages constructive challenge and enhances the Authority's performance overall. Scrutiny Committees have power to review the decisions of Cabinet and Cabinet Members, through the "call-in" process, to determine whether decisions have followed the agreed process and are in accordance with the Council's policy framework and approved budget.
- The Council's Internal Audit service complies with the Accounts and Audit Regulations 2003 (amended 2006) and operates in accordance with the "CIPFA Code of Practice for Internal Audit in Local Government in UK 2006". Responsibility for Internal Audit rests with the Chief Internal Auditor. Reporting lines are within the Strategic Resources Directorate, with reporting lines to the Head of Corporate Services, Executive Director (Strategic Resources) as well as access to the Chief Executive, Monitoring Officer and members as required.
- The Internal Audit division plans and priorities its work around risk based auditing approach and seeks to programme in work based on risk, strength of control and materiality. Internal Audit makes recommendations for improving the internal control environment and part of their work includes monitoring agreed action plans. This ensures compliance with established policies and procedures, particularly financial and contract procedures. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to Members (through the Audit Committee), the Chief Executive, Executive Directors and management as appropriate.

- The Council maintains both Strategic and Operational Risk Registers. The Council undertook a fundamental review of its risk management approach, culminating in a revised strategy in September 2009.

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. In developing Members' skills, the Council has an overall development strategy in place.
- Members of the Audit Committee are provided with training specific to its responsibilities before every Committee meeting. The focus is on key governance issues such as risk management and internal control, together with scrutiny arrangements for the accounts. Individual briefings are enhanced by the 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 effective induction tailored to their needs, although there are key messages given

to all: such as freedom of information and data security, procurement and financial regulations.

- Senior Managers have been through the Vision 2010: Building Managers for the Future programme, the purpose being to provide the necessary tools to support managers in delivering improved services linked explicitly to business outcomes and to enable them to display the expected leadership behaviours. Further acknowledgement of the Council's commitment to ensuring that staff are equipped with the appropriate skills and capabilities to perform comes in the form of the Investors in People accreditation.
- All officers have comprehensive job descriptions and person specifications and the Council has a process in place to review performance for all staff. The scheme was recognised as needing review and a new system of Performance Development Review has been introduced. Where capability issues are identified, appropriate processes are in place to try to resolve these.
- As the needs of Councils become more and more stretched by finite resources, alternative service delivery methods have been explored. This has led to the development of shared service arrangements with other councils, with Peterborough being the lead authority. These include opportunities with Rutland (for Legal and Trading Standards) and Cambridge City (for Internal Audit).

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 views of local people.
- Every year, together with our partners, we carry out many consultation exercises. The Council has in place arrangements to enable it engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands. These have included Citizens Panel; Focus groups (face to face and on-line) - with, for example, refugees and asylum seekers, disabled people, young people, older people; Employee forums / Joint consultative forum; Voluntary and community sector network; One-off consultation events; and Public meetings.
- All consultation is carried out for purpose and is not generic so that it deals with specific issues. The Council recognises that different sections of the community have different priorities and is able to analyse consultation results on this basis. Varied channels of communication are used to reach all sections of the community and other stakeholders. Communication channels include: newspapers, MORI Surveys, press releases, internet, public question time at committee meetings, public speaking on planning applications, open forums, member surgeries etc.
- Our commitment to partnership working is demonstrated in our approach to community leadership. To give local citizens a greater say in local decision making, the Council established 7 Neighbourhood Committees to cover the city and its surrounds. Neighbourhood Committees are open public meetings that are held at a local venue every two or three months. The meetings

are an opportunity for residents to find out what is happening in their area and to discuss the big issues and priorities. Residents meet with local ward Members and representatives from the Police, Health and Council. The Neighbourhood Councils are local leadership groups which agree priorities, decide where community grants are to be spent where available, monitor performance and decide upon the vision for the neighbourhood. In addition to neighbourhood councils, ongoing work in the community is also facilitated through the Parish Council Liaison Committee.

