



STATEMENT OF ACCOUNTS 2012/13

**REDCAR AND CLEVELAND
BOROUGH COUNCIL**

STATEMENT OF ACCOUNTS

2012/13

CONTENTS

	<u>PAGE</u>
REDCAR AND CLEVELAND BOROUGH COUNCIL	
Explanatory Foreword	3 - 15
Statement of Responsibilities for the Statement of Accounts	16
Movement In Reserves Statement	17 - 18
Comprehensive Income and Expenditure Statement	19
Balance Sheet	20
Cash Flow Statement	21
Notes to the Accounts	22 - 103
Collection Fund	104 - 108
Group Accounts	109 - 110
Auditor's Report	111 - 113
Glossary of Terms	114- 129

REDCAR AND CLEVELAND BOROUGH COUNCIL

EXPLANATORY FOREWORD

1. INTRODUCTION

This section provides an overview of the format of the Statement of Accounts. It also provides a summary of the key issues that were facing the Council during the 2012/13 financial year and includes the outturn position on both revenue and capital, identifying where this was spent and how it was financed. Finally, it highlights some of the challenges facing the Council in the coming years.

The Statement of Accounts for the year ended 31st March 2013 is presented in the format laid down in the 'Code of Practice on Local Authority Accounting in the United Kingdom' – issued by the Accounting Standards Board as a framework for the preparation and presentation of financial statements. The Code is based on International Financial Reporting Standards (IFRS) which required new accounting policies to be adopted from 2010/11.

The technical, financial and accounting terms that have been used in the production of this statement are defined in the glossary which can be found from page 114 onwards.

2. STRUCTURE OF STATEMENT OF ACCOUNTS

The Council's Statement of Accounts for the year 2012/13 are set out on pages 16 to 110. The information and financial statements included are as follows: -

The Explanatory Foreword

The purpose of this foreword is to act as a guide to the most significant matters impacting on the Council's finances. It sets out where the Council's money comes from, what it is spent on and what services it provided, as well as the financial position and assistance in the interpretation of the financial statements. The explanatory foreword is not covered by the Statement of Responsibilities for the Statement of Accounts, but is provided for information purposes.

Statement of Responsibilities for the Statement of Accounts

This explains both the Council's and Chief Financial Officer's legal and professional responsibilities for the Statement of Accounts under Local Government legislation. It does not cover the Explanatory Foreword, the Annual Governance Statement or the Auditor's Report.

Movement in Reserves Statement

This statement shows the movement in the different reserves held by the Council over the financial year. These reserves can be analysed into usable reserves, those that can be applied to fund expenditure or to reduce taxation, and other unusable reserves, held for accounting purposes.

Comprehensive Income and Expenditure Statement

This statement brings together both income and expenditure relating to all of the Council's services for the year and also shows how this is financed from a combination of local taxation, government grants and other income. This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded by taxation.

Balance Sheet

This is a statement of the financial position of the Council and shows the balances and reserves at its disposal, its long term indebtedness, and the fixed and net current assets employed in its operations, as at 31 March 2013.

Cash Flow Statement

This statement shows the changes in cash and cash equivalents held by the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cashflows into operating, investing and financing activities.

Notes to the Core Financial Statements

These notes provide further information on the more significant items in the Financial Statements.

Statement of Accounting Policies

This explains the principles, bases, conventions and rules applied in preparing the figures in the accounts that are key to the understanding of the financial statements and disclosure notes. Any changes in accounting policies between financial years have been clearly highlighted.

Collection Fund

This shows the income and expenditure in relation to council tax and business rates and illustrates the way in which these have been distributed to Precepting Authorities (Police, Fire and Parish Councils) and the Council's own General Fund.

Group Accounts

The Council has relationships with numerous external bodies in the form of companies, partnerships and other public sector organisations. These relationships can lead to an increase in the assets, liabilities and financial risks facing the Council. Group Accounts, where required, aim to measure the total financial exposure and show how these differ from its single entity position. The Council's financial relationship in these instances dictates that group accounts are not required.

Auditors Report

The Council's financial records are inspected by an external auditor, Mazars who are appointed by the Audit Commission. The auditor's major role is to provide a level of assurance that the information presented within the Statement of Accounts represents a true and fair view of the financial position of the Council, and that the systems and procedures are in place to record accurately the financial transactions of the Council and to protect its assets. This statement is only included after the end of September each year once the final audit opinion has been issued and is not covered by the Statement of Responsibilities for the Statement of Accounts.

3. REVENUE SPENDING IN 2012/13

Revenue expenditure is generally spent on items consumed within the year such as employee costs, and is financed from a combination of Council Tax, Government Grants and other income.

The revenue budget for 2012/13 was predicated on delivering £7.8m worth of service and business savings to address a combination of reduced income from government funded grants and to fund key service pressures to support the requirements of the Borough. A two per cent council tax increase was set with a net budget requirement of £122.414m being agreed by Council.

A rigorous approach to financial control of the revenue budget, supported by monthly monitoring to Cabinet, has played a major part in the Council delivering a balanced outturn position for 2012/13 across the whole of the financial year. A minor underspend of £0.114m has been achieved following the closure of accounts.

All Council Directorates have managed within their budget allocations through a combination of strict gate keeping arrangements and additional income generation or cost reduction solutions. Some minor underspends in year have been transferred to the Council's budget strategy reserve.

The position on corporate budgets, which are those budgets outside of directorate management, is a combination of underspends on capital financing budgets and other miscellaneous credits totalling around £3.3m. This position has been used to increase the insurance provision in respect of prior years' claims under the mutual municipal insurance scheme for industrial related injuries to £2.069m and to increase a number of earmarked reserves given the financial savings needed to be made by the Council in the period to 2020.

The revised revenue budget incorporated a contribution to revenue balances of £0.973m. The total net spending on the General Fund was £122.300m. This represents a contribution from balances of £0.859m; an under spend of £0.114m when compared to the revised budget for the year.

Although the Council manages its budget internally through directorates; overall performance is measured against the corporate plan 'Our Plan' with a number of priority theme headings. The original budget, together with a comparison of the revised budget with actual expenditure, in relation to these priority themes, is summarised below. The budget variances are in keeping with the main service/directorate pressures outlined above:

	Original Budget	Revised Budget	Actual Expenditure	Variance	Capital Charges	Other Adjustments	TRUE variance
	£000	£000	£000	£000	£000	£000	£000
A Thriving Local Economy With Local People Who Have The Skills To Secure Jobs Healthier And Longer Lives For All	24,790	24,109	24,941	832	1,969	(760)	(377)
People Are Protected And Feel Safe	2,648	4,206	2,563	(1,643)	118	(1,787)	26
Children And Young People Aspire And Achieve	55,783	63,061	61,822	(1,239)	490	(1,464)	(265)
Empowered And Active Communities Who Have Pride In Their Neighbourhoods	9,333	15,550	18,644	3,094	1,206	890	998
	8,343	10,626	10,236	(390)	(324)	(121)	55
Business Improvements	21,517	4,862	4,094	(768)	(3,459)	3,242	(551)
Net Council Expenditure	122,414	122,414	122,300	(114)	-	-	(114)

More details on the managed budget position for each directorate and reasons for variances can be seen in the Council's corporate financial outturn report 2012/13 presented to Cabinet on 28 May 2013. This is available on the Council's website.

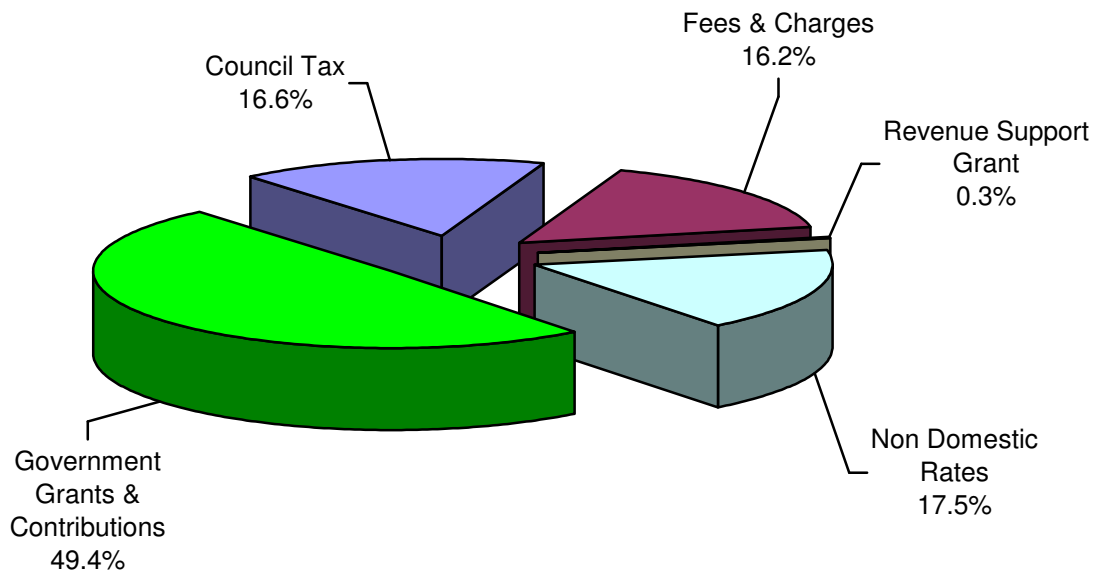
There are a number of variances from budget at both priority theme and directorate level. The Council produces its accounts in line with the IFRS Code of Practice which requires a range of technical adjustments to be undertaken on capital charges to revenue, retirement benefits and transfers to and from reserves. These accounting arrangements are not consistent with the way funding is raised by the Council and as a result the variances caused by these adjustments are reversed to ensure no impact on the Council's general reserves.

The Comprehensive Income and Expenditure Statement on page 19 shows the true cost of delivering services within 2012/13. This includes unrealised gains and losses on non-current assets, financial instruments and pensions. The statement deficit of £19.430m aligns to the deficit on the General Fund of £0.859m due to £18.571m of costs not chargeable to revenue balances for capital and treasury accounting adjustments, and movements in earmarked reserves are as described above. The major item relates to transfers of school assets to academy status being classed as a loss on disposal of £15.957m.

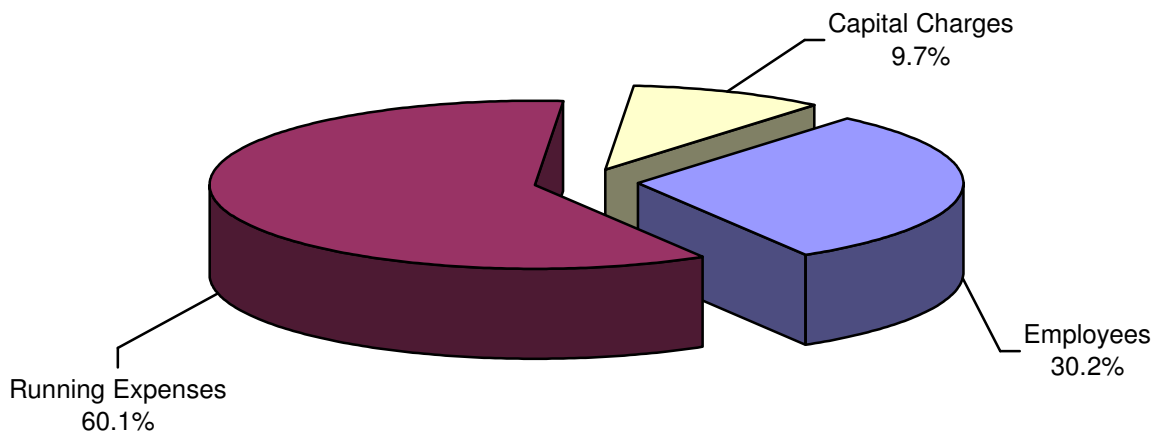
Additional information on how the Comprehensive Income and Expenditure Statement reconciles to the Council's budgetary position by Directorate can be seen in note 5.

The diagrams below show an analysis of the gross revenue spending of £341,561 as shown in the Comprehensive Income and Expenditure Statement. It is important to note that the contribution from the local community through the Council Tax represents 16.6% of the Council's total income.

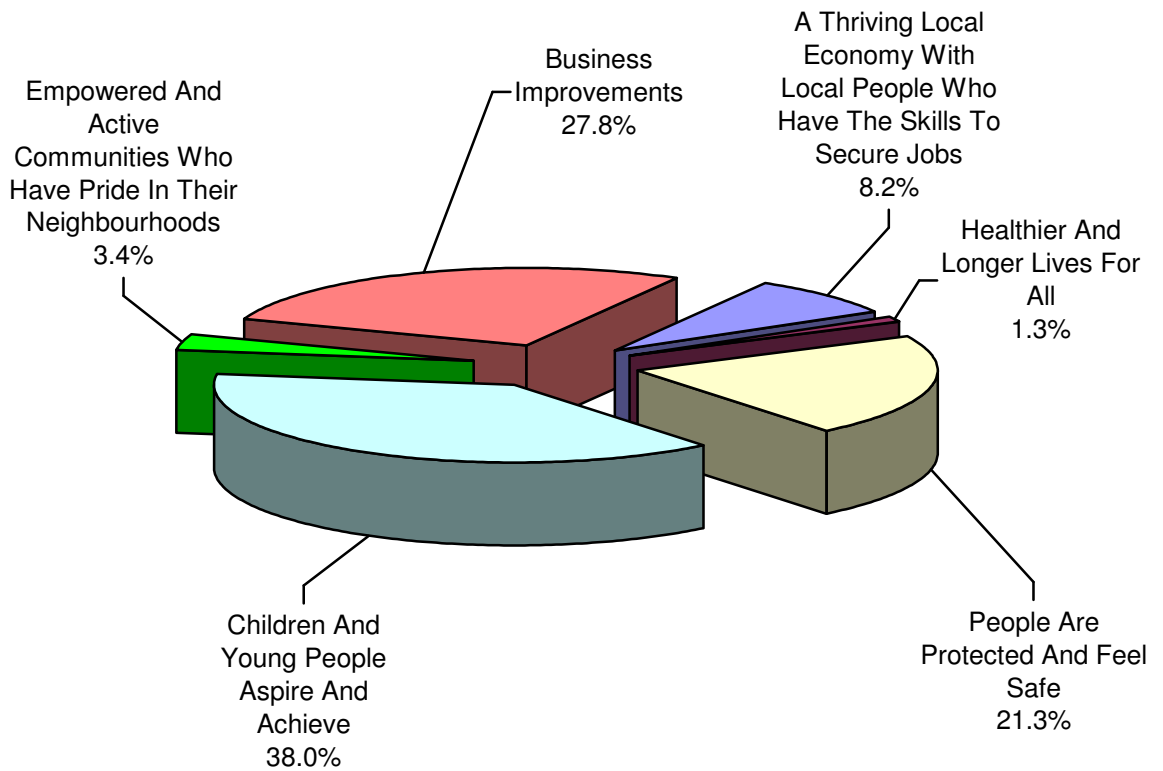
Where the money has come from



How we spent this



Where the money is spent by priority theme



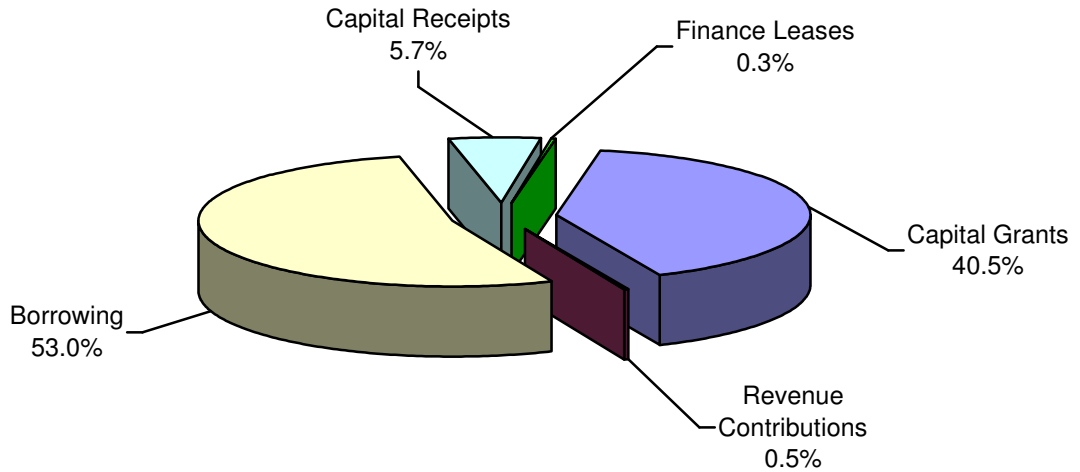
4. CAPITAL SPENDING IN 2012/13

The capital programme is run together with the revenue budget and spending on capital projects enhances the Council's assets and enables improved service delivery and also secures essential infrastructure. Capital expenditure can vary considerably between years depending on the projects ongoing. The programme is, however, financed in such a way as to even out the cost to council taxpayers and spread it over the life of the asset being used. Capital expenditure during the year amounted to £39.145m (2011/12 £34.299m). The main areas of capital expenditure were as follows:

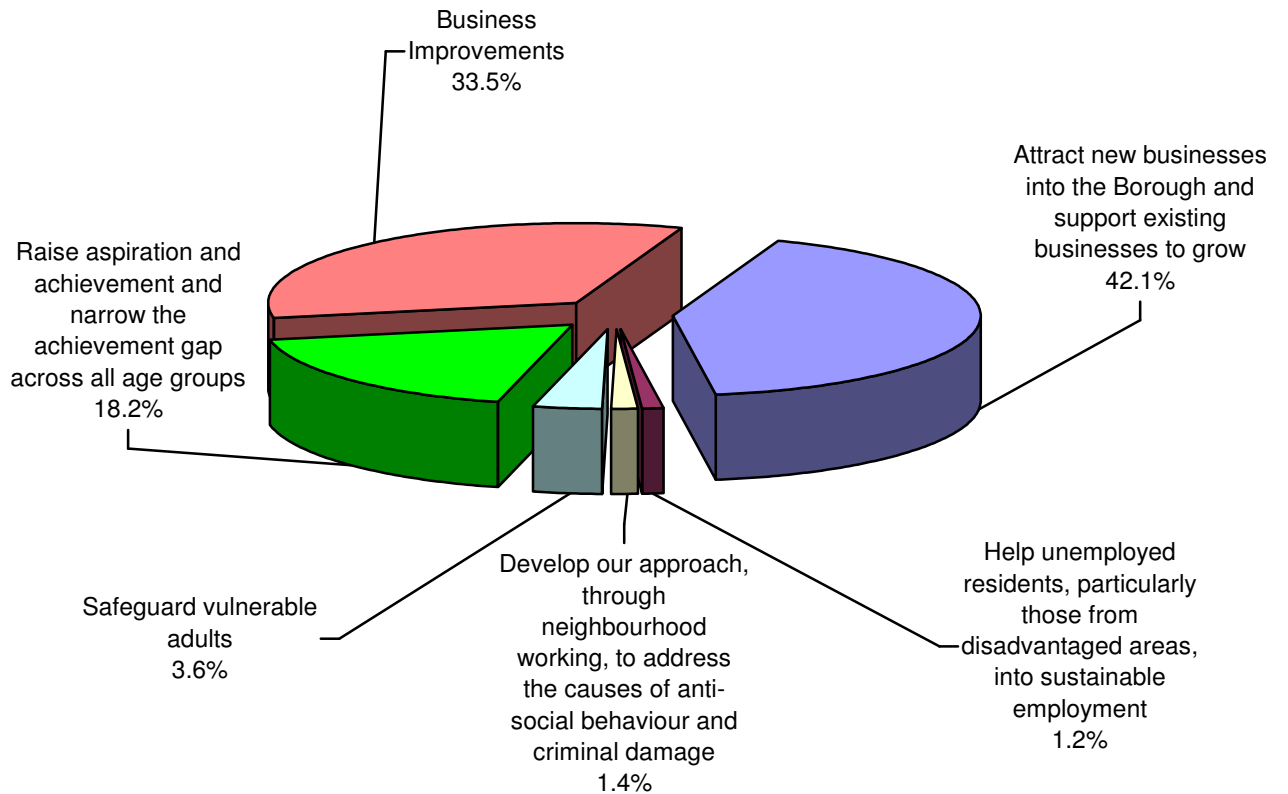
Scheme	2012/13 £000	Scheme	2012/13 £000
<u>Attract new businesses into the Borough and support existing businesses to grow</u>		<u>Business Improvements</u>	
Waste Infrastructure	566	Enterprise Resource Planning	737
Improving Visitor Facilities	327	Carbon Management Programme	128
The Hub	4,425	Demolish Eston Town Hall	646
Redcar Beacon	1,319	Redcar Civic and Community Heart	9,569
Seafront Public Realm	3,949	ICT Projects	992
Bus Network Review	1,139	Energy Management	277
Safer Roads	535	Asset Management – Capitalised Repairs	542
South Bank Housing Renewal	372	Other	220
Housing Assistance	245	Total	13,111
Structural Highways Spend	1,541	<u>Safeguard Vulnerable Adults</u>	
Highways Improvements	1,180	Disabled Facilities Grant	1,050
Drainage Asset Capture and Flood Prevention	218	Community Capacity Grant	150
Other	670	National Service Framework	
Total	16,486	Mental Health Reconfig – Social Inclusion	80
<u>Raise aspirations and achievement and narrow the achievement gap across all age groups</u>		Homecall Alarms	135
Kirkleatham Boiler Replacement	405	Total	1,415
Devolved Capital in Schools	411	<u>Help unemployed residents, particularly those from disadvantaged areas, into sustainable employment</u>	
MyPlace	2,415	RDPE Guisborough Market Town Programme	8
Nunthorpe Primary	365	Eco Park – A66	451
Teesville/Ravensworth	367	Total	459
Nunthorpe Secondary	227	<u>Develop our approach, through neighbourhood working, to address the causes of anti-social behaviour and criminal damage</u>	
Redcar Community College	1,235	Golden Boy Green	565
Kitchen Improvements	175	Total	565
Disabled Access	296		
Other	1,213		
Total	7,109		
TOTAL CAPITAL SPEND 2012/13			39,145