- On an annual basis the Council publishes information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period. The forward looking section of the plan which sets out the authority's vision, strategy and plans, and medium term financial plans for the coming period is published in March / April each year.
- When working in partnership the Council ensures that engagement and consultation undertaken by the partnership is planned with regard to methodology, target audience and required outcomes. Existing mechanisms and groups are used where appropriate.
- The Council has identified a number of significant partnerships. These are:
 - Peterborough PCT - an integrated NHS body delivering integrated health and adult social care services. A Section 31 Partnership Agreement between the Council and the PCT delegates delivery of adult social care services to the Trust. The partnership is governed by an Annual Agreement that details performance and financial matters. The Care

Trust produces its own internal assurances about the effectiveness of its internal control environment that are monitored by the Executive Management Team, the Audit Committee (chaired by a Non Executive Director) and the full Board.

- The Children and Young Peoples Trust - a partnership between the Council and the organisations that have a duty to cooperate under the Children's Act 2004 to deliver integrated and coordinated services to children, young people and their families.
- Peterborough Culture and Leisure Trust (Vivacity) - partnership set up to secure new and improved facilities which commenced from May 2010.
- Opportunity Peterborough - a partnership between the Council, the East of England Development Agency (EEDA), Homes and Communities Agency (HCA) and the Government's Department for Communities and Local Government to drive the sustainable growth of the city. This has now reverted back to the Council.
- Significant outsourced partnerships include the provision of street scene activities previously undertaken by City Services. This is now provided by Enterprise. In addition, Council back office facilities provided through Manor Drive are currently going through a similar tendering exercise. Expected delivery is from November 2011.
- A Health and Well Being Board will shortly be set up to oversee expectations and service deliverables following the transfer of various activities and partnering with the PCT.

Review of Effectiveness

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

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

- The Cabinet is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. It is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.
- There is a well resourced scrutiny function which holds the Cabinet to account, which include an overview of service and financial performance, efficiency and effectiveness.
- The Standards Committee has met regularly throughout the year to consider and review issues relating to the conduct of Members. Service standards have been agreed with the Monitoring Officer and a report on the number and progress of complaints against members is received at each meeting. It has developed, and continually monitors, its own work programme and reports annually to Council on its previous year's performance. The Monitoring Officer has consistently met the statutory reporting requirement to Standards for England. This will change following the proposals from central government to abolish the reporting standards.
- The Audit Committee met throughout the year to provide independent assurance to the Council in relation to the effectiveness of the risk management framework, internal control environment and the annual statement of accounts. Annually, the Internal and External Audit Plans are approved through the committee. The Committee met 7 times during the year receiving regular reports and training on governance, risk and internal control matters.
- 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. Internal Audit has unrestricted access to all Council records and property, and the organisational independence to form an objective opinion on the adequacy and effectiveness on the whole system of internal control. The work of Internal Audit is planned using risk assessments, assurance from other inspectorates, and discussions with Directors and Heads of Service; and annual plans are formulated and approved by Audit Committee. The work includes not only reviews of financial control, but also of risk management, control over the achievement of organisational policies and objectives, and compliance with laws and regulations. The outcome of all audit reviews are reported to the appropriate Director, and matters of concern are raised with the Chief Executive, Executive Director (Resources), Leader of the Council and the Chair of Audit Committee. A review against the CIPFA Statement on the Role of the Head of Internal Audit shows that the Council meets the principles.

- The Governance section within Legal and Democratic Services undertakes fraud investigations and detection work.
- Risk management is handled through a range of mechanisms. Risk owners are in place for all corporate risks. The risks cascade down to the services, who manage the risks via the service planning process and regular review. Corporate risks are revisited through CMT. Risks are accounted for in all project planning, the creation of the Medium Term Financial Strategy 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, including the Chair of Standards Committee, the Board has been established to consider, review and coordinate improvements in all aspects of the governance framework.
- The actions arising from the significant control issues detailed in last years Annual Governance Statement have been monitored throughout the year and reported through to Audit Committee.
- Assurance from the Audit Commission, other Inspection Agencies and External Audit. On completion of their work, a Joint Audit and Inspection Letter is issued to the Council. The last Joint Audit Letter was issued for the financial year 2009 / 2010, and was discussed and endorsed at meetings of the Cabinet and Audit Committee on . The main conclusions from the Letter are an unqualified audit opinion on the financial

statements together with deadlines for the production and publishing of final accounts by 30 September 2010 were met.

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

- The Chief Internal Auditors' annual opinion on the status of the Council in terms of the governance and overall controls. For this year he has provided an unqualified opinion.
- Assurance from Executive Directors and their management teams on the key elements of the control framework were in place in their departments. A separate annual evaluation questionnaire is circulated to each department and completed through their departmental teams, allowing for overall ownership within the groups. They were also asked to identify areas where control weaknesses had resulted in significant issues arising. 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.
- Assurance from Members. A separate questionnaire was issued to all members to seek their views on the governance arrangements in place to support and develop them and to provide suggestions on how any shortfalls or gaps could be addressed.

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 below. Conversely, there are a number of items which were included in 2009 / 2010 which have been excluded as significant progress has been made in addressing the issues such that they are no longer considered a threat to the control environment. These items are:

- Sickness management. Reductions have been made to the level of sickness, in particular short term absence. Ongoing proactive works will continue to reduce still further.
- Effective recruitment. Pre-employment checks have been enhanced.
- Shared services. Ongoing development to reduce costs while maintaining or enhancing service levels.

Ongoing Governance Issues Identified in 2010 / 2011	
Issue	Area for Improvement
Use of Consultants	Following an independent review of the use of consultants, various actions were identified to put in place improved governance arrangements. Lead Officer: Director of Strategic Resources
Development of Neighbourhood Committees	Following a corporate review of the operations of Neighbourhood Councils, a number of changes were agreed at Cabinet / Full Council in March / April 2011. Appropriate governance needs to be in place to ensure effective decision making and resource devolvement. Lead Officer: Head of Neighbourhood Services
Delivery of Medium Term Financial Strategy	Ongoing savings underpin the delivery of the MTFs. Regular monitoring needs to be in place to ensure successful delivery. Lead Officer: Head of Corporate Services

Certification

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

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

Signed:

Gillian Beasley, Chief Executive

Date:

Signed:

Councillor Marco Cereste, Leader of the Council

Date:

Glossary

Accruals - The concept that revenue and capital income and expenditure are recognised as they are earned or incurred, not as money is received or paid. Transactions are treated on an accruals basis with income and expenditure due as at 31 March brought into the accounts.

Accumulated Absences Account – absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year.

Annual Governance Statement – identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded.

Council – is a shortened name for 'Local Council' – see below.

Balance Sheet - Fundamental to the understanding of a local Council's financial position at the year-end. It shows the balances and reserves at the Council's disposal and its long term indebtedness, and the long term and net current assets employed in its operations.

Balances – The non-earmarked reserves of a local Council, which are made up of the accumulated surplus of income over expenditure. This is known as the General Fund Balance for all the other services provided by the Council. Adequate revenue balances are needed to meet unexpected expenditure or a shortfall of income. A local Council may decide to use its revenue balances to reduce its budget and thus its call on the Collection Fund.

Budget (Medium Term Financial Strategy) - A statement of a Council's plans for net revenue and capital expenditure over a specified period of time.

Capital Adjustment Account – This account was created at midnight on 31 March 2007 and its opening balance was made up of the balance on the Fixed Asset Restatement Account (FARA) and the Capital Financing Account.

Capital Charge - A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of their services.

Capital Expenditure - Expenditure on the acquisition or development of major assets which will be of use or benefit to a Council in providing its services beyond the year of account.

Capital Grant - A grant received towards the capital expenditure incurred on a particular service or project. Capital grants can be made by a Council, for example, to homeowners to meet the cost of improving their houses.

Capital Receipts - Proceeds from the sale of non-current assets, e.g. land and buildings. The proceeds can be used to finance new capital expenditure or repay debt. It cannot be used to finance revenue expenditure.