The following diagrams show an analysis of the total capital expenditure of £39.145m:-

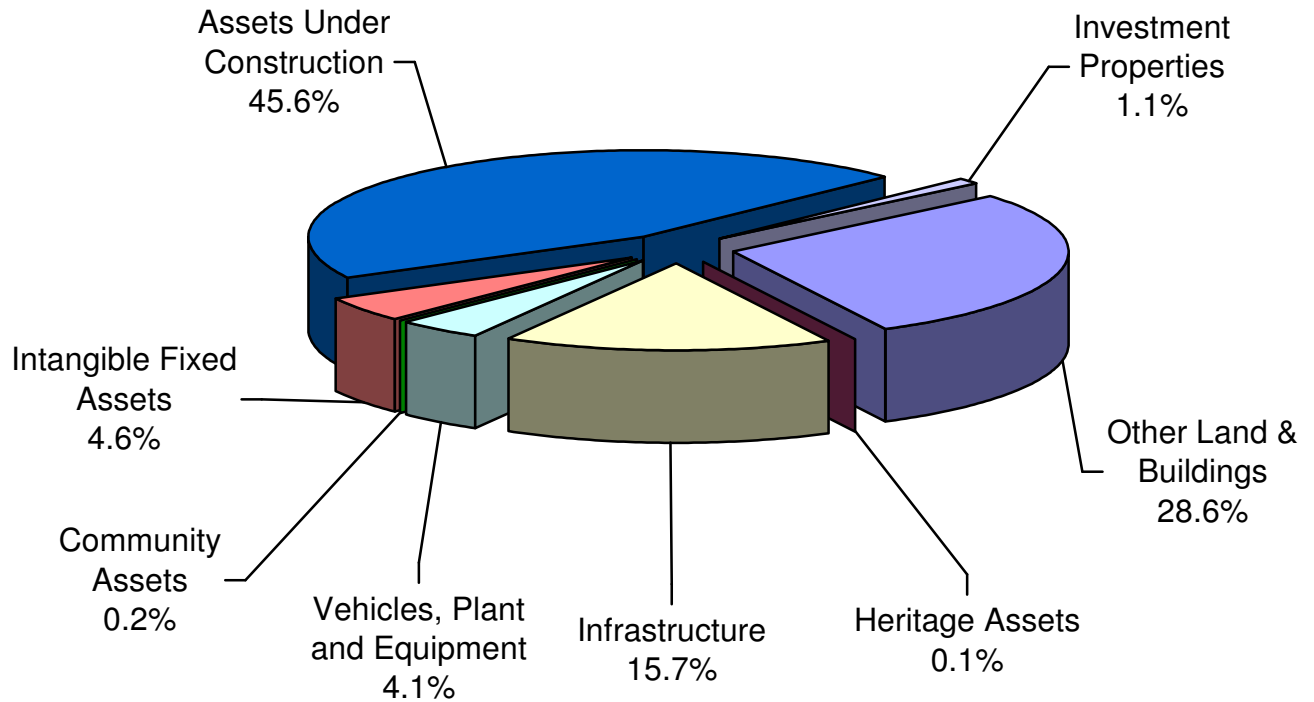
How we have funded capital expenditure



How we have spent our capital funds



What assets have we created



Further details relating to capital expenditure are shown in Note 13 and Note 27 and within the Council's corporate financial outturn report for 2012/13 available on the website.

5. TREASURY MANAGEMENT ACTIVITIES

The Council borrows money to fund capital investment and operates within its limits set in accordance with the CIPFA Prudential Code for Capital Finance. As at 31 March 2013, the Council's Capital Finance Requirement was £255.782m.

The Council's policy on borrowing is set out in its Treasury Management and Investment Strategy approved by the Council each year in March. The general approach has been to undertake new borrowing at as competitive rates as possible in the medium term range between 10 and 20 years and from the government's borrowing agency, the Public Works Loan Board. Over the last four years, the Council has deferred some of the long term borrowing on its capital programme. This has been a conscious strategic decision, based on the incremental cost of borrowing (the fact that investment rates are much lower than borrowing rates) and the reduction of credit risk given the risk of default in the banking industry currently. In addition, delays in capital expenditure and holding off on borrowing have allowed the Council to make significant savings against the revenue budget for principal and interest costs, assisting the overall financial position.

The Council invests its surplus cash balances on the money market in order to match the timing of both revenue and capital receipts to expenditure. These investments generated £0.459m worth of income to the Council during 2012/13 which assisted the overall revenue budget position.

During October 2008 and as a result of the global recession and problems within their national economy, several Icelandic banks went into administration. At the time the Council had investments with two financial institutions, Heritable PLC (£4m) and Kaupthing, Singer and Friedlander Ltd (£2m).

The ongoing recovery of these investments is being co-ordinated by the Local Government Association on behalf of the 127 affected local authorities. At the 31 March 2013, the Council has recovered £4.6m. The administrators' report suggests that a further £0.7m is recoverable. Under statute, the Council was required to account for this loss prior to the end of the 2010/11 financial year, which we have done.

During August 2013 the remaining debt portfolios relating to the Councils Icelandic investments were sold to a private investor. This has resulted in a more optimistic recoverable value than suggested above with the total receipts expected to increase by a further £0.2m

6. PENSIONS

The Council participates in the Local Government Pension Scheme (Teesside Pension Fund), administered by Middlesbrough Council. This is reflected in the Balance Sheet, which includes a pension liability and pension reserve in respect of this scheme of £157.2m as at 31 March 2013. Although these pension liabilities decrease the overall level of reserves accounting, they do not represent a reduction in the Council's cash reserves. This liability does impact on the balance sheet and is the main factor in reducing the net worth (total liabilities greater than total assets) to a negative position of £104.165m.

Whilst this pension liability suggests a significant shortfall between the forecast cost of future pensions and the significant level of assets held in the fund, it should be noted that the fund assets are subject to fluctuations in value depending on the current state of the stock market. The Pension Scheme also has an investment strategy in place to address this funding deficit over a 20 year period, based on an appropriate level of employer's contributions producing a positive cash flow into the fund. The size of the deficit proportionally is not dissimilar to that being experienced by other local authorities.

7. COLLECTION FUND

The Council set a Band D Council Tax of £1,362.96 for 2013/14, an increase of 1.97% over 2012/13. The addition of the Police Authority and Fire Authority spending requirements resulted in a total Band D Council Tax of £1,629.00 for residents of the Borough in non-parish areas. Residents of areas with parish council responsibilities will pay marginally more than this depending on their own parish council tax amount.

The percentage of Council Tax collected in 2012/13 was 96.7% (96.9% in 2011/12).

The current surplus on the collection fund at the 31st March 2013 was £0.288m.

8. ACCOUNTING CONCEPTS AND POLICIES

The introduction of new accounting standards, International Financial Reporting Standards (IFRS), has been adopted since 2010/11 for local authorities across the UK. This is in accordance with central government regulations to apply these new standards originally applied within the private sector and now applied across all public sector bodies.

A summary of the main changes made to the accounting policies and structure of the financial statements, as a result of the changeover to IFRS, can be seen in the explanatory foreword in the Council's 2010/11 set of accounts (available on the Council's website).

The Council's Statement of Accounts has been prepared on the assumption that the organisation will continue in operational existence for the foreseeable future, and with

reference to the following fundamental accounting concepts and qualitative characteristics:

- Relevance
The accounts have been prepared with the objective of providing information about the Council's financial performance and position that is useful for assessing the stewardship of public funds and for making economic decisions.
- Materiality
Materiality is a feature of relevance and this concept has been utilised in preparing the accounts so that insignificant items and fluctuations under an acceptable level of tolerance are permitted provided that in aggregate they would not affect the interpretation of the accounts by an informed reader.
- Faithful Representation
The financial statements fully represent relevant transactions and events of the Council. In order to ensure a perfectly faithful representation the financial information represents the substance of an economic transaction rather than merely its legal form and it is prepared with the objective of ensuring it is
 - a) Complete – includes all necessary information, including descriptions and explanations to allow the user to fully understand the position being reported;
 - b) Neutral – without bias; and
 - c) Free From Error – no errors or omissions in the process used to produce the reported information
- Verifiability
The financial information is prepared to allow different knowledgeable and independent users to reach consensus, not necessarily complete agreement, that the financial statements are a true representation of the Council's financial activity.
- Comparability
The Council's accounts comply with the Code and with the Service Reporting Code of Practice. This ensures consistency in our reporting across financial years and aids comparability with other local authorities.
- Timeliness
The Council's accounts are prepared in a timely manner so that information is available and capable of influencing user's decisions.
- Understandability
The accounts are based on accounting concepts, treatments and terminology which require reasonable knowledge of accounting and local government. However, every effort has been made to use understandable language and where technical terms are unavoidable they have been explained as they occur.

9. STRATEGIC PARTNERSHIPS

The Council has the following Partnerships:

Liberata UK Limited – commenced on 8 May 2003 for the provision of an outsourced revenue and benefits service, with a duration of ten years. The contract has recently been renegotiated and extended in line with the current arrangements for a further five years to May 2018.

McAlpine PLC / Carillion FM – commenced originally on 1 April 2004 with duration of 3 years for the provision of Highway Services. This contract was extended in 2007/08 to

provide coverage up to 31 March 2011. In March 2008 McAlpine PLC was subject to a take-over by Carillion FM Government Limited, to whom this contract has transferred. Following a competitive tender process during the 2010/11 financial year Carillion have been awarded the contract from 1 April 2011 for a further three years.

The Council is also the lead body for the Redcar and Cleveland Local Strategic Partnership which covers a number of other public and voluntary sector bodies. The LSP acts as a commissioning body for a number of partner related initiatives.

The Council has also entered a shared service arrangement with Middlesbrough Council for the provision of Internal Audit Services from the start of January 2011 with Redcar and Cleveland acting as the lead body.

The Council, from 1st April 2013, has entered into a new contract for the provision of leisure services with Sports and Leisure Management Ltd. The contract lasts for the next twenty years expiring on 31st March 2033.

10. PRIVATE FINANCE INITIATIVE

The Council has three Private Finance Agreements at the operational stage for office accommodation, schools and street lighting and is currently making or committed to make contractual payments under the three agreements of £13.112m in 2012/13. This cost was offset in part by PFI grant of £7.123m. Where funding sources for the projects do not match the expenditure profile this is managed through the creation of a sinking fund, which is drawn on as and when required.

11. LOOKING AHEAD TO 2013/14 AND THE FUTURE

From April 2013, the Government is changing the way in which local government is funded through the introduction of the business rates retention scheme. The local government sector will now be able to benefit directly from supporting local business growth as they will be able to keep 49% (above an assessed floor) of any increases in business rates revenue to invest in local services.

Additionally there are other funding changes in relation to options on Council Tax discounts, the introduction of a localised council tax support scheme, and numerous changes on welfare reform which impact on the total income received by the Council.

The Council takes a logical approach to the building and management of its revenue budget, ensuring that all funding options, service pressures and savings proposals are considered, detailed and managed. 2013/14 is seen as a transition year, with a fundamental shift in how Local Government is to be funded in the future.

The Council, in these challenging economic times, still strives to ensure that it operates in line with its four key principles. These are:

- Remaining focussed on our priorities
- Protecting the vulnerable in our community
- Concentrating on the delivery of front line services
- Minimising the impact on job losses

The Council set a two year revenue budget in December 2011 for 2012/13 and 2013/14. As part of these proposals savings were needed of £3.5m to balance the 2013/14 revenue budget. Plans have been drawn up to achieve these savings mainly through service reviews but also through a combination of additional income sources. Additionally the Council increased council tax by 1.97% which reduced the savings required by £1.2m. General reserves were broadly set as 5% of the revenue budget at just over £6m.

Additionally as part of the 2013/14 local government finance settlement the Council also needed to find an additional £0.9m on top of the December 2011 proposals and these were achieved by a number of additional corporate savings.

The 2013/14 budget is challenging and based on a number of assumptions. The risks associated with these assumptions have been addressed through the use of credible forecasts, the development of robust delivery plans and the retention of a risk assessed level of balances. Progress against these plans will be closely monitored through regular budget monitoring activity.

The Medium Term Financial Plan for 2013–20 reflects an estimated reduction in government grant of approximately 42%. Some of this reduction may be offset by generating more council tax and business rates for example, or through increasing income generated through commercial activity, fees and charges. However, even including these assumptions about income growth, there is an estimated budget shortfall of £33.8m up to 2019/20 if the Council continues to provide services in the same way. Additionally some of these savings are front loaded with £10.2m needed to be made in the 2014/15 financial year alone.

In order to secure the financial stability and sustainability of the Council going forwards a fundamental re-design of the Council services is needed. This project 'shaping our future' has analysed and researched the current structure and services of the Council and has put forward a business case for a number of cross cutting thematic reviews. Each review will essentially build services in a particular area from a zero base within a targeted budget.

The aim is to do this budget build in order to agree revenue budgets for the three year period 2014-17 at the Council meeting in December 2013. This will mean significant change within the Council including possible new political and management structures as well as revised offerings in terms of services to the public, given the size of the financial savings needed.

In addition to its revenue plans, the Council has a strong capital investment programme, with £165.0m to be invested over the Medium Term Financial Plan period. The main focus is on the regeneration of the Borough through the Economic Regeneration Masterplan and specific renewal projects in Redcar, South Bank, Greater Eston and East Cleveland. This ambitious programme is funded from Government grant, partner contribution and prudential borrowing input by the Council.

Another major challenge for the Council from 1st April 2013 is the transfer of the public health function from the health sector to local authority control. A Director for Public Health has been appointed and all relevant staff have now transferred across to the Council's employment. A new directorate has been created within the Council's management structure and all commissioning and contracts are now through the Council's systems and procedures.

In tandem with the change on public health, Primary Care Trusts have been replaced from 1st April 2013 by Clinical Commissioning Groups. The Council has significant relationships with these organisations whether through Health or wider Adults and Children's functions.

12. OTHER SOURCES OF INFORMATION

This Statement of Accounts forms only one element of the Council's external financial reporting to stakeholders. Further information can be found in the following publications which are produced each year and are available on the Council's website

www.redcar-cleveland.gov.uk

- Summary Statement of Accounts for 2012/13
- Revenue Budget for 2013/14
- Budget Book for 2013/14
- Council Tax Leaflet

13. INSPECTION AND AUDIT OF THE ACCOUNTS

Under the Audit Commission Act 1998, members of the public have the right to inspect the Council's accounts and supporting documents and to question the auditor about, or make objections to, the matters contained in them. The times at which the accounts are deposited for inspection are advertised each year in the Evening Gazette.

The Council's external auditors are: -

Mazars LLP
Durham Office
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

14. FURTHER INFORMATION

Further information about the Statement of Accounts is available from the Assistant Director - Financial Services, Redcar and Cleveland House, Kirkleatham Street, Redcar, TS10 1RT.

The Code of Practice on Local Authority Accounting and the Service Reporting Code of Practice are available from the Chartered Institute of Public Finance and Accountancy website at www.cipfa.org.uk.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Assistant Director – Financial Services.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

Assistant Director - Financial Services' Responsibilities

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

In preparing this Statement of Accounts, the Assistant Director - Financial Services has:

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

The Assistant Director - Financial Services has also:

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

I hereby state that the Statement of Accounts presents a true and fair view of the financial position of the Authority as at 31 March 2013 and for its income and expenditure for the year ended 31 March 2013.

John Sampson, BA (Hons), PG Dip, Adv Dip, FCCA
Assistant Director - Financial Services

Date:

FINANCIAL STATEMENTS – 2012/13

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable 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 (CIES). These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2012 carried forward	7,028	16,887	-	4,632	28,547	(143,596)	(115,049)
<u>Movement in reserves during 2012/13</u>							
Surplus/(Deficit) on the provision of services (CIES)	(19,430)	-	-	-	(19,430)	-	(19,430)
Other Comprehensive Income and Expenditure (CIES)	-	-	-	-	-	30,880	30,880
Total Comprehensive Income and Expenditure	(19,430)	-	-	-	(19,430)	30,880	11,450
Adjustments between accounting basis & funding basis under regulations (Note 5)	25,200	-	-	(554)	24,646	(24,646)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	5,770	-	-	(554)	5,216	6,234	11,450
Transfers to/(from) Earmarked Reserves (Note 8)	(6,629)	6,629	-	-	-	-	-
Increase/(Decrease) in Year	(859)	6,629	-	(554)	5,216	6,234	11,450
Balance at 31 March 2013 carried forward	6,169	23,516	-	4,078	33,763	(137,362)	(103,599)

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2011	6,328	12,430	-	656	19,414	(46,522)	(27,108)
<u>Movement in reserves during 2011/12</u>							
Surplus/(Deficit) on the provision of services (CIES)	7,342	-	-	-	7,342	-	7,342
Other Comprehensive Income and Expenditure (CIES)	-	-	-	-	-	(95,283)	(95,283)
Total Comprehensive Income and Expenditure	7,342	-	-	-	7,342	(95,283)	(87,941)
Adjustments between accounting basis & funding basis under regulations (Note 5)	(2,185)	-	-	3,976	1,791	(1,791)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	5,157	-	-	3,976	9,133	(97,074)	(87,941)
Transfers to/(from) Earmarked Reserves (Note 8)	(4,457)	4,457	-	-	-	-	-
Increase/(Decrease) in 2011/12	700	4,457	-	3,976	9,133	(97,074)	(87,941)
Balance at 31 March 2012 carried forward	7,028	16,887	-	4,632	28,547	(143,596)	(115,049)

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

2011/12			2012/13			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
1,884	(1,172)	712	* Central services to the public	2,194	(1,225)	969
250	-	250	Court services	266	0	266
11,858	(1,043)	10,815	Cultural and related services	10,661	(936)	9,725
15,000	(3,182)	11,818	* Environmental and regulatory services	15,305	(2,997)	12,308
14,503	(4,630)	9,873	Planning services	11,390	(2,510)	8,880
161,248	(138,213)	23,035	Education and children's services	157,340	(128,349)	28,991
18,934	(2,498)	16,436	Highways and transport services	18,196	(2,655)	15,541
59,437	(56,786)	2,651	Other housing services	61,974	(60,286)	1,688
58,031	(9,897)	48,134	Adult social care	58,162	(14,330)	43,832
5,002	(54)	4,948	Corporate and democratic core	4,781	(217)	4,564
3,983	(228)	3,755	Non distributed costs	1,843	(183)	1,660
-	-	-	Past service gain – pensions (Note 42)	-	-	-
350,130	(217,703)	132,427	Cost of Services	342,112	(213,688)	128,424
		262	Other Operating Expenditure (Note 10)			16,631
		14,215	Financing and Investment Income and Expenditure (Note 11)			19,371
		(154,246)	Taxation and Non-Specific Grant Income (Note 12)			(144,996)
		(7,342)	(Surplus)/Deficit on Provision of Services			19,430
		(5,548)	(Surplus)/Deficit on revaluation of non current assets (Note 40)			(6,873)
		348	(Surplus)/Deficit on revaluation of available for sale financial assets (Note 40)			(94)
		100,483	Actuarial (gains)/losses on pension assets/liabilities (Note 42)			(23,913)
		95,283	Other Comprehensive Income and Expenditure			(30,880)
		87,941	Total Comprehensive Income and Expenditure			(11,450)

* The gross expenditure and gross income in 2011/12 have been re-stated for council tax benefit and departmental recharges adjustments, see Note 6 for details.

BALANCE SHEET

The Balance Sheet shows the value, as at the financial year end, 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 reserves are usable reserves, i.e. 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. The second category of reserves is those that the Council is not able to use to provide services but are for accounting purposes.

31 March 2012 £000		Note No.	31 March 2013 £000
264,694	Property, Plant & Equipment	20	262,511
507	Heritage Assets	22	527
9,892	Investment Property	23	12,216
2,996	Intangible Assets	24	3,241
313	Long Term Investments	28	406
464	Long Term Debtors	29	419
278,866	Long Term Assets		279,320
6,269	Short Term Investments	37	10,848
4,858	Assets Held for Sale	30	4,464
119	Inventories	31	117
15,978	Short Term Debtors	32	28,353
20,533	Cash and Cash Equivalents	33	5,996
47,757	Current Assets		49,778
(7,255)	Short Term Borrowing	37	(13,279)
(30,369)	Short Term Creditors	34	(26,746)
(2,109)	Short Term Provisions	35	(2,327)
(2,044)	Revenue Grants Receipts in Advance	39	(1,719)
(41,777)	Current Liabilities		(44,071)
(276)	Long Term Creditors	36	(196)
(1,704)	Long Term Provisions	35	(1,838)
(152,216)	Long Term Borrowing	37	(161,194)
(243,600)	Other Long Term Liabilities	38	(224,779)
(2,099)	Capital Grants Receipts in Advance	39	(620)
(399,895)	Long Term Liabilities		(388,627)
(115,049)	Net Assets		(103,599)
28,547	Usable Reserves		33,763
(143,596)	Unusable Reserves	40	(137,362)
(115,049)	Total Reserves		(103,599)

I confirm that these accounts were approved by the Audit Committee at the meeting held on 25 September 2013.

John Sampson
Assistant Director - Financial Services

Cllr. Bill Suthers
Chair of Audit Committee

Date:

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.

2011/12 £000		2012/13 £000
7,342	Net surplus/(deficit) to the provision of services (CIES)	(19,430)
17,624	Adjustments to net surplus/(deficit) on the provision of services for non cash movements (Note 43)	32,570
(22,607)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities (Note 43)	(17,509)
2,359	Net cash flows from Operating Activities (Note 43)	(4,369)
(2,182)	Investing Activities (Note 44)	(23,053)
148	Financing Activities (Note 45)	12,885
325	Net increase/(decrease) in cash and cash equivalents	(14,537)
20,208	Cash and cash equivalents at the beginning of the reporting period	20,533
20,533	Cash and cash equivalents at the end of the reporting period (Note 33)	5,996

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

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

NOTES TO THE ACCOUNTS – 2012/13

1	– Accounting Standards That Have Been Issued but Have Not Yet Been Adopted	23
2	– Critical Judgements in Applying Accounting Policies	23
3	– Assumption Made About the Future and Other Major Sources of Estimation Uncertainty	24
4	– Events after the Balance Sheet Date (31 March 2013)	25
5	– Adjustments between Accounting Basis and Funding Basis under Regulations	25
6	– Prior Period Adjustment	28
7	– Amounts Reported for Resource Allocation Decisions	29
8	– Transfers to/from Earmarked Reserves	33
9	– Trust Funds	35
10	– Other Operating Expenditure	35
11	– Financing and Investment Income and Expenditure	36
12	– Taxation and Non Specific Grant Income	36
13	– Dedicated Schools Grant	37
14	– Members’ Allowances	37
15	– Officers’ Remuneration	38
16	– Termination Benefits	41
17	– Trading Operations	42
18	– Pooled Budgets for Health and Social Care	43
19	– Fees Payable to Auditors	44
20	– Property, Plant and Equipment (PPE)	45
21	– Impairment Losses	47
22	– Heritage Assets	48
23	– Investment Properties	49
24	– Intangible Assets	50
25	– Private Finance Initiatives and Similar Contracts	51
26	– Leases	53
27	– Capital Expenditure and Capital Financing	55
28	– Long term investments	56
29	– Long term debtors	56
30	– Assets Held for Sale	57
31	– Inventories	58
32	– Debtors	58
33	– Cash and Cash Equivalents	58
34	– Creditors	59
35	– Provisions	59
36	– Long Term Creditors	61
37	– Financial Instruments	61
38	– Other Long Term Liabilities	72
39	– Grant Income	72
40	– Unusable Reserves	74
41	– Pensions Schemes Accounted for as Defined Contribution Schemes	79
42	– Defined Benefit Pension Schemes	79
43	– Cash Flow Statement – Operating Activities	83
44	– Cash Flow Statement – Investing Activities	84
45	– Cash Flow Statement – Financing Activities	84
46	– Related Parties	84
47	– Contingent Assets and Liabilities	85
48	– Statement of Accounting Policies	86

NOTE 1 – ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

For 2012/13 the following accounting policy changes that need to be reported relate to:

- Amendments to IAS 1 ‘Presentation of Financial Statements’ (other comprehensive income, June 2011) the Chartered Institute of Public Finance & Accountancy (CIPFA) are proposing changes to the grouping and classification of items presented in the “Other Comprehensive Income” section of the Comprehensive Income and Expenditure Statement. This reclassification may be required on the basis that on occasion, certain types of income under this category are potentially open to be reclassified to the Surplus or Deficit on the Provision of Services (at a future date). Such items are likely to be restricted to “gains or losses” on available-for-sale financial assets (e.g. short term and long term investments).
- Amendments to IAS 19 ‘Employee Benefits’ (June 2011) CIPFA have proposed to make a number of changes to the definitions and terminology of various Employee Benefits defined under IAS (International Accounting Standard) 19. These changes will not impact on the accounting measurement but will focus amendments to reclassification of pension fund asset and liability components and the point at which termination benefits are recognised as an accrued commitment in the Balance Sheet.
- IFRS 13 ‘Fair Value Measurement’ (May 2011) CIPFA have consulted on the implications of proposed amendments to the fair value measurement standard set within IFRS 13 *Fair Value Measurement*. CIPFA are concerned that this standard will not reflect the value of some fixed assets to local authorities, especially those which are not profit-generating, and are more concerned with contributing to the delivery of public services rather than the market value of a fixed asset. The Code is to be amended to reaffirm that these assets are generally not profit generating assets and refer to other exceptions to IFRS 13 such as PFI arrangements and Heritage assets.

NOTE 2 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 48 on pages 86 to 103, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The key judgements made in the Statement of Accounts are:

- In the current economic climate there is a degree of uncertainty about future levels of funding and as a result the Council is undertaking on-going reviews in terms of providing services. The Council has determined that there remains sufficient uncertainty over future events that would indicate that its assets may be materially impaired due to closing services or reduced funding.
- The Council has conducted an impairment review on non-current assets which were not reviewed in the current financial year. As a result of this review no material impairments have been identified.
- The Council has decided that non-current assets of schools that have either transferred to academy status, have received foundation status, or are voluntary aided in nature are no longer included within the Council’s balance sheet. The ability to control service potential and/or the flow of economic benefits does not rest with the Council. Schools which are controlled by the local authority will always remain in the Council accounts, as generally will voluntary controlled assets, but a review has been undertaken of their specific circumstances to ensure a clarity in relation to the control and risks and who manages these aspects.

- The Council has made estimates of the net pay liability required to cover pensions which depend on a set of complex judgements and projections supported by the actuary, which include; the discount rate at which salaries are expected to increase, changes in retirement ages, mortality rates, and expected future returns.
- To reflect the economic and financial climate, the Council has determined its bad debt provision based on a range of factors including the age profile, type of debt, debtor profile, and position within the recovery process.

NOTE 3 – ASSUMPTION 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 other factors 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 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on estimates about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.142m for every year that useful lives had to be reduced.
Provisions	The Council has made a total provision of £2.4m for the settlement of claims for industrial injuries through the Municipal Mutual Initiative (MMI) scheme and back pay arising from the Equal Pay initiative. These are based on estimated amounts through claims history in the two areas. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.240m to the provision needed.
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. A firm of consulting actuaries is engaged to provide the Council with expert advice about the rates to be applied.	The effects on the net pensions liability of changes in individual assessments can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £9.0m.

NOTE 4 – EVENTS AFTER THE BALANCE SHEET DATE (31 MARCH 2013)

The audited Statement of Accounts for 2012/13 was authorised for issue by the Assistant Director - Financial Services on 17 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are three post balance sheet events which have not been adjusted for in the audited Statement of Accounts:

1. The debt portfolios for Heritable and Kaupthing Singer and Friedlander, the two Icelandic banks for which the Council had investments in at the time the banks went into administration in 2008, have been sold. This will result in a more favourable return to the Council than has been included in Note 37. Given the value of approximately £0.2m the financial statements have not been adjusted for this new information.
2. On Friday 6 September 2013 the Borough of Redcar & Cleveland was affected by flash floods which have caused significant damage to the Councils infrastructure. The worst affected being a bridge in Skinningrove which may need to be replaced and considerable damage to a school premises at Skelton. At the authorised for issue date the value of the impact to the Council is still being quantified. The Council intends to apply for financial assistance under the Governments Bellwin Scheme. The schemes threshold is £0.425m and above this level any qualifying expenditure will be funded at 85%. Due to the various uncertainties involved the accounts are not being adjusted for this event.
3. From 1 September 2013 a group of nine primary schools has transferred from community to foundation status. At the same time Dormanstown Primary School has transferred to Academy status. This will usually result in the transfer of the ownership of land and buildings to the school or academy trust. Given the value and the date of transfer these assets will remain in the Councils audited Statement of Accounts for 2012/13 and will be adjusted in the next financial year.

NOTE 5 – ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the 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.

(CIES = Comprehensive Income and Expenditure Statement)

2012/13	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or (credited) to the CIES</u>				
Charges for depreciation and impairment of non current assets	12,017	-	-	(12,017)
Revaluation losses on Property, Plant and Equipment	12,270	-	-	(12,270)
Revaluation losses on Investment Properties	(1,858)	-	-	1,858
Revaluation losses on Assets Held for Sale	6	-	-	(6)
Amortisation of intangible assets	1,375	-	-	(1,375)
Capital grants and contributions	(15,831)	-	-	15,831
Revenue Expenditure Funded from Capital Under Statute	4,017	-	-	(4,017)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	15,903	2,230	-	(18,133)
<u>Insertion of items not debited or (credited) to the CIES</u>				
Statutory provision for the financing of capital investment	(9,509)	-	-	9,509
Capital Expenditure charged against the general fund	(200)	-	-	200
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	554	-	(554)	-
Adjustments involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(2,228)	-	2,228
Adjustments involving the Deferred Capital Receipts Reserve:				
	-	(2)	-	2
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the CIES are different from finance costs chargeable in year in accordance with statutory requirements	(250)	-	-	250
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (Note 42)	19,135	-	-	(19,135)
Employers Pension Contributions and direct payments to pensioners payable in the year	(12,444)	-	-	12,444
Adjustments involving the Collection Fund Adjustment Account:				

2012/13	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(239)	-	-	239
Adjustments involving the Unequal Pay Back Pay Adjustment Account:				
Amount by which amounts charged for equal pay to the CIES is different from cost of settlements chargeable in year in accordance with statutory requirements	-	-	-	-
Adjustments involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in year in accordance with statutory requirements	254	-	-	(254)
Total Adjustments	25,200	-	(554)	(24,646)

2011/12	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or (credited) to the CIES</u>				
Charges for depreciation and impairment of non current assets	12,601	-	-	(12,601)
Revaluation losses on Property, Plant and Equipment	7,854	-	-	(7,854)
Revaluation losses on Investment Properties	3,401	-	-	(3,401)
Revaluation losses on Assets Held for Sale	210	-	-	(210)
Amortisation of intangible assets	704	-	-	(704)
Capital grants and contributions	(16,784)	-	-	16,784
Revenue Expenditure Funded from Capital Under Statute	8,049	-	-	(8,049)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(466)	1,831	-	(1,365)
<u>Insertion of items not debited or (credited) to the CIES</u>				
Statutory provision for the financing of capital investment	(8,991)	-	-	8,991
Capital Expenditure charged against the general fund	(31)	-	-	31
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	(3,976)	-	3,976	-
Adjustments involving the Capital Receipts Reserve:				

2011/12	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(1,817)	-	1,817
Adjustments involving the Deferred Capital Receipts Reserve:	-	(14)	-	14
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the CIES are different from finance costs chargeable in year in accordance with statutory requirements	(250)	-	-	250
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (Note 42)	11,545	-	-	(11,545)
Employers Pension Contributions and direct payments to pensioners payable in the year	(12,684)	-	-	12,684
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the CIES is different from Council tax income calculated for the year in accordance with statutory requirements	29	-	-	(29)
Adjustments involving the Unequal Pay Back Pay Adjustment Account:				
Amount by which amounts charged for equal pay to the CIES is different from cost of settlements chargeable in year in accordance with statutory requirements	(2,569)	-	-	2,569
Adjustments involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in year in accordance with statutory requirements	(827)	-	-	827
Total Adjustments	(2,185)	-	3,976	(1,791)

NOTE 6 – PRIOR PERIOD ADJUSTMENT

The Comprehensive Income and Expenditure Statement (CIES) for 2011/12 has been restated due to two errors uncovered as part of the 2012/13 accounts preparation process.

- Council Tax Benefit Grant of £15.105m has been double counted on the Central Services to the public line and within Taxation and Non-Specific Grant Income.
- Departmental recharges of £3.273m had been adjusted for in 2011/12 to ensure expenditure and income was not double counted. This was adjusted for within Central Services to the public but should have been on Environmental and Regulatory Services.

	2011/12			2011/12 Adjustments			2011/12 Re-stated		
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Central services to the public	13,716	(13,004)	712	(11,832)	11,832	-	1,884	(1,172)	712
Environmental and regulatory services	18,273	(6,455)	11,818	(3,273)	3,273	-	15,000	(3,182)	11,818
Cost of Services	365,235	(232,808)	132,427	(15,105)	15,105	-	350,130	(217,703)	132,427

There were no other changes made below the Cost of Services line.

NOTE 7 – AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employers 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 directorates.

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

2012/13	Area Management £000	Corporate Resources £000	Adults & Children's Services £000	Regeneration £000	General Fund £000	Total £000
Fees, charges & other service income	(4,925)	(464)	(12,268)	(1,415)	(707)	(19,779)
Interest & Investment Income	-	-	-	9	(10)	(1)
Government grants	(1,486)	(1,950)	(129,998)	(2,738)	(57,185)	(193,357)
Total Income	(6,411)	(2,414)	(142,266)	(4,144)	(57,902)	(213,137)
Employee expenses	12,603	3,137	87,231	6,475	700	110,146
Other service expenses	15,218	2,771	109,150	5,641	57,912	190,692
Support service recharges	6,062	2,147	9,645	1,894	(12)	19,736
Depreciation, Amortisation and Impairment	7,363	32	9,506	4,086	-	20,987
Total Expenditure	41,246	8,087	215,532	18,096	58,600	341,561
Net Expenditure	34,835	5,673	73,266	13,952	698	128,424

2011/12	Area Management £000	Corporate Resources £000	Adults & Children's Services £000	Regeneration £000	General Fund £000	Total £000
Fees, charges & other service income	(4,699)	(1,473)	(11,884)	(1,799)	5	(19,850)
Interest & Investment Income	-	-	-	(14)	(21)	(35)
Government grants*	(1,700)	(56,238)	(136,327)	(3,546)	(7)	(197,818)
Total Income	(6,399)	(57,711)	(148,211)	(5,359)	(23)	(217,703)
Employee expenses	11,956	2,352	84,115	6,114	1,856	106,393
Other service expenses *	15,213	57,272	118,674	8,471	1,385	201,015
Support service recharges	5,693	2,368	10,899	2,057	25	21,042
Depreciation, Amortisation and Impairment	10,123	32	6,405	5,120	-	21,680
Total Expenditure	42,985	62,024	220,093	21,762	3,266	350,130
Net Expenditure	36,586	4,313	71,882	16,403	3,243	132,427

* The gross expenditure and gross income in 2011-12 have been re-stated for council tax benefit and departmental recharges adjustment relating to the use of an incorrect account code.

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

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

2011/12 £000		2012/13 £000
132,427	Net expenditure in the Directorate Analysis	128,424
262	Other Operating Expenditure (Note 10)	16,631
14,215	Financing and Investment Income and Expenditure (Note 11)	19,371
(154,246)	Taxation and Non-specific Grant income (Note 12)	(144,996)
(7,342)	Cost of Services in Comprehensive Income and Expenditure Statement	19,430

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2012/13	Directorate Analysis £000	Other Operating Expenditure (Note 10) £000	Financing and Investment Income and Expenditure (Note 11) £000	Taxation and Non-specific Grant income (Note 12) £000	Surplus or Deficit on provision of Services £000
Fees, charges & other service income	(19,779)	-	-	(59,397)	(79,176)
Interest and investment income	-	-	-	-	-
Income from council tax	(1)	-	(465)	-	(466)
Government grants and contributions	(193,357)	-	-	(85,599)	(278,956)
Total Income	(213,137)	-	(465)	(144,996)	(358,598)
Employee expenses	110,146	-	4,015	-	114,161
Other service expenses	190,693	16,103	2	-	206,798
Support Service recharges	19,735	-	-	-	19,735
Depreciation, amortisation and impairment	20,987	-	15,819	-	36,806
Interest payments	-	-	-	-	-
Precepts & Levies	-	528	-	-	528
(Gain)/Loss on Disposal of Fixed Assets	-	-	-	-	-
Total Expenditure	341,561	16,631	19,836	-	378,028
(Surplus)/Deficit on the provision of services	128,424	16,631	19,371	(144,996)	19,430

2011/12	Directorate Analysis	Other Operating Expenditure (Note 10)	Financing and Investment Income and Expenditure (Note 11)	Taxation and Non-specific Grant income (Note 12)	Surplus or Deficit on provision of Services
	£000	£000	£000	£000	£000
Fees, charges & other service income	(19,850)	-	-	(57,259)	(77,109)
Interest and investment income	(35)	-	(432)	-	(467)
Income from council tax	-	-	-	-	-
Government grants and contributions	(197,818)	-	-	(96,987)	(294,805)
Total Income	(217,703)	-	(432)	(154,246)	(372,381)
Employee expenses	106,393	-	(833)	-	105,560
Other service expenses	201,015	-	1	-	201,016
Support Service recharges	21,042	-	-	-	21,042
Depreciation, amortisation and impairment	21,680	-	(205)	-	21,475
Interest payments	-	-	15,684	-	15,684
Precepts & Levies	-	669	-	-	669
(Gain)/Loss on Disposal of Fixed Assets	-	(407)	-	-	(407)
Total Expenditure	350,130	262	14,647	-	365,039
(Surplus)/Deficit on the Provision of Services	132,427	262	14,215	(154,246)	(7,342)

NOTE 8 – TRANSFERS TO/FROM EARMARKED RESERVES

Earmarked Reserves are sums set aside to meet a liability expected to be met in the future, but for which the timing is uncertain.

Balance at 1 April 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000		Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Balance at 31 March 2013 £000
6,756	(2,022)	1,514	6,248	Balances held by schools under a scheme of delegation	(1,971)	837	5,114
391	(90)	117	418	Risk Management Fund	(280)	112	250
134	-	1	135	Trust Funds (On Deposit with the Council)	(1)	2	136
-	(31)	99	68	Direct Revenue Funding Reserve	(203)	151	16
1,639	(285)	-	1,354	Private Finance Initiative – Schools	-	20	1,374
2,106	-	70	2,176	Private Finance Initiative – Street Lighting	(175)	32	2,033
-	-	121	121	PFI Buildings ICT Fund Earmarked Reserve	-	-	121
103	-	-	103	Equal Pay Legal Costs Reserve	(103)	-	-
100	(94)	35	41	Election Costs Reserve	(41)	-	-
(2,737)	-	2,737	-	Contingent borrowing from Earmarked Reserves to support the General Fund	-	-	-
217	-	-	217	Energy Discount Reserve	-	136	353
2,999	(1,308)	317	2,008	Enterprise Funding Reserve	(376)	-	1,632
354	(313)	271	312	Regeneration Income Reserve	(193)	358	477
99	(46)	2	55	Corporate Resources Income Reserve	(29)	9	35
74	(74)	257	257	Area Management Income Reserve	(71)	391	577
195	(195)	363	363	Education & Skills Income Reserve	(486)	2,054	1,931
-	-	-	-	Adult Social Care Income Reserve	-	203	203
-	-	-	-	Public Health Income Reserve	-	1,643	1,643
-	-	925	925	Investment Fund Reserve	(17)	-	908
-	-	1,946	1,946	Budget Strategy Reserve	(1,201)	639	1,384
-	-	100	100	Facilities Management Reserve	-	-	100
-	-	40	40	River Tees Port Health Authority Reserve	-	-	40
-	-	-	-	MTFP Reserve	-	1,523	1,523
-	-	-	-	Funding Strategy Reserve	-	2,251	2,251
-	-	-	-	MMI Reserve	-	250	250
-	-	-	-	Insurance Reserve	-	375	375
-	-	-	-	Alternative Delivery Models Reserve	(210)	1,000	790
12,430	(4,458)	8,915	16,887	Total	(5,357)	11,986	23,516

Balances held by schools are the accumulated balances and the differences between the school budget and actual expenditure incurred for all of the Redcar and Cleveland Schools. In accordance with Government regulations and the Council's scheme of delegation for schools, these funds are carried forward and specifically earmarked for use by schools in future years.

- The Risk Management Fund was established to fund one off goods or services, which are required to cover loss control whether this is by elimination or reduction of incidents that otherwise may impose a cost to the Council.
- The Trust Funds are all in respect of sums deposited with the Council for 'safekeeping' by bodies with aims which the Council supports and has some involvement, with Members/Officers as either members of the Management or as a Trustee.
- The Direct Revenue Funding Reserve is earmarked to fund future years capital expenditure.
- The Council receives support from the Government in the form of PFI grant, which is paid on an annuity basis. Where the funding available is in excess of the contract payments to be made in the year, the surplus is transferred to an earmarked PFI reserve. This reserve is called upon in future years when contract payments exceed funding available. Interest is applied to the balance on the reserve. PFI reserves are in operation for both schools and street lighting.
- The PFI Buildings ICT Fund will cover works at the communications rooms at Belmont House and Seafield House.
- The Energy Discount Reserve is to fund projects which will reduce the Council's carbon footprint.
- The Enterprise Funding Reserve is used to match fund external grant to continue enterprise activity in the Borough.
- Some grant income received by the Council has restrictions on how the income is to be applied. Where there are no conditions, or the conditions have been met, the income has been recognised against the Net Cost of Services, even if the expenditure has not been incurred. An appropriation is therefore needed against general reserves to carry forward the funding to meet the spend. This is carried forward as an earmarked reserve if it has not been applied in year. The Regeneration Income Reserve, Corporate Resources Income Reserve, Area Management Income Reserve, Education & Skills Income Reserve, Adult Social Care Income Reserve and the Public Health Income Reserve have all been created in this way.
- The Investment Fund Reserve is funding which is being utilised to provide perpetual loan applications and funding for apprentices.
- The Budget Strategy Reserve, MTFP Reserve and the Funding Strategy Reserve will be used to manage the volatility of the assumptions around the medium term financial plan, particularly changes in funding for local government expected to arise from the new funding formula and changes to the business rate mechanism.
- The Facilities Management Reserve is for works required over and above current cyclic, planned maintenance or repairs and maintenance budgets. The reserve will also support any works to the Council's assets as a result of changes to health and safety legislation.
- The River Tees Port Health Authority Reserve is held by the Council on behalf of the four precepting authorities. The reserve has been set up to cover future volatility on costs and income of the service.