Collection Fund - A statutory fund in which a Council records transactions for Council Tax, Non-Domestic (Business) Rates and residual Community Charges

Community Assets - Assets that the local Council intends to hold in perpetuity, that have no determinable useful life, and that may

have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Comprehensive Income and Expenditure Statement - reports the income and expenditure for all the Council's services and demonstrates how that cost has been financed from general government grants and income from taxpayers.

Council – means 'Peterborough City Council' specifically. The Council is a local Council and this term is used in these definitions, and in the Statement of Accounts', to define any or all Councils.

Creditor - An amount owed by a local Council for work done, goods received or services rendered to the Council within the accounting period but for which payment has not been made.

Current Asset - An asset which can be expected to be consumed or realised during the next accounting period.

Current Liability - An amount which will become payable or could be called in within the next accounting period, e.g. creditor, cash overdrawn.

Debt Redemption - The repayment of loans raised to finance capital expenditure.

Debtor - An amount owed to a local Council within the accounting period, but not received at the Balance Sheet date.

Dedicated Schools Grant (DSG) – grant received from Department for Children, Schools and Families to fund schools related expenditure.

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

Depreciation - The measure of the wearing out, consumption or other reduction in the useful economic life of a long term asset, whether arising from use, time or obsolescence through technological or other changes.

Derecognition – The term used for the removal of an asset or liability from the balance sheet.

Direct Revenue Financing (DRF) - A contribution to the financing of capital expenditure by a charge to the Comprehensive Income and Expenditure Statement. This can be used to supplement a local Council's other capital resources.

Effective Rate of Interest – The rate of interest that will discount the estimated cash flows over the life of a financial instrument to the amount in the balance sheet at initial measurement.

Equity Instrument – A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (e.g an equity share in a company).

Fair Value – the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction.

Financing Charges - Annual charges to the Comprehensive Income and Expenditure Statement of a local Council to cover the interest on, and repayment of, loans raised for capital expenditure.

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset

Financial Asset – A right to future economic benefits controlled by the Council. Examples include bank deposits, investments and loans receivable.

Financial Instrument – Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instrument Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund.

Financial Liability – An obligation to transfer economic benefits controlled by the Council. Examples include borrowings, financial guarantees and amounts owed to trade creditors.

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

General Fund - The main revenue account of a local Council which summarises the cost of all services provided by the Council which are paid for from Council Tax, government grant and other income.

Government Grants and Subsidies - Grants towards either the revenue or capital cost of local Council services. These may be either in respect of particular services or purposes, (specific and supplementary grants), or in aid of local services generally e.g. Revenue Support Grant.

Heritage Assets – is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities

that is held and maintained principally for its contribution to knowledge and culture.

IAS 19 - This is an International Accounting Standard (which replaces Financial Reporting Standard 17) now universally adopted across all sectors (public and private) for the inclusion and reporting of pension costs in Financial Accounts. It is based on the principle of recognising pension costs in the financial year that they become known rather than the cash transfers made in that year – usually, this means that a higher cost arises. These (higher) costs are calculated each year by Actuaries who forecast changes in future liabilities and the performance of the Pension Fund in determining any potential shortfall. In local government, a Pension Reserve has been introduced to absorb this impact so that no additional costs fall on Council Taxpayers until they are actually due.

Impairment – The term used where the estimated recoverable amount from an asset is less than the amortised cost at which the asset is being carried on the balance sheet.

Infrastructure Assets - Assets that are inalienable, ie may not be sold, transferred or assigned to another. These include facilities required to enable other developments to take place e.g. roads and street lighting.

Investment Properties – are those properties that are used solely to earn rentals and/or for capital appreciation.

Loans Outstanding - The total amounts borrowed from external lenders for capital and temporary revenue purposes and not repaid at the Balance Sheet date.

Local Council – is a corporate body, established by statute, to undertake specific local functions. It is governed by Members (also known as Councillors) who are either elected or

appointed. Peterborough City Council is a 'local Council'. In these definitions, the term 'local Council' is used to describe one or all Councils generally. Sometimes, this is shortened to just 'Council'.