- In March 2012 the Supreme Court on the Employers' Liability Policy Trigger Litigation relating to Mesothelioma Claims ruled that the insurer Mutual Municipal Insurance (MMI) who was at risk at the time of the employee's exposure to asbestos was liable to pay compensation for the employee's Mesothelioma. The Council has received financial information relating to possible MMI claims and a provision has been created for these. In addition a reserve has been established to provide for potential future claims not currently included within the provision created.
- The Council operates a self funding arrangement on its liability policies. This reserve has been established for potential future insurance claims not currently provided for within the insurance provision created.
- The Council is currently reviewing the way in which it works and is developing proposals which will deliver significant savings for the Council whilst ensuring it remains sustainable and that communities continue to receive high quality services to meet their needs and enhance their quality of life. This reserve has been established to support this work going forward.

NOTE 9 – TRUST FUNDS

Six Trust Funds have deposited a total of £0.136m to the Council for "safe-keeping" (2011/12 £0.135m). The balances of these Trust Funds are included in the Council's own balances as the amounts involved are immaterial to a fair understanding of assets owned and as a result have not been adjusted.

	Balance 31 March 2012 £000	Investment Income £000	Expenditure £000	Balance 31 March 2013 £000
<u>Education Trusts</u>				
Hutton Lowcross	86	1	(1)	86
Marian Pearson	19	1	-	20
<u>Other Trusts</u>				
Lazenby Special Fund	9	-	-	9
Joseph and Mary Fund	3	-	-	3
Borough of Redcar and Cleveland's Emergency Relief Fund	9	-	-	9
Saltburn Bandstand Fund	9	-	-	9
Total	135	2	(1)	136

A number of these Trusts are now dormant and were endowed a considerable time ago and the purpose for which they were established is no longer relevant. The Council is therefore working with Tees Valley Community Foundation (TVCF), an organisation that manages trusts and grant programmes, to seek approval from the Charity Commission to wind up some of these trusts and form a dedicated Redcar & Cleveland Community Fund. This new fund will then provide a source of finance to meet the needs of the area's small charities, community groups and voluntary sector organisations.

NOTE 10 – OTHER OPERATING EXPENDITURE

The line, Other Operating Expenditure, below the Cost of Services in the Comprehensive Income and Expenditure Statement can be analysed as follows:

2011/12 £000		2012/13 £000
529	Parish council precepts	528
140	Levies	144
(407)	(Gains)/Losses on the disposal of non current assets	15,959
262	Total	16,631

NOTE 11 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE

The line, Financing and Investment Income and Expenditure, below the Cost of Services in the Comprehensive Income and Expenditure Statement can be analysed as follows:

2011/12 £000		2012/13 £000
15,685	Interest payable and similar charges	15,874
(833)	Pensions interest cost and expected return on pensions assets	4,015
(205)	Impairment of Financial Instruments (1)	(53)
(432)	Interest receivable and similar income (2)	(465)
14,215	Total	19,371

(1) - Relates to Icelandic investments – See Impairment of Investments within Financial Instruments (Note 37).

(2) - Interest receivable is shown net of contributions to reserves and provisions in year.

NOTE 12 – TAXATION AND NON SPECIFIC GRANT INCOME

The line, Taxation and Non Specific Grant Income, below the Cost of Services in the Comprehensive Income and Expenditure Statement can be analysed as follows:

2011/12 £000		2012/13 £000
57,259	Council Tax Income	59,397
51,940	Distribution from Non-domestic Rates Pool	61,262
	Non-ring Fenced Government Grants:	
16,055	Revenue Support Grant	1,215
1,412	Council Tax Freeze Grant	1,412
-	Central Education Services Grant (LACSEG)	395
7,123	PFI Grant	7,123
1,920	Learning Disability and Health Reform Funding	1,970
26	New Homes Bonus Scheme	26
190	Local Services Support Grant	148
18,321	Capital Grants and Contributions	12,048
154,246	Total	144,996

All the above grants are allocated to the Council with no restrictions on their future use. However in most cases the Council has honoured the remit of the grant in its spending decisions.

NOTE 13 – DEDICATED SCHOOLS GRANT

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

Details of the deployment of DSG receivable for 2012/13 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2012/13 before academy recoupment	10,811	94,729	105,540
Academy figure recouped for 2012/13	-	(15,192)	(15,192)
Total DSG after academy recoupment for 2012/13	10,811	79,537	90,348
Brought Forward from 2011/12	281	-	281
Carry forward to 2013/14 agreed in advance	(80)	-	(80)
Agreed initial budgeted distribution in 2012/13	11,012	79,537	90,549
In Year Adjustments	-	-	-
Final budget distribution for 2012/13	11,012	79,537	90,549
Actual central expenditure	(10,850)	-	(10,850)
Actual ISB deployed to schools	-	(79,537)	(79,537)
Local authority contribution for 2012/13	-	-	-
Carry forward to 2013/14	162	-	162

NOTE 14 – MEMBERS' ALLOWANCES

2011/12 £000		2012/13 £000
617	Salaries	621
174	Allowances	169
19	Expenses	20
810	Total	810

During the year, the Council had a total of 59 elected Members. The cost of remuneration includes basic allowances, special responsibility allowance, dependents' carer's allowance, co-optees' allowance, travel and subsistence and telephone costs paid to Elected Members in 2012/13. This figure also includes employers Superannuation and National Insurance contributions.

The figures shown for 2011/12 are a direct comparison with 2012/13. Under the Local Authorities (Members Allowances) (England) Regulations 2003 local authorities are required to publish details of payments made to its Members. This information is available on the Council's website at www.redcar-cleveland.gov.uk and is also published in The Evening Gazette.

NOTE 15 – OFFICERS’ REMUNERATION

The number of employees (including teaching staff) whose gross remuneration, including benefits, expense allowances, redundancy and other severance payments, exceeded £50,000 is shown below in bands of £5,000.

2011/12			Remuneration Band (£)	2012/13		
School Employees	Non School Employees	Total Employees		School Employees	Non School Employees	Total Employees
34	17	51	50,000 to 54,999	29	19	48
25	10	35	55,000 to 59,999	15	4	19
13	7	20	60,000 to 64,999	16	6	22
4	6	10	65,000 to 69,999	4	6	10
9	1	10	70,000 to 74,999	3	1	4
3	5	8	75,000 to 79,999	3	4	7
2	2	4	80,000 to 84,999	1	-	1
1	2	3	85,000 to 89,999	1	-	1
-	1	1	90,000 to 94,999	1	1	2
2	-	2	95,000 to 99,999	-	1	1
-	1	1	100,000 to 104,999	-	1	1
1	-	1	105,000 to 109,999	-	-	-
-	-	-	110,000 to 114,999	-	-	-
-	3	3	115,000 to 119,999	-	2	2
-	1	1	120,000 to 124,999	-	1	1
-	-	-	125,000 to 129,999	-	-	-
-	-	-	130,000 to 134,999	-	-	-
-	-	-	135,000 to 139,999	-	-	-
-	-	-	140,000 to 144,999	-	-	-
-	-	-	145,000 to 149,999	-	1	1
-	1	1	150,000 to 154,999	-	-	-
-	-	-	155,000 to 159,999	-	-	-
-	-	-	160,000 to 164,999	-	-	-
-	-	-	165,000 to 169,999	-	-	-
-	-	-	170,000 to 174,999	-	-	-
94	57	151	Total	73	47	120

Payments in respect of early retirement and voluntary redundancy as part of an organisational change process have been included where appropriate.

In terms of statutory requirements any senior member of staff with a salary in excess of £150,000 needs to be named. For 2012/13 no one within the Council falls into this category.

Senior Officers included in the above table who are required to be separately identified are as follows:

2012/13	Salary (including Fees & Allowances)	Recurring Payment	One Off Payment	Benefits in Kind	Redundancy	Gross Remuneration Excl Pension Contributions 2012/13	Pension Contributions 2012/13	Total Remuneration Including Pension Contributions 2012/13
	£	£	£	£	£	£	£	£
Chief Executive	145,239	-	-	-	-	145,239	21,931	167,170
Director of Corporate Resources	116,729	-	3,359	-	-	120,088	17,626	137,714
Director of Area Management	116,729	-	-	-	-	116,729	17,626	134,355
Director of Regeneration Services	98,316	-	-	-	-	98,316	14,846	113,162
Director of Adult & Children's Services	116,729	-	-	-	-	116,729	17,626	134,355
Head of Corporate Financial Services	100,144	-	-	-	-	100,144	15,122	115,266
Head of Human Resources (0.92 FTE)	92,024	-	-	-	-	92,024	13,896	105,920
Total	785,910	-	3,359	-	-	789,269	118,673	907,942

2011/12	Salary (including Fees & Allowances)	Recurring Payment	One Off Payment	Benefits in Kind	Redundancy	Gross Remuneration Excl Pension Contributions 2011/12	Pension Contributions 2011/12	Total Remuneration Including Pension Contributions 2011/12
	£	£	£	£	£	£	£	£
Chief Executive (Amanda Skelton)	145,239	-	7,523	-	-	152,762	21,931	174,693
Director of Corporate Resources	116,729	-	4,032	-	-	120,761	17,626	138,387
Director of Area Management	116,729	-	-	-	-	116,729	17,626	134,355
Director of Regeneration Services	116,729	-	-	-	-	116,729	17,626	134,355
Director of Adult & Children's Services	116,729	-	-	-	-	116,729	17,626	134,355
Head of Corporate Financial Services	100,144	-	-	-	-	100,144	15,122	115,266
Head of Human Resources (0.92 FTE)	92,024	-	-	-	-	92,024	13,896	105,920
Total	804,323	-	11,555	-	-	815,878	121,453	937,331

An additional requirement for local authorities is to disclose an appropriate level of detail on local government pay and officer's salaries. The transparency agenda requires disclosure of salaries over £58,200. The table below gives salary and remuneration details for all staff above the £58,200 threshold (excluding the senior officer details given previously). Further details on the other aspects of the salary disclosure requirements will be available on the Council's website.

2012/13	Salary (including Fees & Allowances)	Recurring Payment	One Off Payment	Benefits in Kind	Redundancy	Gross Remuneration Excl Pension Contributions 2012/13	Pension Contributions 2012/13	Total Remuneration Including Pension Contributions 2012/13
	£	£	£	£	£	£	£	£
<u>Non-schools:</u>								
Head of Adult Services	18,915	-	-	-	52,236	71,151	2,856	74,007
Head of Operations	75,659	-	-	-	-	75,659	11,424	87,083
Head of Development Services	75,659	-	-	-	-	75,659	11,424	87,083
Head of Cultural Development Services	75,659	-	-	-	-	75,659	11,424	87,083
Head of Legal & Governance	67,059	-	-	-	-	67,059	11,424	78,483
Head of Neighbourhoods	68,093	-	-	-	-	68,093	10,282	78,375
Head of Neighbourhoods	68,093	-	-	-	-	68,093	10,282	78,375
Head of Neighbourhoods	68,093	-	-	-	-	68,093	10,282	78,375
Principal Education Manager - Inclusion	66,631	-	-	-	-	66,631	9,674	76,305
Corporate Property Manager	64,487	-	-	-	-	64,487	9,738	74,225
Capital Projects Manager	64,487	-	-	-	-	64,487	9,738	74,225
Employment Law & Policy Manager	64,487	-	-	-	-	64,487	9,738	74,225
Policy, Performance & Partnership Manager	67,104	-	-	-	-	67,104	10,133	77,237
Head of Commissioning & Business Improvement	75,659	-	-	-	-	75,659	11,424	87,083
Principal Manager 14- 19	62,285	-	-	-	-	62,285	9,634	71,919
Financial Services Manager	61,243	-	-	-	-	61,243	2,386	63,629
Senior School Improvement Advisor	58,741	-	-	-	-	58,741	8,870	67,611
Service Manager (East)	59,136	-	-	-	-	59,136	7,988	67,124
Senior Project Leader	64,007	-	-	-	-	64,007	8,819	72,826
<u>Schools:</u>								
Head of Alternative Education	92,651	-	-	-	-	92,651	13,064	105,715
Head Teacher	86,365	-	-	-	-	86,365	12,177	98,542
Head Teacher	82,454	-	-	-	-	82,454	11,626	94,080
Head Teacher	79,940	-	-	-	-	79,940	11,271	91,211
Head Teacher	79,433	-	-	-	-	79,433	11,200	90,633
Head Teacher	75,206	-	-	-	-	75,206	10,512	85,718
Head Teacher	74,752	-	-	-	-	74,752	10,540	85,292
Head Teacher	72,752	-	-	-	-	72,752	10,258	83,010
Head Teacher	70,181	-	-	-	-	70,181	9,895	80,076
Head Teacher	67,895	-	-	-	-	67,895	9,573	77,468
Deputy Head Teacher	66,919	-	-	-	-	66,919	9,436	76,355

2012/13	Salary (including Fees & Allowances)	Recurring Payment	One Off Payment	Benefits in Kind	Redundancy	Gross Remuneration Excl Pension Contributions 2012/13	Pension Contributions 2012/13	Total Remuneration Including Pension Contributions 2012/13
	£	£	£	£	£	£	£	£
Head Teacher	65,963	-	-	-	-	65,963	9,301	75,264
Head Teacher	65,298	-	-	-	-	65,298	9,207	74,505
Deputy Head Teacher	64,367	-	-	-	-	64,367	9,076	73,443
Deputy Head Teacher	64,367	-	-	-	-	64,367	9,076	73,443
Deputy Head Teacher	63,719	-	-	-	-	63,719	8,984	72,703
Head Teacher	63,719	-	-	-	-	63,719	8,984	72,703
Deputy Head Teacher	63,719	-	-	-	-	63,719	8,984	72,703
Head Teacher	62,811	-	-	-	-	62,811	8,856	71,667
Head Teacher	62,305	-	-	-	-	62,305	8,805	71,110
Head Teacher	62,176	-	-	-	-	62,176	8,767	70,943
Head Teacher	62,176	-	-	-	-	62,176	8,767	70,943
Head Teacher	62,153	-	-	-	-	62,153	8,763	70,916
Head Teacher	61,752	-	-	-	-	61,752	9,358	71,110
Head Teacher	61,288	-	-	-	-	61,288	8,642	69,930
Head Teacher	60,893	-	-	-	-	60,893	8,586	69,479
Head Teacher	60,672	-	-	-	-	60,672	8,555	69,227
Head Teacher	60,672	-	-	-	-	60,672	8,555	69,227
Head Teacher	60,672	-	-	-	-	60,672	8,555	69,227
Head Teacher	59,809	-	-	-	-	59,809	8,433	68,242
Head Teacher	59,506	-	-	-	-	59,506	8,391	67,897
Head Teacher	59,356	-	-	-	-	59,356	8,378	67,734
Head Teacher	59,206	-	-	-	-	59,206	8,348	67,554
Head Teacher	59,146	-	-	-	-	59,146	8,340	67,486
Head Teacher	58,362	-	-	-	-	58,362	8,229	66,591

NOTE 16 – TERMINATION BENEFITS

The Council terminated the contracts of 62 employees in 2012/13, incurring liabilities of £0.724m (£2.027m 2011/12). Of this total £0.69m was payable to 59 officers in respect of various voluntary arrangements agreed and £0.034m was paid to 3 officers who received compulsory redundancy as part of the Council's restructuring programme.

The table below shows the split by directorate of the overall restructuring programme in 2012/13

Directorate	£000	Number of employees
Chief Executive / Corporate Resources	153	10
Area Management	47	4
Adults & Children's Services	487	45
Regeneration	37	3
Total	724	62

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit Package Cost Band (Including Special Payments) £	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
							£000	£000
0 to 20,000	7	2	75	52	82	54	517	408
20,001 to 40,000	-	1	24	4	24	5	698	104
40,001 to 60,000	-	-	6	-	6	-	309	-
60,001 to 80,000	-	-	3	1	3	1	208	63
80,001 to 100,000	-	-	1	-	1	-	99	-
100,001 to 150,000	-	-	1	1	1	1	101	137
Provision	1	-	3	1	4	1	95	12
Total	8	3	113	59	121	62	2,027	724

In 2012/13 a number of voluntary redundancy/early retirement decisions were made and agreed late in the financial year. Whilst provisions have been made for the redundancy costs associated with these decisions, the actuary's pension fund statement does not reflect any movement in pension fund liability arising from these early retirement decisions. A manual adjustment has therefore been made to account for this change in liability.

NOTE 17 – TRADING OPERATIONS

Trading Accounts are maintained where services are provided on a basis other than a straightforward recharge of costs. The following trading accounts are operated by the Council.

2011/12			<u>Trading Operation</u>	2012/13		
Income £000	Expenditure £000	(Surplus)/ Deficit £000		Income £000	Expenditure £000	(Surplus)/ Deficit £000
(3,478)	3,123	(355)	Catering Provision of meals in schools throughout the borough.	(3,107)	3,156	49
(590)	293	(297)	Trade Refuse Collection Undertakes the collection of commercial waste from properties within the borough.	(565)	274	(291)
(67)	(237)	(304)	Industrial Estates As part of the Council's priority theme to provide business space to attract and sustain business in the local economy, the Council provides units in a range of sizes throughout the borough.	(21)	(165)	(186)
(5)	1,015	1,010	Markets Provision of a site for the operation of a market based in Redcar, to boost retail and tourism for the borough.	(7)	5	(2)
(349)	509	160	Business Centres Provision of workshop and office accommodation in a range of sizes at Redcar Station & South Tees Business Centres, as part of the Council's priority theme to provide business space to attract and sustain business in the local economy.	(318)	907	589
(1,082)	1,454	372	Car Parking Provision of both on street and off street parking throughout the borough.	(1,082)	672	(410)
(5,571)	6,157	586	Total	(5,100)	4,849	(251)

All of the income and expenditure relating to the Council's trading operations is incorporated within headings in the Cost of Services in the Comprehensive Income and Expenditure Statement.

Income recovery for trading accounts does not take account of impairment charges, as these are calculated at the end of each financial year. These are one off costs based on unanticipated events and as such the true trading position needs to be considered with these excluded. The effect on the individual trading accounts of excluding impairment charges is shown in the table below.

2011/12			<u>Trading Operation</u>	2012/13		
Income £000	Expenditure £000	(Surplus)/ Deficit £000		Income £000	Expenditure £000	(Surplus)/ Deficit £000
(3,478)	3,123	(355)	Catering	(3,107)	3,156	49
(590)	293	(297)	Trade Refuse Collection	(565)	274	(291)
(67)	84	17	Industrial Estates	(21)	102	81
(5)	5	-	Markets	(7)	5	(2)
(349)	509	160	Business Centres	(318)	607	289
(1,082)	971	(111)	Car Parking	(1,082)	372	(710)
(5,571)	4,985	(586)	Total	(5,100)	4,516	(584)

NOTE 18 – POOLED BUDGETS FOR HEALTH AND SOCIAL CARE

The Council contributes to the Tees Community Equipment Service, a partnership established by an agreement under Section 75 of the National Health Services Act 2006, to provide a single service, dissolving the historical distinction and boundaries between local authority and health services.

The partnership agreement covers the costs of administering the Tees Community Equipment Service including the procurement, storage, delivery, assembly or fitting, maintenance, collection, decontamination and recycling of community equipment provided to support vulnerable or disabled service users living in the community.

The aims of the partnership are to offer better access, more choice and improved responsiveness to service users and to provide greater local decision making about health and social care services by providing more integrated and appropriate services for older and disabled people across Teesside.

The agreement is made between eight partners – Middlesbrough Council, Redcar & Cleveland Council, Stockton Council, Hartlepool Council, Middlesbrough PCT, Redcar PCT, North Tees PCT and Hartlepool PCT.

The Council's contribution to the Tees Community Equipment Service partnership agreement is detailed below:

2011/12 £000		2012/13 £000
684	Gross Expenditure	652
(745)	Gross Income	(718)
(61)	Net Cost	(66)
	<u>Contributions from Partners</u>	
133	Middlesbrough Council	134
144	Redcar & Cleveland Borough Council	133
167	Stockton Council	153
94	Hartlepool Council	90
49	Middlesbrough PCT	47
47	Redcar PCT	47
69	North Tees PCT	77
41	Hartlepool PCT	37
744	Total Contributions	718
(61)	Carry Forward	(66)
683	Net Cost	652

NOTE 19 – FEES PAYABLE TO AUDITORS

For 2012/13 the following fees relating to external audit and inspection were payable by the Council:

2011/12 £		2012/13 £
254,361	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed Auditor.	149,125
49,860	Fees payable to the Audit Commission for the certification of grant claims.	35,293
304,221	Total	184,418

Further fees may be expected for 2012/13 financial year work, although these have yet to be quantified.

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT (PPE)

(SDPS = Surplus/Deficit on Provision of Services)

(RR = Revaluation Reserve)

Movements in tangible non-current assets for the year 2012/13:

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total PPE	Included in Total PPE - Owned	Included in Total PPE - Finance Leased	Included in Total PPE – PFI Assets
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<u>Cost or Valuation</u>										
At 1 April 2012	143,391	20,548	163,185	7,406	13,269	191	347,990	303,245	2,845	41,900
Additions	9,992	1,438	5,498	54	15,935	116	33,033	32,889	135	9
Donations	-	-	-	-	-	-	-	-	-	-
Revaluation increases/(decreases) to RR	3,206	-	-	18	-	(18)	3,206	3,206	-	-
Revaluation increases/(decreases) to SDPS	(11,119)	-	-	(890)	-	(261)	(12,270)	(12,270)	-	-
Derecognition - Disposals	(17,827)	-	-	-	-	-	(17,827)	(7,331)	(723)	(9,773)
Derecognition - Other	-	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(2,011)	-	-	-	-	-	(2,011)	(2,011)	-	-
Assets reclassified (to)/from Investment Properties	546	-	-	-	-	-	546	546	-	-
Other movements	9,376	-	-	(46)	(9,330)	-	-	-	-	-
At 31 March 2013	135,554	21,986	168,683	6,542	19,874	28	352,667	318,274	2,257	32,136
<u>Accumulated Depreciation and Impairment</u>										
At 1 April 2012	8,165	13,999	61,132	-	-	-	83,296	76,826	2,500	3,970
Depreciation charge for the year	3,957	2,179	5,872	-	-	9	12,017	10,404	354	1,259
Depreciation written out to the RR	-	-	-	-	-	-	-	-	-	-
Depreciation written out to the SDPS	(3,656)	-	-	(3)	-	(9)	(3,668)	(2,945)	(723)	-
Impairment losses/(reversals) recognised in the RR	-	-	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the SDPS	-	-	-	-	-	-	-	-	-	-
Derecognition - Disposals	(1,397)	-	-	-	-	-	(1,397)	(689)	-	(708)
Derecognition - Other	-	-	-	-	-	-	-	-	-	-
Other movements	(93)	-	-	2	-	-	(91)	(91)	-	-
At 31 March 2013	6,976	16,178	67,004	(1)	-	-	90,157	83,505	2,131	4,521
Net Book Value										
At 31 March 2013	128,578	5,808	101,679	6,543	19,874	28	262,510	234,769	126	27,615
At 31 March 2012	135,226	6,549	102,053	7,406	13,269	191	264,694	226,419	345	37,930

Comparative movements in tangible non-current assets for the year 2011/12:

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total PPE	Included in Total PPE - Owned	Included in Total PPE - Finance Leased	Included in Total PPE - PFI Assets
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<u>Cost or Valuation</u>										
At 1 April 2011	144,005	20,325	156,035	7,828	6,167	375	334,735	289,621	3,237	41,877
Additions	6,196	1,150	7,150	101	9,356	-	23,953	23,930	-	23
Donations	-	-	-	-	-	-	-	-	-	-
Revaluation increases/(decreases) to RR	3,144	(70)	-	62	-	30	3,166	3,166	-	-
Revaluation increases/(decreases) to SDPS	(7,284)	-	-	(327)	(54)	(188)	(7,853)	(7,853)	-	-
Derecognition - Disposals	(436)	(857)	-	-	-	(91)	(1,384)	(1,062)	(322)	-
Derecognition - Other	-	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(3,470)	-	-	-	-	-	(3,470)	(3,470)	-	-
Assets reclassified (to)/from Investment Properties	(1,066)	-	-	-	-	65	(1,001)	(1,001)	-	-
Other movements	2,302	-	-	(258)	(2,200)	-	(156)	(86)	(70)	-
At 31 March 2012	143,391	20,548	163,185	7,406	13,269	191	347,990	303,245	2,845	41,900
<u>Accumulated Depreciation and Impairment</u>										
At 1 April 2011	7,112	12,158	55,344	-	-	-	74,614	69,569	2,431	2,614
Depreciation charge for the year	4,037	2,768	5,788	-	-	8	12,601	10,784	461	1,356
Depreciation written out to the RR	-	-	-	-	-	(8)	(8)	(8)	-	-
Depreciation written out to the SDPS	(2,076)	(70)	-	-	-	-	(2,146)	(2,146)	-	-
Impairment losses/(reversals) recognised in the RR	-	-	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the SDPS	-	-	-	-	-	-	-	-	-	-
Derecognition - Disposals	(37)	(857)	-	-	-	-	(894)	(572)	(322)	-
Derecognition - Other	-	-	-	-	-	-	-	-	-	-
Other movements	(871)	-	-	-	-	-	(871)	(801)	(70)	-
At 31 March 2012	8,165	13,999	61,132	-	-	-	83,296	76,826	2,500	3,970
Net Book Value										
At 31 March 2012	135,226	6,549	102,053	7,406	13,269	191	264,694	226,419	345	37,930
At 31 March 2011	136,893	8,167	100,691	7,828	6,167	375	260,121	220,052	806	39,263

Revaluations

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation and Principles Guidance notes, issued by the Royal Institution of Chartered Surveyors (RICS). During the year, fixed assets have been valued by qualified valuers employed by the Council (Valuation and Estates Team).

The Council carries out a rolling revaluation programme that ensures that all items are revalued at least once every five years.

Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The categories of assets revalued, and the net book value of assets revalued each year, in the rolling programme, are detailed below:

	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total PPE
	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	108,143	5,735	101,679	4,865	19,874	-	240,296
Valued at fair value as at:							
31 March 2013	33,541	-	-	2,076	-	-	35,617
31 March 2012	24,088	14	-	-	-	344	24,446
31 March 2011	63,089	-	-	-	-	-	63,089
31 March 2010	148,923	829	-	-	-	2,572	152,324
31 March 2009	86,229	-	-	-	-	17,068	103,297
Total Cost or Valuation	355,870	843	-	2,076	-	19,984	378,773

NOTE 21 – IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Note 20 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances.

NOTE 22 – HERITAGE ASSETS

The table below shows the carrying value of Heritage Assets held by the Council.

	Art Collection £000	Civic Regalia £000	Military Equipment £000	Artefacts £000	Total Assets £000
Cost or Valuation					
1 April 2011	87	132	25	139	383
Additions	-	-	-	124	124
Disposals	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairment Losses	-	-	-	-	-
31 March 2012	87	132	25	263	507
Cost or Valuation					
1 April 2012	87	132	25	263	507
Additions	20	-	-	-	20
Disposals	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairment Losses	-	-	-	-	-
31 March 2013	107	132	25	263	527

Art Collection

The Council's collection of paintings is reported in the balance sheet at cost and valuation. The majority of paintings were obtained during the 1970's and have since been revalued in 2006. A number of Watercolours from the 1940's by JH Cole were purchased for £0.016m in 2000 and are shown at cost in the balance sheet.

Civic Regalia

The items reported in the balance sheet are based on a valuation which was undertaken in 2006.

Military Equipment

The Council's collection of Arms and Armoury is reported in the balance sheet at cost. The items were purchased from 1999 to 2001 with the majority obtained from auction.

Artefacts

The Council's collection of Anglo-Saxon artefacts is reported in the balance sheet at cost. In the Council's opinion the Saxon Jewellery is a rarity and as such there is no active market or market value for the goods. In addition the Council is holding the asset for public consumption as opposed to profit and this is unlikely to change in the foreseeable future.

Additions to Heritage Assets

During 2012/13 the Council purchased a Ray Lonsdale statue for £0.020m. This is currently situated at the ECO Village, South Bank.

Disposal of Heritage Assets

During 2012/13 no Heritage Assets were disposed of.

Heritage Assets: Five Year Summary

	2012/13 £000	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000
Cost	20	124	83	56	-
Donation	-	-	-	-	-
Disposal	-	-	-	-	-
Revaluation	-	228	0	-	-
Impairment	-	-	-	-	-
	20	352	83	56	-
<u>Acquisitions</u>					
Art Collection	20	-	-	-	-
Artefacts and Fossils	-	124	83	56	-
Military Equipment	-	-	-	-	-
Civic Regalia	-	-	-	-	-
	20	124	83	56	-
<u>Revaluation</u>					
Art Collection	-	87	-	-	-
Artefacts and Fossils	-	-	-	-	-
Military Equipment	-	9	-	-	-
Civic Regalia	-	132	-	-	-
	-	228	-	-	-

There was no activity relating to heritage assets in the financial year 2008/09.

NOTE 23 – INVESTMENT PROPERTIES

The Council currently holds £12.216m of investment properties (£9.892m 2011/12). The properties are categorised as follows:

2011/12 £000		2012/13 £000
1,017	Properties for rental income purposes	3,162
8,850	Properties held for capital appreciation purposes	8,270
25	Properties where use has not yet been determined	784
9,892		12,216

The majority of such properties are therefore held for the purposes of capital appreciation, or where a decision to actively market the property for sale, has not yet been made.

The Council does not account for rental income from these properties as a separate item in the Comprehensive Income and Expenditure Statement. Income and costs associated with Investment Properties are charged to the service that utilises the property.

2011/12 £000		2012/13 £000
13,796	Balance at start of the year	9,892
	<u>Additions:</u>	
-	Purchases	-
-	Construction	-
931	Subsequent expenditure	393
(836)	Disposals	(18)
(3,401)	Net gains/(losses) from fair value adjustments	1,858
	<u>Transfers:</u>	
-	(To)/From Inventories	-
(598)	(To)/From Property, Plant and Equipment	91
-	Other Changes	-
9,892	Balance at end of the year	12,216

NOTE 24 – INTANGIBLE ASSETS

The Council accounts for its software as intangible assets as the software is not an integral part of a particular IT system. The hardware is accounted for within Property, Plant and Equipment.

All software is given a finite useful life, based on expert assessments of the period of use to the Council, and amortised on a straight line basis. The transformation project has reduced its useful life to 1 year as the system is due to be replaced. The useful lives assigned, amortisation charged for the year and carrying amounts of intangible assets are as follows:

Assets	Useful Life	Useful Life Remaining	31 March 2012 £000	Expenditure 2012/13 £000	Amortisation 2012/13 £000	31 March 2013 £000
<u>Internally Generated</u>						
Transformation Project	10 Years	1 Year	1,519	-	760	759
Adult Services System	10 Years	10 Years	259	475	77	657
ERP Systems	10 Years	10 Years	-	582	58	524
<u>Other</u>						
Other IT Software	Various	Various	1,218	563	480	1,301
			2,996	1,620	1,375	3,241

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

2011/12 £000		2012/13 £000
4,661	Gross carrying amounts	5,903
(2,203)	Accumulated amortisation	(2,907)
2,458	Net carrying amount at start of year	2,996
-	Additions – internal development	-
1,242	Additions - purchases	1,620
-	Additions – through business combinations	-
-	Disposals	-
-	Impairment losses recognised or reversed directly in the Revaluation Reserve	-
(704)	Amortisation for the period	(1,375)
-	Other changes	-
2,996	Net carrying amount at end of year	3,241
	Comprising:	
5,903	Gross carrying amounts	7,523
(2,907)	Accumulated amortisation	(4,282)

The amortisation of £1.375m charged to the Comprehensive Income and Expenditure Statement in 2012/13 has been allocated within the Cost of Services as follows:

Service Area	2012/13 £000
Cultural and Related Services	-
Environmental and Regulatory Services	-
Planning Services	17
Education and Children's Services	172
Corporate and Democratic Core	1,107
Highways and Transport Services	2
Adult Social Care	77
Total	1,375

NOTE 25 – PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

This note details the Council's commitments under its three PFI contracts.

Office Accommodation and Business Centre

In 2002 the Council entered into a contract for the provision of:

- Office Accommodation in Redcar
- Office Accommodation in Guisborough
- A Business Centre in South Bank

Seafield House in Redcar accommodates employees in Adults and Children's services. Belmont House in Guisborough accommodates employees in Area Management and Corporate Resources. The South Tees Business Centre has a strong technology focus and offers 16 workshops and 39 offices along with in-house business advice and support.

The contract entered into is for a period of 25 years and has two elements. These are construction (for the design, construction and financing of the buildings) and operations (for the maintenance of the buildings after commencement of operations).

In return for the payment of an annual unitary charge the contractor has undertaken responsibility for both elements of this contract. The construction phase was completed and the buildings became operational in 2002/03. The value of the contract over the 25 years is £39m, excluding estimates of inflation.

The offices used in this contract are recognised on the Council's balance sheet under property, plant and equipment and are depreciated and revalued in line with Council policy.

Schools

The contract for provision of schools relates to two new primary schools (St Benedict's and South Bank Primary) and three new secondary schools (Sacred Heart, Bydales and Gillbrook).

The contract entered into is for a period of 30 years and has two elements, as detailed above. The schools were completed and became operational in 2006/07. The value of the contract over the 30 years is £214m, excluding estimates of inflation.

Classification of Schools

St Benedict's Primary School	Voluntary Aided
South Bank Primary School	Council
Sacred Heart Secondary School	Voluntary Aided
Bydales Secondary School	Foundation School
Gillbrook Secondary School	Academy

Where the school is voluntary aided, academy or has foundation status the building is not recognised on the Council's balance sheet as the economic benefits and service potential for the building rest with the governing body. However as the PFI contract is an agreement between the Council and the contractor the corresponding liability remains with the Council and is reflected in its balance sheet.

South Bank Primary School building is included in property, plant and equipment on the Council's balance sheet and is depreciated and revalued in line with Council policy. The corresponding liability is reflected in the Council's balance sheet.

Street Lighting

In 2007 the Council entered into a 25 year agreement for the replacement of 85% of its street lighting stock and 100% of its illuminated signs, to replace obsolete equipment. Over the first 3 years of the agreement the contractor has provided replacement capital (approximately 15,000 lighting columns). For the remainder of the contract ongoing maintenance and life cycle replacements will be carried out. Energy costs are not included in the PFI contract. The overall cost of the contract is £72m, excluding estimates of inflation.

Street lighting is recognised in the Council's balance sheet as an infrastructure asset and is depreciated and revalued in line with Council policy. The corresponding liability is also reflected in the Council's balance sheet.

An analysis of the movement in the values of assets recognised under PFI schemes is included in Note 20.

Payments

The Council makes an agreed monthly payment for the services provided in each financial year which is increased by inflation. Payments are for an agreed level of service, and can be amended if the contractor fails to meet availability and performance standards. Payments are either on behalf of capital (payment for the asset concerned) or for revenue (the day to day services provided). Payments remaining to be made over the life of the three PFI contracts are detailed below:

Payments due to be made under PFI Contracts - Outstanding as at 31 March 2013

	Repayment of leasing liability	Payment of interest	Provision of services	Total
	31 March 2013 000	31 March 2013 £000	31 March 2013 £000	31 March 2013 £000
Within 1 year	1,685	6,413	3,739	11,837
Within 2 - 5 years	7,705	24,099	15,542	47,346
Within 6 – 10 years	12,389	25,848	20,946	59,183
Within 11 -15 years	16,704	19,591	21,611	57,906
Within 16 - 20 years	20,053	11,247	18,524	49,824
Within 20 -24 years	10,641	1,905	6,546	19,092
Total Future Payments	69,177	89,103	86,908	245,188

Values given are based upon contracted sums agreed at the commencement of each contract with no assumed inflation in future years.

The figures below represent the amount of debt outstanding with the PFI contractor for the assets held under contract as at 31 March 2013. This is repayable over the remaining term of the contract.

Value of liabilities held under PFI schemes

2011/12 £000	Outstanding PFI Liability	2012/13 £000
(72,035)	Opening Balance	(70,649)
1,386	Repayments	1,473
-	Adjustment	-
-	Additions	-
(70,649)	Closing Balance	(69,176)

NOTE 26 – LEASES

Council as Lessee – Finance Leases

The Council has a number of lease arrangements that have been determined as finance leases under IFRS. These relate to the financing of a number of vehicle purchases.

The assets acquired under these leases are held in the balance sheet under property, plant and equipment (PPE) at the following net amounts:

31 March 2012 £000	Property, Plant and Equipment	31 March 2013 £000
346	Vehicles, Plant, Furniture and Equipment	125

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

31 March 2012 £000		31 March 13 £000
365	Finance lease liabilities (net present value of minimum lease payments): - Current	35
8	Finance lease liabilities (net present value of minimum lease payments): - Non Current	90
22	Finance costs payable in future years	372
395	Future minimum lease payments	497

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

Minimum Lease Payments 31 March 2012 £000	Finance Lease Payments 31 March 2012 £000		Minimum Lease Payments 31 March 2013 £000	Finance Lease Payments 31 March 2013 £000
387	365	Not later than one year	380	35
8	8	Later than one year and not later than five years	117	90
-	-	Later than five years	-	-
395	373	Future minimum lease payments	497	125

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

Council as Lessee – Operating Leases

The Council has a number of leases relating to vehicles that have been classified as operating leases under IFRS.

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

31 March 2012 £000		31 March 2013 £000
214	Not later than one year	214
484	Later than one year and not later than five years	270
-	Later than five years	-
698	Future minimum lease payments	484

The expenditure charged to service revenue accounts during the year in respect of operating leases was as follows:

2011/12 £000		2012/13 £000
235	Minimum lease payments	214
59	Contingent rents	58
294		272

Contingent rents refer to one-off payments relating to the return of leased items.

NOTE 27 – CAPITAL EXPENDITURE AND CAPITAL FINANCING

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. This occurs where assets are funded by borrowing. The Capital Financing Requirement therefore shows the underlying need of the Council to borrow to finance its Capital Assets. The Capital Financing Requirement is analysed in the following table:

2011/12			2012/13	
£000	£000		£000	£000
	237,730	Opening Capital Financing Requirement		244,405
		<u>Capital Investment</u>		
24,076		Property, Plant and Equipment	33,052	
1,243		Intangible Assets	1,620	
-		Loans & Advances Treated as Capital Expenditure	62	
931		Investment Properties	394	
-		Assets Held	-	
8,049		Revenue Expenditure Funded from Capital under Statute	4,017	
	34,299	Total Capital Investment		39,145
		<u>Sources of Finance</u>		
(1,817)		Capital Receipts	(2,228)	
(16,785)		Government grants and other contributions	(15,830)	
		Sums set aside from revenue:		
(31)		Direct revenue contributions	(201)	
-		MRP - Previous years adjustment	-	
(8,991)		In Year MRP/Loans Fund Principal	(9,509)	
	(27,624)	Total Sources of Finance		(27,768)
	244,405	Closing Capital Financing Requirement		255,782
	6,675	Movement in Year		11,377
		<u>Explanation of movement in year</u>		
-		Increase in underlying need to borrow (supported by government financial assistance)	-	
15,666		Increase in underlying need to borrow (unsupported by government financial assistance)	20,751	
-		Assets acquired under finance leases	135	
-		Assets acquired under PFI/PPP contracts	-	
	15,666	Increase/(Decrease) in Capital Financing Requirement		20,886
	(8,991)	Reduced by Minimum Revenue Provision		(9,509)
	6,675			11,377

The capital investment figures above match to the additions line in the notes detailing movements on the non-current asset balances.

2011/12 £000	Analysis of Revenue Expenditure Funded as Capital Under Statute	2012/13 £000
2,070	Grants to individuals and organisations	1,402
1,604	Expenditure on Housing	281
1,896	Expenditure on assets not belonging to the Council	2,334
2,479	Expenditure on Pensions and Redundancy costs	-
8,049	Total	4,017

Contractual Commitments

As at 31 March 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years. These commitments total £20.7m and are totalled below. Similar commitments at 31 March 2012 were £38.5m.

Scheme	Spend to Date £000	Committed £000	Estimated Total Spend £000
Redcar Leisure and Community Heart	12,224	17,601	29,825
Teesville / Ravensworth	177	1,708	1,885
Agresso	559	575	1,134
Kirkleatham Rewire	55	855	910
Total	13,015	20,739	33,754

Commitments have only been disclosed if the scheme total is greater than £0.5m.

NOTE 28 – LONG TERM INVESTMENTS

Investment	Type of Investment	Value at 31 March 2012 £000	Gain/(Loss) on Revaluation £000	Value at 31 March 2013 £000
Durham Tees Valley Airport Ltd	Ordinary Shares	-	94	94
SITA Tees Valley Limited	Loan Shares	312	-	312
Total		312	94	406

The long term investment in Durham Tees Valley Airport Ltd has been revalued to £0.094m as a result of profit recorded in the last financial year as well as a significant increase in shareholder funds. The profit recorded for the year was due to the settlement of a large compensation claim and as well as this contributing to the increase in shareholder funds, consideration was also received in relation to the issue of share capital.

The investment in SITA Tees Valley Limited relates to preference shares only. As such the Council is not entitled to the retained profits of the company. The valuation of the shares, based upon trading results, is unlikely to change.

NOTE 29 – LONG TERM DEBTORS

The Council's Long Term Debtors include mortgage advances and car loan advances to employees in excess of 12 months. The Council no longer makes advances for mortgages and car loans therefore there is no increase in these debt balances only reductions as debt is repaid.

In August 2007, the Council made a loan of £0.200m to Tees Valley Leisure Limited (TVLL), the Council's leisure provider, under "well being" provisions in accordance with the Local Government Act 2000. This was approved by Cabinet on 28 August 2007 and is due to be repaid by TVLL over 10 years.

Cabinet on 1 March 2011 approved the allocation of funding to help assist the unemployed into employment and the provision of support for attracting new businesses. This funding includes the provision of loans to allow low income entrepreneurs to start or expand a small business and for businesses interested in establishing in the Borough. The first loans were made in 2011/12, with repayment periods of between 1 and 5 years.

Details are given below:

	Balance 31 March 2012 £000	Total Spend £000	Disposals/ Transfers £000	Amounts Written Off/ Repaid £000	Balance 31 March 2013 £000
Car Loans	211	-	(136)	-	75
Private Mortgages	8	-	-	(2)	6
Loan to Leisure Service Provider	131	-	-	(19)	112
Economic Development Loans	113	47	27	(19)	168
RCIF – Loan Repayment	-	44	-	(3)	41
Sundry Long Term Debtors	-	17	-	-	17
Total	463	108	(109)	(43)	419

NOTE 30 – ASSETS HELD FOR SALE

Assets held for sale are properties that are currently marketed. It is anticipated that they will be sold within 12 months of the reporting period.