Minimum Lease Payments – are those lease payments that the Council is, or can be, required to make.

Minimum Revenue Provision (MRP) - This is the minimum amount which must be charged to a local Council's Comprehensive Income and Expenditure Statement and set aside to repay debt. It is calculated by charging 4% on all borrowing up to the 1st April 2007 and for any new supported borrowing. For the remaining unsupported borrowing, MRP is charged in line with the life of the asset for which the borrowing was undertaken.

Movement in Reserves Statement – this statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and unusable reserves.

National Non-Domestic Rates (NNDR) - The rates payable by businesses on their properties are calculated by applying a nationally determined multiplier to the rateable value of the property. This is collected by local authorities and paid to the Government who then redistribute the money to authorities based on a standard amount per head.

Operating Leases - Leases under which the ownership of the asset remains with the lessor.

Pooling – The term used for the calculation and payment of a proportion of housing capital receipts into a national pool for redistribution.

Precept - The amount a local Council, who cannot levy a council tax directly on the public (eg Fire and Police authorities, Parish council), requires it to be collected on its behalf.

Provisions - are required for any liabilities of uncertain timing or amount that have been incurred. Provisions are set aside in the accounts and charged to individual services. When the relevant expenditure occurs, it is charged direct to the Provision.

Reserves - Amounts set aside for purposes falling outside the strict definition of provisions are considered as reserves. Reserves include earmarked reserves set aside for specific projects or service areas, or expected future commitments.

Revaluation Reserve – This account was created on 1 April 2007 and its balance represents the revaluation gains accumulated since 1 April 2007.

Revenue Expenditure - The day-to-day running costs a local Council incurs in providing services (as opposed to capital expenditure).

Revenue Support Grant (RSG) - A general grant paid by the government and recognised in the General Fund to help finance local Council revenue expenditure.

Supported borrowing - the amount of borrowing assumed by Government in the calculation of their grant payment.

Usable Reserves – those reserves that can be applied to fund expenditure or reduce local taxation.

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

Unsupported / Prudential borrowing – the amount of borrowing for which there is no grant to support its revenue impact.

VAT Shelter – The Council transferred its housing stock to Cross Key Homes in October 2004. Housing Associations are at a disadvantage compared to Local Authorities because they are not able to recover VAT on their expenditure. The VAT shelter agreement enables the VAT on capital works to be reclaimed and the benefit split equally between the Council and Cross Keys. This income is included within the Comprehensive Income and Expenditure Statement.

Index of Notes to the Core Financial Statements

Note	Description	Page	Note	Description	Page
1	Dedicated Schools Grant.....	14	24	Effects of Changes in Estimates.....	44
2	Pooled Funds and Similar Arrangements.....	14	25	Revaluations.....	44
3	Members Allowances.....	15	26	Impairment Losses.....	45
4	External Audit Costs.....	15	27	Capital Expenditure and Capital Financing.....	46
5	Termination Benefits.....	16	28	Private Finance Initiatives (PFI) and Similar Contracts.....	47
6	Pension Schemes Accounted for as Defined Contribution Schemes.....	16	29	Council as Lessee - Finance Leases.....	48
7	Defined benefit Pension Schemes.....	16	30	Financial Instruments.....	49
8	Officers' Remuneration.....	20	31	Fair Value of Assets and Liabilities Carried at Amortised Cost.....	50
9	Trading Operations.....	22	32	Nature and Extent of Risks Arising from Financial Instruments.....	51
10	Comprehensive Income and Expenditure Statement – Other Operating Expenditure.....	23	33	Inventories.....	54
11	Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure.....	23	34	Debtors.....	55
12	Comprehensive Income and Expenditure Statement – Taxation and Non Specific Grant Incomes.....	23	35	Creditors.....	55
13	Grant Income.....	24	36	Provisions.....	56
14	Related Parties.....	24	37	Cash Flow Statement – Operating Activities.....	57
15	Interest in Companies.....	25	38	Cash Flow Statement – Investing Activities.....	57
16	Amounts Reported for Resource Allocation Decisions.....	26	39	Cash Flow Statement – Financing Activities.....	57
17	Movement in Reserves Statement – Adjustments between Accounting Basis and Funding Basis under Regulations.....	30	40	Cash Flow Statement – Cash and Cash Equivalents.....	57
18	Movement in Reserves Statement – Transfers to / (from) Earmarked Reserves.....	38	41	Trust Funds.....	57
19	Property, Plant and Equipment.....	39	42	Contingent Liabilities.....	58
20	Investment Properties.....	41	43	Contingent Assets.....	59
21	Intangible Assets.....	41	44	Accounting Standards That Have Been Issues but Have Not Yet Been Adopted.....	59
22	Assets Held for Sale.....	43	45	Critical Judgement in Applying Accounting Policies.....	60
23	Capital Commitments.....	44	46	Assumptions made about the Future and Other Major Sources of Estimation Uncertainty.....	62
			47	Transition Arrangements from UKGAAP to IFRS.....	63
			48	Authorisation of the Accounts.....	65

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 9
27 JUNE 2011	PUBLIC REPORT

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

WORK PROGRAMME 2011/2012

1. ORIGIN OF REPORT

This is a standard report to Audit Committee which forms part of its agreed work programme. This standard report provides details of the proposed Work Programme for the Municipal Year 2011 / 2012 together any training needs identified.

2. UPDATE

2.1 Work Programme

The Work Programme (**Appendix A**) is based on previous years meeting dates / agendas. The programme will be refreshed in consultation with senior officers and the Committee membership throughout the year.

WORK PROGRAMME FOR 2011 / 2012

Date	Work Programme	Key Officer
6 June 2011	<p>First meeting of the Audit Committee in the Municipal Year. It is proposed that following Full Council, subject to changes in membership from previous years, the meeting will be set aside to provide an overview of the Committee and the roles and responsibilities of Members. This will include training / guidance in relation to:</p> <ul style="list-style-type: none"> • Internal Audit and External Audit; • Risk Management; • Finance Standards and Final Accounts Closure; • Governance, Fraud and Investigations. 	Steve Crabtree
27 June 2011	<ul style="list-style-type: none"> • Internal Audit: Annual Report 2010 / 2011 • Review of Effectiveness of Internal Audit • Fraud: Annual Report 2010 / 2011 • Annual Governance Statement • Statement of Accounts 2010 / 2011 • Feedback Report 	Steve Crabtree Steve Crabtree Diane Baker Steve Crabtree Steven Pilsworth
5 September 2011	<ul style="list-style-type: none"> • Risk Management Strategy • Investigatory Powers Act: Progress Report Q1 • Feedback Report 	Stuart Hamilton Diane Baker
26 September 2011	<ul style="list-style-type: none"> • Audit of Statement of Accounts • Feedback Report 	Steven Pilsworth
7 November 2011	<ul style="list-style-type: none"> • Internal Audit: Mid-Year Progress against Audit Plan • Risk Management: Strategic Risks • Treasury Management Update • Investigatory Powers Act: Progress Report Q2 • Feedback Report 	Steve Crabtree Stuart Hamilton Steven Pilsworth Diane Baker
6 February 2012	<ul style="list-style-type: none"> • External Audit: Annual Audit Letter • External Audit: Report to Management • External Audit: Grant Claims Annual Certification • Feedback Report 	Steven Pilsworth / PwC
26 March 2012	<ul style="list-style-type: none"> • Investigatory Powers Act: Progress Report Q3 • Internal Audit: Strategy and Audit Plan 2012 / 2013 • External Audit: Audit Plan • Feedback Report 	Diane Baker Steve Crabtree PwC

Each meeting may be supplemented by additional reports deemed appropriate for the Committee. This could relate to specific work requests for Internal Audit or External Audit; changes made to Financial Regulations or Contract Regulations; or other governance or legislation which impacts on the work of the Committee.