2011/12 £000		2012/13 £000
872	Balance outstanding at start of year	4,858
4,228	Assets newly classified as held for sale	
-	- Property, Plant and Equipment	1,340
-	- Intangible Assets	-
(210)	- Other assets/liabilities in disposal groups	-
-	Revaluation losses	(6)
-	Revaluation gains	-
-	Impairment losses	-
(30)	Assets declassified as held for sale:	
-	- Property, Plant and Equipment	(57)
-	- Intangible Assets	-
(2)	- Other assets/liabilities in disposal groups	-
-	Assets sold	(1,671)
-	Transfers from non-current to current	-
-	Other movements	-
4,858	Balance outstanding at year end	4,464

NOTE 31 – INVENTORIES

2012/13 Financial Year	Balance at 1 April 2012	Purchases	Recognised as an expense in the year	Written off balances	Reversals of write-offs in previous years	Balance at 31 March 2013
	£000	£000	£000	£000	£000	£000
Stocks	119	1,583	(1,577)	(8)	-	117

2011/12 Financial Year	Balance at 1 April 2011	Purchases	Recognised as an expense in the year	Written off balances	Reversals of write-offs in previous years	Balance at 31 March 2012
	£000	£000	£000	£000	£000	£000
Stocks	126	1,596	(1,566)	(37)	-	119

Stocks held relate to Vehicle Fleet & Maintenance, Museums & Tourist Information activities.

NOTE 32 – DEBTORS

31 March 2012 £000		31 March 2013 £000
5,525	Central government bodies	8,123
1,952	Other local authorities	1,353
286	NHS Bodies	1,573
-	Public corporation and trading funds	-
6,435	Council Tax payers	6,726
7,670	Other entities and individuals	16,863
21,868	Total	34,639
	<u>Provisions for Doubtful Debts</u>	
(1,728)	General	(1,796)
(4,162)	Council Tax payers	(4,489)
15,978	Total debtors including provision for doubtful debt	28,353

In 2012/13 it was decided that Payments in Advance should be analysed as per the relevant body, i.e. Central Government Bodies, Other Local Authorities etc. Therefore 2011/12 figures were restated to reflect this change.

NOTE 33 – CASH AND CASH EQUIVALENTS

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

31 March 2012 £000		31 March 2013 £000
70	Cash held by the Council	58
2,687	Bank current accounts – school accounts	1,467
0	Bank current accounts – main council	(5,569)
17,776	Short term deposits with Financial Institutions	10,040
20,533	Total Cash and Cash Equivalents	5,996

The negative balance against the bank current accounts relates to payments (both electronic transfers and cheques) which have been processed against the Council's accounts but which have yet to clear.

NOTE 34 – CREDITORS

31 March 2012 £000		31 March 2013 £000
(4,574)	Central government bodies	(4,322)
(1,807)	Other local authorities	(2,364)
(1,030)	NHS Bodies	(306)
26	Public corporation and trading funds	26
(3,259)	Short Term Accumulating Compensated Absences	(3,512)
(21,769)	Other entities and individuals	(16,268)
(32,413)	Total	(26,746)

In 2012/13 it was decided that Income in Advance should be analysed as per the relevant body, i.e. Central Government Bodies, Other Local Authorities etc. Therefore 2011/12 figures were restated to reflect this change.

The movement in NHS Bodies is mainly as a result of the accounting treatment for revenue grants. Previously prior to International Financial Reporting Standards these grants would have been carried forward as income in advance; however due to the removal of many of the conditions on the use of grant funding by central government these are now treated as usable reserves on the balance sheet. These are shown as earmarked reserves for revenue grants or capital grants unapplied.

NOTE 35 – PROVISIONS

	Balance at 1 April 2012	Provisions made in 2012/13	Provisions utilised in 2012/13	Unused provisions reversed in 2012/13	Unwinding of discounting in 2012/13	Balance at 31 March 2013	Short Term Provisions	Long Term Provisions
	£000	£000	£000	£000	£000	£000	£000	£000
ER/VR Restructure Costs	(68)	(12)	68	-	-	(12)	(12)	-
Equal Pay Provision	(1,236)	-	380	610	-	(246)	(246)	-
BMW Landfill Usage	(12)	-	12	-	-	-	-	-
Carbon Reduction Commitment Scheme	(163)	-	141	22	-	-	-	-
MMI Claims	(630)	(1,439)	-	-	-	(2,069)	(2,069)	-
Insurance Provision	(1,704)	(655)	369	151	-	(1,839)	-	(1,839)
Total Provisions	(3,813)	(2,106)	970	783	-	(4,166)	(2,327)	(1,839)

As defined by IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) a provision is a monetary sum set aside in respect of a known event which may occur, and for which the timing is uncertain but the actual financial liability is known with some degree of confidence.

ER/VR: Business improvement is an ongoing activity across the Council and during 2010/11, the Council undertook a major restructuring programme, which resulted in a number of employees

electing to take either voluntary redundancy or early retirement. Further restructures took place during 2011/12 and the ER/VR Restructure Costs provision relates to the ongoing funding of redundancy and early retirement costs relating to these.

Equal Pay: The Council implemented a single pay structure for all employees from 1st April 2004. As a result of this, claims for equal pay have been received from both previous and present employees in relation to back dated pay claims on the basis of discrimination.

Considerable time has now been spent reviewing the robustness of individual claims and as a result of this, the number of potentially 'valid' claims has reduced. The provision has therefore been reduced to reflect the current number of outstanding claims, payments to date and expected average payouts.

The provision has always been maintained on a worst case scenario. Considerable time has now been spent reviewing the robustness of individual claims and as a result of this, the number of potentially 'valid' claims has reduced significantly. The provision has therefore, been reduced to reflect the current number of outstanding claims, payments to date and expected average payouts. This reduction has resulted in a credit to the revenue activities and the full reversal of the Equal Pay Back Pay Account.

BMW Landfill Usage: The Waste and Emissions Trading Act 2003 places a duty to Waste Disposal Authorities to reduce the amount of Biodegradable Municipal Waste (BMW) disposal to landfill. The act also provides the legal framework for Landfill Allowances Trading Scheme (LATS). The scheme allocates landfill allowances to each Waste Disposal Authority to be set against its verified BMW landfill usage. An authority is able to trade any surplus allowances with potential buyers in the market.

No provisions have been made for the LATS in 2012/13. During the financial year the value of LATS credit was revalued down from £2.90 per credit to nil. The losses incurred due to this revaluation have been accounted for in this year's accounts due to the termination of the scheme in 2013/14.

Carbon Reduction Commitment Scheme: The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and 2011/12 was the first year for which there was an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. A liability and an expense are recognised at the point at which the energy is consumed and carbon dioxide emitted. This obligation is recognised on the basis of the Council's liability to purchase and surrender the allowances and is the best estimate of the expenditure required to settle the present obligation at the reporting point.

In accordance with CIPFA guidance this obligation has not been recognised as a provision for 2012/13. As the CRC scheme is not a 'cap and trade' scheme and the purchase of CRC allowances is in arrears this expense has been accrued within the cost of services and a liability has been created on the balance sheet for the surrender of the allowances to the CRC registry.

MMI Claims: On the 28th March 2012 the Supreme Court on the Employers' Liability Policy Trigger Litigation relating to Mesothelioma Claims ruled that the insurer who was at risk at the time of the employee's exposure to asbestos was liable to pay compensation for the employee's Mesothelioma. The Council has now received a statement detailing potential claims and a MMI claims provision has been created based upon this information.

Insurance Provision: The Council operates a self funding arrangement, on its liability policies and the Insurance Fund was established in 1996 to provide for all payments that fall within the policy excess on claims. The excess on liability of £0.100m covers any public, employers, officials and professional indemnity and libel and slander liability claims. The property excess of £0.050m covers claims relating to schools, the motor excess of £0.020m relates to own damage only. The

excess of each claim is funded by the Council with additional amounts claimed covered by its insurance policies.

NOTE 36 – LONG TERM CREDITORS

The Council's Long Term Creditors include Section 38 agreements and commuted sums as the individual agreements cover a period of greater than a year.

Details are given below:

	Balance at 31 March 2012 £000	Income £000	Expenditure £000	Balance at 31 March 2013 £000
Section 38 Agreements	(114)	-	80	(34)
Commuted Sums	(162)	-	-	(162)
Total	(276)	-	80	(196)

Section 38 agreements relate to the creation of new highways upon land in the ownership of anyone other than the highway authority. It is an agreement between the land owner and the Council for the construction of new highways and the ultimate adoption by the Council as a public highway. The agreement secures a bond for the cost of the works, to enable completion of the works by the Council upon default by the developer. There are currently 3 such agreements in place.

Commuted sums are a payment made by a developer to the Council which will cover the future maintenance of an asset which will be adopted by the Council. Commuted sums are only payable for those elements of a design which are considered to be over and above the standard road design which the Council would normally adopt. There are currently 5 such sums held by the Council and they cover tree works, safety maintenance and playgrounds.

NOTE 37 – FINANCIAL INSTRUMENTS

Financial instruments are defined as transactions that lead to the recognition of a financial asset or financial liability.

For the Council, these transactions generally fall under Treasury Management Activities.

Treasury Management is defined by CIPFA as “the management of the Council's cash flows, its banking, money market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks”.

The Council has adopted the CIPFA Code of Practice on Treasury Management. This code provides a framework of operating procedures for an authority to follow. The framework is designed to reduce the risks associated with Treasury Management activities, improve understanding of treasury and increase accountability.

The notes below provide details of the Council's Treasury Management activities, and show how the Council manages the risks associated with these activities.

Further details can be found in the Treasury Management Outturn Report and the Treasury Management Strategy Statement which was approved by Cabinet and full Council on 5 March 2012.

Financial Instruments: Balances

The investments and borrowing disclosed in the balance sheet are made up of the following categories of Financial Instruments.

	Long-term		Current	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Financial Liabilities (Principal Amounts)				
Loans with PWLB	(55,844)	(46,866)	(11,020)	(5,020)
Market Loans	(105,350)	(105,350)	-	-
Annuities	-	-	-	-
Accrued Interest				
Loans with PWLB	-	-	(634)	(592)
Market Loans	-	-	(1,625)	(1,643)
Annuities	-	-	-	-
			(13,279)	(7,255)
Overdraft	-	-	(5,568)	-
Financial Liabilities at Amortised Cost	(161,194)	(152,216)	(18,847)	(7,255)
PFI and Finance Lease Liabilities				
PFI				
Schools	(42,666)	(43,585)	(919)	(770)
Offices	(6,181)	(6,472)	(294)	(279)
Street Lighting	(18,644)	(19,116)	(472)	(425)
	(67,491)	(69,173)	(1,685)	(1,474)
Finance leases	(91)	(8)	(35)	(365)
Creditors	(34)	(114)	(25,026)	(29,414)
Other Liabilities	(67,616)	(69,295)	(26,746)	(31,253)

	Long-term		Current	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Loans and Receivables (Principal Amounts)				
Investments (Over 90 Days)			10,000	5,000
Accrued interest	-	-	262	95
Impaired investments	-	-	586	1,174
			10,848	6,269
Investments (Under 90 Days)			10,040	17,761
Accrued interest			0	15
Current Financial Assets (Excluding Overdraft)	-	-	1,524	2,757
			11,564	20,533
Loans and Receivables at Amortised Cost	-	-	22,412	26,802
Debtors	419	464	26,116	13,705
Available for sale financial assets	406	313	-	-

Financial Instruments: Gains and Losses

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

2012/13	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale Assets	
	£000	£000	£000	
Interest expense	(15,872)	-	-	(15,872)
Impairment (losses)/gains (1)	-	53	-	53
Total Expense in Surplus/Deficit on the provision of services	(15,872)	53	-	(15,819)
Interest income (2)	-	465	-	465
Gains on derecognition	-	-	-	-
Total Income in Surplus/Deficit on the provision of services	-	465	-	465
Gains on revaluation	-	-	94	94
Losses on revaluation	-	-	-	-
Amounts recycled to the I&E Account after impairment	-	-	-	-
Surplus/(Deficit) Arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	94	94
Net gain/(loss) for the year	(15,872)	518	94	(15,260)
Memo item:				
Losses on derecognition of Impaired Financial Asset	-	-	-	-
Total Amount written off through Movement in Reserves Statement	-	-	-	-

2011/12	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale Assets	
	£000	£000	£000	
Interest expense	(15,684)	-	-	(15,684)
Impairment (losses)/gains	-	205	-	205
Total Expense in Surplus/Deficit on the provision of services	(15,684)	205	-	(15,479)
Interest income	-	432	-	432
Gains on derecognition	-	-	-	-
Total Income in Surplus/Deficit on the provision of services	-	432	-	432
Gains on revaluation	-	-	-	-
Losses on revaluation	-	-	(347)	(347)
Amounts recycled to the I&E Account after impairment	-	-	-	-
Surplus/(Deficit) Arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	(347)	(347)
Net gain/(loss) for the year	(15,684)	637	(347)	(15,394)
Memo item:				
Losses on derecognition of Impaired Financial Asset	-	-	-	-
Total Amount written off through Movement in Reserves Statement	-	-	-	-

(1) The positive figure for impairment losses in 2011/12 and 2012/13 relates to the Council's Icelandic investments. The adjustment takes into account the improved recoverable amount from these investments, and adjusts the amount previously written off in the income and expenditure statement.

For additional detail please see the note on the Impairment of Investments.

(2) The figure for interest earned is shown net of contributions to provisions/reserves. The interest earned from Treasury Management Activities was £0.465m.

Financial Instruments: Fair Value of Assets and Liabilities

Financial liabilities and financial assets, represented by loans and receivables, are carried in the Balance Sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). The fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption assumptions;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised. However the Council has recognised an impairment relating to the Icelandic bank investments. See detailed note on the Impairment of Investments.
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The fair values calculated are as follows:

31 March 2012			31 March 2013	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
52,478	54,403	PWLB debt	67,498	71,032
106,993	142,700	Non-PWLB debt	106,975	147,006
-	-	Current financial liability (overdraft)	5,568	5,568
159,471	197,103	Total debt	180,041	223,606
29,414	29,414	Creditors	26,746	26,746
188,885	226,517	Total financial liabilities	206,787	250,352
24,045	24,053	Long and short term investments	20,888	20,383
2,757	2,757	Current financial assets	1,522	1,522
13,705	13,705	Debtors	26,116	26,116
40,507	40,515	Total loans and receivables	48,526	48,021

The table above shows that the Council's fair value for financial liabilities is significantly greater than the carrying amount. This is due to the rates being paid for non-PWLB debt being higher than the current rate available for similar borrowing as at 31 March. This means that in order to repay that debt early, the Council would incur costs higher than the carrying value of the loan. This leaves the Council with little scope for restructuring this long term debt in order to achieve interest rate savings.

The Council had no long term investments for treasury management purposes as at 31 March 2013.

Financial Instruments: Risks

The Council's activities potentially expose it to a variety of financial risks, the key risks being:

- (a) Credit risk - the possibility that other parties might fail to pay the amounts due to the Council.
- (b) Liquidity risk - the possibility that the Council may not have the funds available to meet its payment commitments.
- (c) Market risk - the possibility that changes in such measures as interest rate changes might result in financial loss to the Council.

Overall Procedures for Managing Risk

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

Overall, these procedures require the Council to manage the risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;
- by approving annually in advance a locally established set of prudential and treasury indicators for the following three years limiting
 - the Council's overall borrowing;
 - its maximum and minimum exposure to fixed and variable rates;

- its maximum and minimum exposure to the maturity structure of its debt;
 - its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out the criteria for both investing and selecting investment counterparties in compliance with Government guidance.

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

The annual treasury management strategy which incorporates the prudential code was approved by Council on 5 March 2012 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2012/13 was set at £282.4m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £272.4m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 75% based on the Council's net debt.

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

(a) Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The annual investment strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

This Council uses the creditworthiness service provided by Sector, the Council's Treasury Management Advisors. This service uses a sophisticated modelling approach with credit ratings from all three major rating agencies, Fitch, Moody's and Standard and Poor's, forming the core element.

However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

The full Investment strategy for 2012/13 was approved by Full Council on 5 March 2012 and is available on the Council's website.

In 2008/09, the Council suffered from a default on £6m of investments with Icelandic banks based in the UK. Full details of the impairment of these investments, including the expected recoverable amount, impact on the Council and accounting treatment are included in the notes on Financial Instruments - Impairment of Investments.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £19.940m cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2013 that this was likely to crystallise.

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

<u>Deposits with banks and financial institutions (not including accrued interest)</u>	Amount at 31 March 2013	Historical experience of default	Adjustment for market conditions at 31 March 2013	Estimated maximum exposure to default
	£000	%	%	£000
	A	B	C	A x C
AAA rated counterparties	-	0.00%	0.00%	-
AA rated counterparties	-	0.02%	0.02%	-
A rated counterparties	(19,940)	0.09%	0.09%	(18)
BBB rated counterparties	-	0.23%	0.23%	-
Other Counterparties	-	0.00%	0.00%	-
Total	(19,940)			(18)

Icelandic Bank investments of £6m have been excluded from the above table as default on payment has already occurred.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds (apart from the ongoing issue in respect of Icelandic Banks).

The Council does not generally allow credit for customers, such that £1.491m of the £4.898m debtors invoices balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000
Less than one month	3,407
One to three months	756
Three to six months	112
Six months to one year	278
More than one year	345
Total	4,898

As the Council maintains a bad debt provision for debts based on dispute code, no further assessment of the fair value has therefore been made. The amounts are carried on the Balance Sheet at their amounts outstanding and no amounts have been included in the table above for the Council's exposure to default. The £4.898m above relates to invoiced debt only and is an element of the debtor total in Note 32.

(b) Liquidity Risk

The Council has ready access to borrowings from the Money Markets to cover day to day cash flow need and the Public Works Loan Board (PWLB) provides access to longer term funds.

The Council is also required to produce a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. There is the risk that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. However, this risk has been mitigated through the management of the maturity structure of its borrowings.

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

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

The maturity analysis of financial liabilities (excluding PFI/Leases) is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy):

Period	Approved Maximum Limits	Actual 31 March 2013 £000	%	Actual 31 March 2012 £000	%
Less than 1 year	10%	11,020	7%	5,019	3%
Between 1 and 2 years	20%	4,021	2%	11,020	7%
Between 2 and 5 years	80%	17,570	10%	18,567	12%
Between 5 and 10 years	90%	9,985	6%	8,012	5%
More than 10 years	100%	129,891	75%	114,891	73%
Total		172,487	100%	157,509	100%

A large proportion of the Council's loans are held in the form of LOBO (Lender Option Borrower Option) loans from the money markets. These loans are subject to periodic "Calls" from the lender. Where the lender decides to "Call" a loan, they increase the interest rate of the loan and the Council then has the opportunity to accept the increased rate or to repay the loan.

As part of the analysis of the maturity structure, the Council and its advisers take into account the likelihood of loans being called in determining where they sit in the maturity structure above. The structure showing all loans being called represents a substantial refinancing risk. However, the likelihood of these loans being called is currently assessed as very low. This is due to the relatively high rates of interest that these loans run at

currently, compared to the market rates available. See note on Fair Value of Financial Assets and Liabilities for details.

c) Market Risk

(i) Interest Rate Risk

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

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

The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The current policy is to aim to keep variable rate exposure at a maximum of 25% of its borrowings. Currently, all loans are fixed rate loans.

The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

As the Council's portfolio is 100% fixed rate, any movement in interest rates therefore has an impact on the fair value of financial instruments. As financial instruments are carried in the balance sheet at amortised cost, gains or losses on fixed rate instruments have no impact on the balance sheet or comprehensive income and expenditure statement.

Based on the financial liabilities and assets as at the balance sheet date, a one percentage point movement in interest rates will have the following effects:-

	£000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	-
Impact on Comprehensive Income and Expenditure Statement	-
Decrease in fair value of fixed rate investment assets	(11)
No impact on Comprehensive Income and Expenditure Statement	
Decrease in fair value of fixed rate borrowings	1,779
No impact on Comprehensive Income and Expenditure Statement	

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

The impact is currently limited. The Council's investments as at 31 March 2013 are detailed in the note on Financial Instruments Balances. The movement on fixed term deposits is £0.011m and would not impact on the CIES. The investments with Iceland are currently part of an ongoing administration process. They are not included in this calculation.

The borrowings are at fixed rates subject to varying call periods. The decrease in fair value of fixed rate borrowings of £1.779m represents 29% of the Council's General Fund balances.

(ii) Price Risk

The Council does not invest in equity shares but does have shareholdings in Durham Tees Valley Airport Limited and SITA Tees Valley Limited. These shares are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the Available for Sale Reserve.

(iii) Foreign Currency Risk

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

FINANCIAL INSTRUMENTS: IMPAIRMENT OF INVESTMENTS

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £6m deposited across two of these institutions, with varying maturity dates and interest rates as follows:

Investments included in the Balance Sheet include the following that have been impaired because of the financial difficulties being experienced by Icelandic banks.

	Date Invested	Maturity Date	Amount Invested	Interest Rate	Interest	Total Value of Investment	Total Value of Claim 07/10/2008
Bank			£000	%	£000	£000	£000
Kaupthing Singer and Friedlander	22/5/2008	21/5/2009	2,000	6.15	106	2,106	2,047
Heritable	1/10/2008	13/2/2009	4,000	6.37	126	4,126	4,004
Total			6,000		232	6,232	6,051

The amount reclaimed covers principal and interest accrued up to 7 October 2008.

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

The commentary and tables below outline the prudent accounting treatment of these investments by the Council.

Kaupthing Singer and Friedlander Ltd

Kaupthing Singer and Friedlander Ltd is a UK registered bank under English law. The company was placed in administration on 8 October 2008, and original estimates suggested that 50% recovery would be made. To date, the council has received £1.556m, representing 76% of the

amount claimed. According to the latest administrator's reports, the Council expects to recover 85.25 % of the claim, with future predictions of payments as follows:

Future payments are projected as follows:

	%
June 2013	3.0%
June 2014	3.0%
June 2015	3.25%
Total	9.25%

Heritable Bank

Heritable bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. At this time, the total amount to be received was estimated by the administrators, Ernst and Young, to be between 70-80%.

To date, the Council has recovered £3.094m, 77% of the amount claimed. The Council expects to recover a total of 87.8% of the claim.

The remaining payments are expected to fall as follows:

	%
July 2013	2.0%
January 2014	8.8%
Total	10.8%

Accounting for Icelandic Investments – 2012/13

	Total Value of Investment	Carrying Amount	Received to date	Interest	Impairment
Bank	£000	£000	£000	£000	£000
Kaupthing Singer and Friedlander	2,106	173	1,556	-	(377)
Heritable	4,126	413	3,094	-	(619)
Total	6,232	586	4,650	-	(996)
		(a)	(b)		
Predicted total recoverable		(a) + (b)	5,236		

Due to the amounts received to date (£4.650m) and revised assumptions on the discounted future cashflows relating to these investments (the carrying amount), the Council anticipates recovering £5.236m from these investments. The impairments charged to the Income and Expenditure Account in previous years are as follows.

Financial Year	£000
2008/09	1,232
2010/11	22
2011/12	(205)
2012/13	(53)
Total	996

NOTE 38 – OTHER LONG TERM LIABILITIES

The balance of other long term liabilities is made up of the following elements:

31 March 2012 £000		31 March 2013 £000
174,419	Pension Scheme (Note 42)	157,197
69,173	PFI (Note 25)	67,491
8	Leasing (Note 26)	91
243,600	Total	224,779

NOTE 39 – GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

2011/12 £000		2012/13 £000
	Credited to Services	
101,428	Dedicated Schools Grant	90,055
1,519	D.S.S. Benefits Admin Grant	1,529
69,592	Housing and Council Tax Benefits	57,127
1,731	Standards Fund/School Standard Grant	-
3,751	Surestart	-
180	N.N.D.R. Admin Grant	183
95	Supporting People	39
7,128	Department for Education	12,782
387	Future Jobs Fund	-
102	European Social Fund	-
459	Department of Health	38
552	Home Office	274
125	Department for Environment, Food and Rural Affairs	34
70	Landfill Allowance Trading Scheme	-
827	Department for Transport	327
988	Department for Communities & Local Government	2,078
2,757	Young Persons Training Agency	1,523
1,189	Skills Funding Agency	1,435
584	Training & Development Agency	504
1,684	Diocese Contribution	1,823
5,127	Health Authorities	9,810
23	Police Authorities	17
178	Sport England	-
1,473	Other Local Authorities	1,442
1,408	Other Grants and Contributions	1,371
276	Donations	235
203,633	Total	182,626

2011/12 £000		2012/13 £000
	Credited to Taxation and Non Specific Grant Income	
57,259	Council Tax Income	59,397
51,940	Distribution from Non-domestic Rates	61,262
	<u>Non-ring fenced Government Grants</u>	
16,055	Revenue Support Grant	1,215
1,412	Council Tax Freeze Grant	1,412
-	Central Education Services Grant (LACSEG)	395
7,123	PFI Grant	7,123
1,920	Learning Disability Social Care Funding	1,970
26	New Homes Bonus Scheme	26
190	Local Services Support Grant	148
18,321	Capital Grants and Contributions	12,048
154,246	Total	144,996

The Council has a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver if not utilised in accordance with their given purpose. The balances at the year end are as follows:

31 March 2012 £000		31 March 2013 £000
	Revenue Receipts in Advance	
492	Department for Education	463
-	Department for Business, Innovation & Skills	407
169	Department for Communities & Local Government	0
13	Department for Environment, Food & Rural Affairs	-
921	Department of Health	11
-	Ministry of Defence	19
50	Other Local Authorities	31
250	Skills Funding Agency	97
149	Young Persons Learning Agency	-
-	Other Contributions	691
2,044	Total	1,719

31 March 2012 £000		31 March 2013 £000
	Capital Receipts in Advance	
195	Department of Health	194
267	HMR Transition Fund	4
41	Growth Point Funding	7
436	Devolved Capital	338
1,160	Single Programme Funding	10
-	Other Grants and Contributions	66
2,099	Total	619

NOTE 40 – UNUSABLE RESERVES

31 March 2012 £000		31 March 2013 £000
	CAPITAL RESERVES	
22,333	Revaluation Reserve	25,956
313	Available for Sale Financial Instruments Reserve	406
16,389	Capital Adjustment Account	1,451
(4,963)	Financial Instruments Adjustment Account	(4,712)
8	Deferred Capital Receipts	6
	REVENUE RESERVES	
(174,419)	Pensions Reserve	(157,197)
2	Collection Fund Adjustment Account	241
(3,259)	Accumulating Compensated Absences Adjustment Account	(3,512)
(143,596)	Total Unusable Reserves	(137,361)

Revaluation Reserve

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

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

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

2011/12 £000		2012/13 £000
17,493	Balance at 1 April	22,333
-	Opening balance adjustment written off to CAA	(322)
6,199	Upward revaluation of assets and impairment	8,609
(651)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,736)
5,548	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	6,873
(697)	Difference between fair value depreciation and historic cost depreciation	(577)
(11)	Accumulated gains on assets sold or scrapped	(2,351)
-	Non current assets direct to Capital Adjustment Account	-
(708)	Amounts written off to the Capital Adjustment Account	(2,928)
22,333	Balance at 31 March	25,956

Available for Sale Financial Instruments Reserve

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

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

2011/12 £000		2012/13 £000
660	Balance at 1 April	312
-	Upward revaluation of investments	94
(348)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
-	Accumulated gains on assets sold and maturing assets written out of the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
312	Balance at 31 March	406

Capital Adjustment Account

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

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

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

Note 5 provides details of the source of transactions posted to the account, apart from those involving the Revaluation Reserve.

2011/12 £000		2012/13 £000
22,215	Balance at 1 April	16,389
	<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</u>	
-	Opening balance adjustment	322
(11,904)	Charges for depreciation and impairment of non current assets	(11,439)
(11,465)	Revaluation losses on Property, Plant and Equipment, Investment Properties and Assets Held For Sale	(10,418)
(704)	Amortisation of intangible assets	(1,375)
(8,049)	Revenue expenditure funded from capital under statute	(4,017)
(1,315)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(15,767)
(33,437)	Total Reversals in the CIES	(42,694)
-	Adjusting amounts written out of the Revaluation Reserve	-
(33,437)	Net amount written out of the cost of non current assets consumed in the year	(42,694)
	<u>Capital financing applied in the year</u>	
1,817	Use of the Capital Receipts Reserve to finance new capital expenditure	2,228
-	Capital Financing Reserve	-
31	Direct Revenue Financing	201
14	Write down long term debtor/capital receipt deferred	2
16,784	Capital grants and contributions credited to the CIES that have been applied to capital financing	15,830
-	Application of grants to capital financing from the Capital Grants Unapplied Account	-
8,991	Statutory provision for the financing of capital investment charged against the General Fund in year (MRP)	9,509
-	Amendment to accounting estimates and reduction of MRP	-
(26)	Disposal expenses	(14)
27,611	Total Capital Financing	27,756
-	Movements in the market value of Investment Properties debited or credited to the CIES	-
-	Movement in the Donated Assets Account credited to the CIES	-
16,389	Balance at 31 March	1,451

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage premiums paid on the early redemption of debt. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred. The Council then uses a statutory override to reverse this entry through the Movement in Reserves Statement. The cost of the transaction is then posted back to the General Fund Balance over the life of the replacement borrowing taken. This spreads the burden on council tax.

2011/12 £000		2012/13 £000
(5,213)	Debt - Balance as at 1 April	(4,963)
-	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-
-	Transfer of overhanging premiums – now repaid	-
250	Proportion of premiums incurred in the previous financial years to be charged against the General Fund Balance in accordance with Statutory requirements	251
(4,963)	Total Debt	(4,712)
-	Investments - Balance as at 1 April	-
-	Recognition of Impaired Investment	-
-	Deferral of Impairment through use of General Fund balance	-
-	Adjustments to Impairments	-
-	Writing out of impairment balance to General Fund Balance	-
-	Total Investments	-
(4,963)	Balance on FIAA	(4,712)

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 the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the 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.

2011/12 £000		2012/13 £000
(75,075)	Balance at 1 April	(174,419)
(100,483)	Actuarial gains/(losses) on pensions assets and liabilities	23,913
(11,545)	Reversal of items relating to retirement benefits debited/ credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(19,135)
12,684	Employer's pensions contributions and direct payments to pensioners	12,444
(174,419)	Balance at 31 March	(157,197)

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.

2011/12 £000		2012/13 £000
32	Balance at 1 April	2
(30)	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	239
2	Balance at 31 March	241

Accumulating Compensated Absences Adjustment Account

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

2011/12 £000		2012/13 £000
(4,086)	Balance at 1 April	(3,259)
4,086	Settlement or cancellation of accrual made at the end of the preceding year	3,259
(3,259)	Amounts accrued at the end of the current year	(3,512)
-	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-
(3,259)	Balance at 31 March	(3,512)

NOTE 41 – PENSIONS 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 their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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 the Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/13, the Council paid £5.539m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.10% of pensionable pay. The figures for 2011/12 were £6.291m and 14.10%. 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 42.

NOTE 42 – DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Council participates in the following post employment scheme:

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

Transactions Relating to Post Employment Benefits

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

2011/12 * £000		2012/13 * £000
	Comprehensive Income and Expenditure Statement	
	<u>Cost of Services</u>	
10,623	Current service cost	14,089
-	Past service costs	-
1,755	Settlements and Curtailments	1,324
	<u>Financing and Investment Income and Expenditure</u>	
25,658	Interest cost	25,754
(26,491)	Expected return on scheme assets	(21,739)
11,545	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	19,428
	<u>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</u>	
100,483	Actuarial gains and losses	(23,913)
112,028	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(4,485)
	<u>Movement in Reserves Statement</u>	
(11,545)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(19,428)
	<u>Actual amount charged against General Fund Balance for pensions in the year</u>	
12,684	Employers' contributions payable to scheme	12,444

* Actuarial data based upon actual contributions up to 31 December and then market returns (estimated where necessary) for the period to 31 March.

2011/12 settlements and curtailments includes a charge (£0.293m) for early retirement decisions that have been made and agreed but due to the timing of these decisions has not been reflected in the actuaries pension fund statement. This transaction has been reversed in 2012/13 to avoid duplication.

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement from 1 April 2004 to the 31 March 2013 is a gain of £16.180m.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

Year to 31 March 2012 £000		Year to 31 March 2013 £000
468,694	Opening balance at 1 April	560,552
10,623	Current Service Cost	14,089
25,658	Interest Cost	25,754
3,745	Contributions by scheme participants	3,418
68,241	Actuarial gains/(losses)	12,307
(15,898)	Benefits paid	(17,901)
(1,575)	Unfunded pension payments	(1,711)
-	Past Service Cost	-
-	Reversal of previous years pension strain	(293)
1,064	Curtailments and settlements	1,324
560,552	Closing balance at 31 March	597,539

Reconciliation of fair value of the scheme (plan) assets:

Year to 31 March 2012 £000		Year to 31 March 2013 £000
393,619	Opening balance at 1 April	386,133
26,491	Expected Rate of Return	21,739
(32,242)	Actuarial gains/(losses)	36,220
12,684	Employer Contributions	12,444
3,745	Contributions by scheme participants	3,418
(17,473)	Benefits paid	(19,612)
(691)	Settlements	-
386,133	Closing balance at 31 March	440,342

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 £57.959m (2010/11 £(5.751)m).

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).

Scheme History

	2012/13 £000	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000
Present Value of Funded Scheme Liabilities	(576,073)	(538,744)	(447,728)	(509,010)	(331,620)
Present Value of Unfunded Scheme Liabilities	(21,466)	(21,808)	(20,966)	(22,147)	(26,869)
Fair Value of Scheme Assets	440,342	386,133	393,619	367,552	266,455
Surplus/(Deficit) in the scheme	(157,197)	(174,419)	(75,075)	(163,605)	(92,034)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £157.197m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative net worth balance of £104.570m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

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

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £11.514m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The scheme has been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

2011/12		2012/13
	<u>Long term expected rate of return on assets in the scheme</u>	
6.1%	Equities	7.8%
3.3%	Gilts	2.8%
4.6%	Other Bonds	3.8%
4.3%	Property	7.3%
3.0%	Cash	0.9%
6.1%	Other *	7.8%
	<u>Mortality assumptions (years)</u>	
	Longevity at 65 for current pensioners:	
19.0	Men	19.2
23.1	Women	23.2
	Longevity at 65 for future pensioners:	
21.0	Men	21.1
25.0	Women	25.1
2.5%	Rate of Inflation **	2.5%
4.7%	Rate of increase in salaries	4.4%
2.5%	Rate of increase in pensions	2.5%
4.6%	Rate for discounting scheme liabilities	4.4%
50.0%	Take-up of option to convert annual pension into retirement lump sum	50.0%

* Other holdings may include hedge funds, currency holdings and other financial instruments.

** The rate of inflation since 2010/11 relates to the Consumer Price Index, prior years related to the Retail Price Index.

The scheme's assets consist of the following categories, by proportion of the total assets held:

Year to 31 March 2012 %	<u>Assets</u>	Year to 31 March 2013 %
83	Equities	77.4
6	Gilts	7.2
2	Other Bonds	2
4	Property	5.3
5	Cash	5.2
-	Other	2.9
100	TOTAL	100

History of Experience - Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2012/13 %	2011/12 %	2010/11 %	2009/10 %	2008/09 %
Difference between the expected and actual return on assets	8.2	(8.3)	1.0	23.1	(26.7)
Experience gains/(losses) on liabilities	0.1	-	(1.9)	1.9	-

NOTE 43 – CASH FLOW STATEMENT – OPERATING ACTIVITIES

This note shows the cash inflow from operating activities. This adjusts the surplus/deficit on provision of services for non-cash items, and removes other items relating to financing or investing activities. This leaves the cash movement arising from taxation, grant income and payments from service users.

2011/12 £000		2012/13 £000
7,342	Surplus/(Deficit) on Provision of Services	(19,430)
	<u>Adjust net surplus/deficit on the provision of services for non cash movements</u>	
13,306	Depreciation/Amortisation	13,391
11,465	Impairment	12,276
(205)	Material impairment losses on Investments debited to surplus/deficit on the provision of services in year	(1,911)
(1,605)	Increase/(Decrease) in Creditors	(3,805)
2,289	(Increase)/Decrease in Debtors	(12,542)
6	(Increase)/Decrease in Inventories	2
(1,139)	Pension Liability	6,691
(7,808)	Contribution to/(from) provisions	352
1,315	Carrying amount of non-current assets sold	18,116
17,624	Total	32,570
	<u>Adjust for items included in the net surplus/deficit on the provision of services that are investing or financing activities</u>	
(20,760)	Capital Grants Credited	(15,276)
(1,847)	Proceeds from Sale of Assets	(2,233)
(22,607)	Total	(17,509)
2,359	Net Cash flow from Operating Activities	(4,369)

Memo Item – Operating Activities – Interest

Operating activities within the cash flow statement include the following cash flows relating to interest:

2011/12 £000		2012/13 £000
468	Interest Received	299
(16,069)	Interest Paid	(15,897)
(15,601)	Total	(15,598)

NOTE 44 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

The note below details cash flows arising from investing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

2011/12 £000		2012/13 £000
(26,250)	Purchase of Property, Plant and Equipment, investment property and intangible assets	(34,993)
8,667	Purchase/(Disposal) of short term investments	(4,360)
(113)	Long term loans	(108)
1,817	Capital Receipts	2,228
13,697	Capital Grants and other receipts	14,180
(2,182)	Net cash flows from investing activities	(23,053)

NOTE 45 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

The note below details cash flows arising from financing activities. This shows the movement in cash flows that arise from the council's borrowing and other debt activities. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2011/12 £000		2012/13 £000
5,000	Cash receipts of short- and long-term borrowing	20,000
30	Collection Fund adjustment account	(239)
(3,019)	Repayment of short term/long term borrowing	(5,022)
(1,863)	Other payments relating to PFI and Finance Lease debt	(1,854)
148	Net cash flows from financing activities	12,885

NOTE 46 – RELATED PARTIES

In accordance with IAS 24 on Related Parties Disclosures, the financial statements should contain a disclosure necessary to draw attention to the possibility that the reported financial position of the Council may have been affected by the existence of related parties and by material transactions within them. In accordance with the requirement, set out in this note are those related parties.

Central government has significant influence over the general operations of the Council. It is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes many of the transactions that the Council has with other parties. Grants received from government departments are set out in the subjective analysis in Note 7 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March 2013 are also set out in Note 39.

Elected Members and Chief/Second-tier officers have provided details of any 'related party transactions', as required by the latest Code of Practice. There are no items declared that are material to the activities of the Council and its related parties apart from those details separately disclosed below. A number of elected members serve on community groups and associations who receive grants from the Council. All interests are declared in the Register of Members Interests. The Members have direct control over its financial and operating policies of the Council. The total of Members allowances for the 2012/13 financial year is shown in Note 14.

The Council's Head of Corporate Financial Services/Section 151 Officer is the Treasurer for the River Tees Port Health Authority and the Director of Corporate Resources/Monitoring Officer for the Council is also the Chief Legal Officer. The Director of Area Management is classed as the equivalent of the Head of Paid Service for the Authority. The Council's financial contribution for 2012/13 was £0.059m.

Three Members and the Director of Corporate Resources hold positions on the board of Coast & Country Housing. The financial transactions between C&CH and RCBC was a net payment of £3.2m covering various grants from the Council and call out charges for Council properties.

Three Members and the Director of Corporate Resources also held positions on the board of Tees Valley Leisure Limited during 2012/13. The annual subsidy paid to TVLL for the operation of the leisure contract was £1.2m.

There were no significant transactions with related companies.

Grants from Central Government, the European Community and other bodies are included in the column headed "Gross Income" shown in the Comprehensive Income and Expenditure Account on page 19 . A more detailed analysis of these grants is given in Note 39.

Some services are provided to bodies which seek to advance aims which the Council would support such as community development, economic regeneration and charitable purposes. Some of these services, such as payroll preparation and professional advice and support are provided without charge – but the total cost involved is not significant.

NOTE 47 – CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets pertaining to the Council at 31 March 2013.

* * *

The Teachers' Pension Scheme is a defined benefit scheme, administered by the Teachers' Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs). However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees.

* * *

Liberata continue to have admitted body status to the Teesside Local Government Pension Scheme and have a £0.100m Pension Bond in place until contract termination (in 2018). The bond value is recalculated on an annual basis to ensure its adequacy and Liberata are to adjust the bond accordingly. The Council is party to this arrangement with its liability being limited to that required by the Pension Fund Resolution i.e. any residual deficit on the fund in the event of premature termination of the contract after application of the pension bond will fall to the Council.

* * *

A number of local authorities are currently involved in a test case concerning a claim for refund of personal search fees paid to local authorities for local land charges searches. Redcar and Cleveland Borough Council is not a defendant to those proceedings but does contribute to a fund set up by the Local Government Association to defend these claims and will face similar claims

for repayment should the judgement go against the local authorities in the current test case. The outcome of the litigation is uncertain but court proceedings have been commenced.

If the courts rule against the local authorities the Council could have to repay fees paid for personal searches for a period of up to six years. Significant income has been received from local land charges during this period. This could amount to a significant liability (up to £500,000).

* * *

The Council have successfully defended an application for the judicial review of a certificate of lawfulness relating to the Boosbeck Abattoir. The Claimants did not seek compensation as part of the proceedings. The Claimants do have the right to seek leave to appeal the High Court decision in the Court of Appeal and this may lead to a future liability for the Council.

* * *

Housing Market Renewal funding was received by the Council from the Homes & Communities Agency to fund improvements in housing provision within the South Bank area. A legal challenge against the allocation of this funding has been made by the group Save Britain's Heritage. The outcome of the challenge and the timing is uncertain but the Council could potentially have to repay £266,800 for the housing renewal scheme. The risk however is considered to be low.

NOTE 48 – STATEMENT OF ACCOUNTING POLICIES

1. GENERAL

The Statement of Accounts summarises the Council's financial transactions for the 2012/13 financial year and its financial position at the year ended 31 March 2013, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, 2012/13, produced under International Financial Reporting Standards. It also complies with the Service Code of Accounting Practice which constitutes proper practice under Part IV of the Local Government and Housing Act 1989.

2. ESTIMATION TECHNIQUES

These are the methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period;
- different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider the debts as a whole rather than individual balances.

3. ACCRUALS OF INCOME & EXPENDITURE (DEBTORS & CREDITORS)

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods and services.
- 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 subject to a de minimis level of £1,000.
- Capital works are charged as expenditure when they are completed, before which they are carried as assets under construction on the Balance Sheet.
- Interest payable on borrowing and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income 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 it is doubtful that debt will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

A couple of exceptions to this are periodic payments in respect of gas, electricity and telephone charges where amounts have not been accrued. However, the accounts do include the equivalent of a full year's expenditure in respect of these items.

4. **PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

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

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

5. **REVENUE**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Revenue is measured at the fair value of the consideration received or receivable except for a financial asset that is measured in accordance with financial instruments.

In most cases, the consideration receivable is in the form of cash and cash equivalents and the amount of revenue is the amount of cash and cash equivalents receivable. However, if payment is on deferred terms (ie beyond normal credit terms), the consideration receivable is recognised initially at the cash price equivalent (that is, the discounted amount). The difference between this amount and the total payments received is recognised as interest revenue in Surplus or Deficit on the Provision of Services.

6. **RESERVES**

The Council sets aside specific amounts as Reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service reserve account in that year to be set off against the Net Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund resulting in no charge against Council Tax for the expenditure.

Reserves are an accumulation of previous years surpluses, deficits, and transfers and are categorised as either 'usable' or unusable' and are detailed in the notes to the accounts.

Usable reserves may be utilised by the Council to fund revenue or capital expenditure as prescribed.

Unusable reserves are non-distributable reserves and are disclosed in Note 40 to the Statement of Accounts. These represent 'technical non-cash' reserves which are maintained to manage the accounting processes and other statutory accounting adjustments under regulations. These reserves do not represent usable resources available to the Council, they do not impact upon the level of local taxation required and are not able to be utilised in support of service delivery.

7. **TRUST FUNDS**

Trust Funds administered by the Council are included in the Balance Sheet. However ownership does not vest with the Council but forms part of the Council's stewardship role. The amounts involved are immaterial and as a result have not been adjusted. The extent and nature of Trust Funds is, however, disclosed at Note 9.

8. **GRANTS AND CONTRIBUTIONS**

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition that the Council has not satisfied. In this case they will be recognised as income in advance on the Balance Sheet before ultimately being recognised as income in the Comprehensive Income and Expenditure Statement once the condition has been met.

9. **EMPLOYEE BENEFITS**

Benefits payable during employment

Benefits payable during employment cover short-term employee benefits and other employee benefits (other than termination benefits) that are due to be settled within 12 months or more after the end of the reporting period.

Short-term employee benefits include wages, salaries and social security contributions, compensated absences and non-monetary benefits.

Compensated absences are periods during which an employee does not provide services to the employer, but benefits continue to be paid. Compensated absences may be accumulating or non-accumulating.

Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. Annual leave, flexi-time and time in lieu are usually accumulating. Accumulating absences may be either vesting or non-vesting. Where vesting, employees who leave are entitled to a cash payment in

respect of any unused entitlement. Where non-vesting, benefits lapse if an employee leaves before the vesting date.

Non-accumulating absences are those that cannot be carried forward for use in future periods if the current period entitlement is not used in full. Sick leave, maternity leave, paternity leave and jury service will usually be non-accumulating. Non-accumulating compensated absences are recognised when the absence occurs.

The cost of providing non-monetary benefits (i.e. benefits in kind), including housing, cars and free or subsidised goods or services, is recognised according to the same principles as benefits payable in cash. The amount recognised as a liability and an expense is the cost to the employer of providing the benefit.

Termination benefits

Termination benefits are dealt with separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service. Termination benefits are payable as a result of either:

- a) an employer's decision to terminate an employee's employment before the normal retirement date, or
- b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Termination benefits are often lump-sum payments, but also include:

- a) enhancement of retirement benefits, and
- b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the organisation.

Voluntary early retirement benefits under scheme rules are not termination benefits since such benefits are a right of all scheme members. They are accounted for as post-employment benefits rather than termination benefits.

Post-employment benefits

Employees of the Council are members of the Local Government Pension Scheme which is accounted for as a defined benefit plan.

Estimating the benefit that employees have earned:

Actuarial techniques are used to:

- a) Estimate the variables that will determine the ultimate cost of providing post-employment benefits. The main actuarial assumptions for pension benefits comprise demographic assumptions such as mortality, employee turnover and expected early retirement where the employee has the right under the plan rules and financial assumptions such as the discount rate and salary and benefit levels.
- b) Determine how much benefit is attributable to the current and prior periods. Benefits are attributed to periods of service in accordance with the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, benefit is attributed on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits.

Actuarial assumptions are unbiased and mutually compatible. They are unbiased as they are neither imprudent nor excessively conservative. Financial assumptions are based on market expectations at the end of the reporting period for the period over which the obligations are to be settled.

Discounting the benefit to determine the present value of the defined benefit obligation

The projected unit credit method is used to determine the present value of the Council's defined benefit obligation and the related current service cost and, where applicable, past service cost. This method views each period of service as giving rise to an additional unit of benefit entitlement, with each unit being measured separately to build up the obligation.

The rate used to discount post-employment benefit obligations is determined by reference to market yields at the Balance Sheet date on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. The interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation.

Determining the fair value of any plan assets

The fair value of any plan assets is deducted in determining the defined benefit liability. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets. Plan assets exclude unpaid contributions due from the Council to the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

Determining the amount of actuarial gains and losses

Actuarial gains and losses are experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

The movement in actuarial gains and losses for the year is recognised in the Pension Reserve.

Where a plan has been changed, determining the resulting past service cost

Past service cost usually arises when the benefits payable for past service under an existing defined benefit plan are changed. Past service cost is measured as the change in the liability resulting from the amendment. Where the amendment vests immediately, the past service costs are recognised immediately regardless of the fact that the cost refers to employee service in previous periods. Sometimes there is a vesting period, in which case the past service cost is amortised on a straight-line basis over the average period until the benefits become vested. The amortisation schedule for past service cost is fixed when the amendment is introduced and is not to be revised unless there is a curtailment or settlement.

Where benefits payable under an existing defined benefit plan attributable to past service are changed so that the present value of the defined benefit obligation decreases, the resulting reduction in the defined benefit liability is recognised as a negative past service cost over the average period until the change in benefits becomes vested. Where, at the same time as the reduction in liability, other changes are made that result in an increase in the liability under the plan for the same employees, the change is treated as a single net change.

Where a plan has been curtailed or settled, determining the resulting gain or loss

Curtailments and settlements are events that change the liabilities relating to a defined benefit plan and that are not covered by normal actuarial assumptions.

A curtailment occurs when the Council either:

- a) is demonstrably committed to making a significant reduction in the number of employees covered by a plan; or
- b) amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

When a planned amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.

A curtailment may arise from an isolated event, such as the discontinuance of an activity, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case a curtailment is accounted for at the same time as for a related restructuring.

A settlement arises when a transaction is entered into that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan. Settlements have the effect of extinguishing a portion of the plan liabilities, usually by transferring plan assets to or on behalf of plan members to their new employer or an insurance company in settlement of the obligation.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in the Surplus or Deficit on the Provision of Services when the curtailment or settlement occurs. The gain or loss comprises:

- a) any resulting change in the present value of the defined benefit obligation;
- b) any resulting change in the fair value of the plan assets;
- c) any unamortised related past service costs.

Before determining the effect of a curtailment or settlement, the obligation is re-measured (and the related plan assets) using current actuarial assumptions (including current market interest rates and other current market prices).

Balance sheet recognition

The amount recognised as a defined benefit liability is the net total of the following amounts:

- a) the present value of the defined benefit obligation at the Balance Sheet date;
- b) minus any past service cost not yet recognised (ie past service costs that have not vested at the Balance Sheet date);
- c) minus the fair value at the Balance Sheet date of plan assets out of which the obligations are to be settled directly.

The defined benefit liability as determined above may be negative (i.e. an asset). Where this is the case there is a limit on the amount that can be recognised on the Balance

Sheet as an asset. Any Minimum Funding Requirement of the pension plan may also affect the amount that can be recognised as an asset.

The present value of defined benefit obligations and the fair value of any plan assets are determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the Balance Sheet date. This is interpreted to mean that between the formal actuarial valuations every three years, there are approximate assessments in intervening years. Acceptable approximations include adjusting full valuation results using the latest available membership data.

Surplus or deficit on the provision of services

The net total of the following amounts is recognised in Surplus or Deficit on the Provision of Services:

- a) current service cost;
- b) interest cost;
- c) the expected return on any plan assets and on any reimbursement rights;
- d) past service cost;
- e) the effect of any curtailments or settlements.

10. COST OF SUPPORT SERVICES

All budgeted costs of support services have been fully allocated to Directorates. A comparison of actual costs and budgeted costs was undertaken and the variance identified has been allocated back to Directorates. The bases of allocation used for the main cost of support services are either on number of transactions, time or employee number basis depending on the nature of the service involved.

11. CHARGES TO REVENUE FOR THE USE OF TANGIBLE OR INTANGIBLE ASSETS

Service revenue accounts are debited with charges for depreciation, amortisation and impairment losses to reflect the cost of using the assets in the provision of their services, as described in policy note 15 .

The Council is not required to raise council tax to cover these charges and they are subsequently reversed out in the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account. However, they are replaced with an annual provision from revenue, which is known as the Minimum Revenue Provision (MRP), and this contributes towards the reduction in the Council's overall borrowing requirement.

Effective from 31 March 2008, statutory changes were made to the calculation of MRP. There is now a simple duty for the Council each year to make an amount of MRP which it considers to be prudent. The Council approved that the policy for making MRP in 2010/11 and onwards, from the options available, should be based on the Regulatory Method. This means a provision is created equal to at least 4% of the amount of capital expenditure financed by borrowing which is measured by the capital financing requirement.

Where assets are funded from Prudential Borrowing, the Council has determined that it will make a prudent MRP based on the useful life of the asset funded.

12. **LANDFILL ALLOWANCES SCHEME**

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.

13. **CARBON REDUCTION COMMITMENT SCHEME**

The Council participates in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the council's services and is apportioned to services on the basis of energy consumption.

14. **VAT**

All amounts presented in the Council's financial statements exclude any amounts relating to VAT except to the extent that it is irrecoverable.

15. **PROPERTY PLANT AND EQUIPMENT**

Property, plant and equipment are tangible assets (assets with physical substance) that are held for use in the supply of goods and services, for rental to others or for administrative purposes and are expected to be used during more than one accounting period. The Council maintains a detailed asset register of all assets, above de minimis levels, it owns, or recognises under PFI arrangements and finance leases.

Recognition

The cost of recognition of an item of property, plant and equipment is recognised when it is probable that future economic benefits or service potential associated with the asset will flow to the Council and that the cost can be measured reliably. This type of expenditure is capitalised on an accruals basis.

Subsequent costs arising from day-to-day servicing of an asset (ie labour costs and consumables), commonly referred to as 'repairs and maintenance', are not recognised as property, plant and equipment because the expenditure does not add to the future economic benefits or service potential of the asset. Rather the expenditure maintains the asset's potential to deliver future economic benefits or service potential that it was

expected to provide when originally acquired. This type of expenditure is charged to the relevant service revenue account when it is incurred.

Where a component is replaced or restored (i.e. enhancements), the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out above being met.

The Council applies the following de minimis levels for the recognition of expenditure on the acquisition, creation or enhancement of property, plant and equipment:

Land acquisition and building and development works	£20,000
Vehicles, plant and equipment	£10,000
IT Equipment	£10,000
Items held by Schools	£3,000

Measurement

An item of property, plant and equipment is initially measured at cost, comprising the purchase price and all expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequently, an item of property, plant and equipment is carried in the balance sheet using the following measurement bases:

- Land and buildings: Fair value (the amount that would be paid for land and buildings in their existing use);
- Items of a specialised nature, where no market-based evidence is available: Depreciated replacement cost (current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation);
- Infrastructure assets and community assets: Depreciated historical cost (cost of acquisition adjusted for subsequent depreciation or impairment);
- Non-property assets with short useful lives and/or low values: Depreciated historical cost (cost of acquisition adjusted for subsequent depreciation or impairment);
- All other classes of property, plant and equipment: Fair value (the amount for which an asset could be exchanged in an arms-length transaction).

Revaluation

Assets that are held in the Balance Sheet at fair value are revalued by professionally qualified valuers, both internal to the Council (Property and Valuation Team) and external (Storeys SSP and Sanderson Weatherall), on a rolling basis at intervals of no more than five years.

Where the carrying amount of an item of property, plant and equipment is increased as a result of a revaluation, the increase is recognised in the Revaluation Reserve. This is the case unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, (i.e. a significant decline in an asset's carrying amount during the

period that is not specific to the asset) as opposed to an impairment, the decrease is recognised in the Revaluation Reserve. This will be up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets, and the depreciation that would have been charged based on their historical cost. The amount is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Impairment

At the end of each reporting period, an assessment is made of whether there is any indication that an item of property, plant and equipment may be impaired. If there is indication of impairment, the recoverable amount of the asset is estimated to determine any impairment loss.

If there has been an impairment loss, the asset is written down to its recoverable amount. The impairment loss is charged to the Revaluation Reserve, to the extent that it does not exceed the amount in the Revaluation Reserve for the same asset and, thereafter, to the Surplus or Deficit on the Provision of Services.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the carrying amount that would have been determined had there been no initial impairment loss. Any excess of the impairment loss reversed above this carrying amount is charged to the Revaluation Reserve.

Depreciation

All Directorates that use tangible assets in the provision of their services are charged with an annual provision for depreciation. Depreciation applies to all items of property, plant and equipment whether held at historical cost or re-valued amount.

The depreciation charge is based on the depreciable amount allocated over an asset's useful life. The methods of depreciation that reflect the pattern in which the future economic benefits or service potential of different assets are expected to be consumed, are determined as follows:

- Land: No depreciation;
- Buildings: Straight-line allocation over the life of the property as estimated by the valuer. The lifespan of property ranges from between 1-99 years with the majority having a lifespan of between 30-70 years.
- Vehicles, plant and equipment: Straight line allocation generally between 3 and 6 years;
- Infrastructure: Straight-line allocation between 10 – 40 years;
- Community assets: No depreciation as generally in the form of land. The valuer assesses the useful life of any building included in this category.
- Items of property, plant and equipment are not depreciated until they become available for use (i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation ceases at the earlier of the date that items of property, plant and equipment are classified as held for sale and the date they are derecognised.

- The residual value of an item of property, plant and equipment, their useful life and depreciation methods are to be reviewed at least at each financial year-end. If expectations differ from previous reviews or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the change is accounted for as a change in accounting estimate.

Componentisation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.

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

- The asset must have a value in excess of £500,000; and
- The component should have a cost of at least 20% of the cost of the overall asset and
- have a materially different useful life (at least 20% different) and/or
- have a different depreciation method that materially affects the amount charged.

Where individual assets are beneath the de minimis threshold but collectively are above, they should be considered for componentisation where they are generally treated together elsewhere.

Where components are identified, they will be set up separately in the asset register and have individual values, useful lives and depreciation methods recorded.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition is the difference between the net disposal proceeds (if any) and the asset's carrying amount and is included in the Surplus or Deficit on the Provision of Services.

16. **HERITAGE ASSETS**

Heritage assets are those assets that are intended to be preserved in trust for future generations, because of their cultural, environmental or historic significance. Heritage assets can include historical buildings, archaeological sites, civic regalia, museum and gallery collections and works of art.

The Council is now required to carry heritage assets in the balance sheet at valuation. However, the Code of Practice acknowledges that it may not be possible to establish a valuation. Where this has not been possible this is disclosed in the detailed note.

Previously heritage assets were either recognised as property, plant and equipment or community assets at cost, or in some cases they may not have been recognised on the balance sheet.

Assets that are used mainly for service delivery purposes are accounted for as operational regardless of whether they have historical or other heritage qualities.

In 1996 Kirkleatham Museum became the principal museum site for Redcar & Cleveland Borough Council. The museum service also supports the other four independent museums in the borough. The Museums within the borough hold items of local historical interest relating to social history and industrial history and a number of these items have been identified as Heritage Assets.

The Museum follows a code of practice in collecting and managing its collection. Kirkleatham Museum has a number of collection policies which deals with all areas of conservation, storage, and recording. These policies have been updated during 2012/13 as part of the process of achieving accreditation status. These deal with all areas of conservation, storage and recording.

The museum stores its collection in a purpose built building located close to the main museum. Most of the collection is wrapped, stored and recorded on the museums modes system.

17. **INVESTMENT PROPERTY**

An investment property is one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property and is accounted for as property, plant and equipment.

An investment property is measured initially at cost. After initial recognition, investment property is measured at fair value. A gain or loss arising from a change in the fair value of investment property is recognised in Surplus or Deficit on the Provision of Services for the period in which it arises. The fair value of investment property reflects market conditions at the balance sheet date. This means that a periodic revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. An investment property held at fair value is not depreciated.

18. **INTANGIBLE ASSETS**

An intangible asset is an identifiable non-monetary asset without physical substance. It is controlled by the Council, as a result of past events, and future economic or service benefits are expected to flow from the intangible asset to the Council. The most common class of intangible asset in local authorities is computer software.

An intangible asset is measured initially at cost. After initial recognition, an intangible asset may be carried at a revalued amount where its fair value can be determined by reference to an active market. Otherwise, an intangible asset will be carried at historical cost less any accumulated amortisation and any accumulated impairment loss.

The depreciable amount of an intangible asset with a finite useful life is amortised on a systematic basis over its useful life, beginning when the intangible asset is available for use. The amortisation method used reflects the expected pattern of use of the economic benefits. If the pattern cannot be determined reliably, the straight-line method is used. Any Directorate that has the use of intangible assets in the provision of their services is charged with an annual amount for amortisation within their service revenue account. The amortisation period and method is reviewed at least at the end of each reporting period.

An intangible asset with an indefinite life is not to be amortised, but is tested for impairment annually, and whenever there is an indication the asset may be impaired. Any impairment is again charged to the relevant service revenue account. The useful life of the asset is reviewed annually.

19. **PRIVATE FINANCE INITIATIVE**

A private finance initiative (PFI) arrangement involves a private sector operator constructing or enhancing infrastructure with which it is contractually obliged to deliver, on behalf of the Council, related public services and to operate and maintain it for a specified period of time. Infrastructure includes roads, street lighting, schools and office and administrative buildings, which contribute to the delivery of public services.

The Council controls or regulates what services the private sector operator must provide with the infrastructure, to whom it must provide them and at what price. The Council also controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

The infrastructure is initially recognised, in the balance sheet, as property, plant and equipment when it is made available for use and its cost can be measured reliably. It is depreciated over its estimated useful economic life. A related liability is recognised, in the balance sheet, at the same time and accounted for as a finance lease. If the asset is recognised in phases, the related liability is also recognised in phases.

Subsequent to initial recognition, the infrastructure is measured at fair value in the same way as other items of property, plant and equipment of that generic type. Revaluations of the asset following initial recognition do not affect the carrying value of the related liability.

The private sector operator is paid for its services over the period of the arrangement by means of an annual unitary charge which is allocated between a construction element (comprising repayment of the finance lease liability and the finance charge) and a service element. The finance charge and service element are charged to the relevant service revenue account.

Where a PFI arrangement makes use of existing assets of the Council, enhancements to those assets and any additional infrastructure provided by the operator are recognised in accordance with the recognition requirements of property, plant and equipment.

Where the operator is given access to existing assets of the Council that are not to be used in the PFI arrangement, in exchange for reduced or eliminated payments, this may involve a permanent transfer of the assets to the operator, or may allow the operator access for a specified period. Where the arrangement involves a permanent transfer of an asset to the operator, the Council derecognises the asset in accordance with the derecognition requirements of property, plant and equipment. Where the arrangement does not involve a permanent transfer of the assets to the operator, the Council accounts for the arrangement as a lease.

20. **LEASES**

Leases are classified as either finance leases or operating leases as follows:

The Council as lessee

Finance leases

A lease is accounted for as a finance lease when substantially all the risks and rewards relating to the leased property, plant or equipment lie with the Council as lessee. This depends on the substance of the transaction rather than the form of the contract.

The Council recognises finance leases as assets and liabilities on its balance sheet at amounts equal to the fair value of the asset or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge

(interest charged to Surplus or Deficit on the Provision of Services) and the reduction of the outstanding liability. The finance charge is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses to the Surplus or Deficit on the Provision of Services in the periods in which they are incurred.

The depreciation policy for assets held under finance leases is consistent with the depreciation policy for owned assets. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful economic life.

Operating leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Assets subject to operating leases are not held on the Council's balance sheet. Lease payments are recognised as an expense in the service revenue account on a straight-line basis over the lease term.

The Council as lessor

Finance leases

Where the Council is lessor of property, plant or equipment and the risks and rewards are judged to be passed to the lessee under a finance lease, the asset is removed from the Council's balance sheet as property, plant and equipment and replaced as a long term debtor at an amount equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal, reducing the long term debtor, and finance income which is credited to the Surplus or Deficit on the Provision of Services. The finance income is calculated so as to produce a constant periodic rate of return on the net investment.

Operating leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Assets subject to operating leases are held on the Council's Balance Sheet according to the nature of the asset and rental income is recognised, in the Surplus or Deficit on the Provision of Services, on a straight-line basis over the lease term.

The policy for depreciable leased assets is consistent with the depreciation policy for other similar assets.

Arrangements containing a lease

An arrangement (other than a PFI arrangement) comprising a transaction that does not take the legal form of a lease, but conveys a right to use an asset (e.g. an item of property, plant and equipment), in return for a payment or series of payments, may be accounted for as though the arrangement is, or contains, a lease.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether:

- a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and
- b) the arrangement conveys a right to use the asset.

21. **EXPENDITURE FOR CAPITAL PURPOSES THAT DOES NOT RELATE TO TANGIBLE OR INTANGIBLE ASSETS**

Expenditure for capital purposes that does not relate to tangible or intangible assets may be capitalised under statutory provisions although it does not result in the creation of an

asset. Such expenditure is referred to as Revenue Expenditure Funded from Capital Under Statute (REFCUS) and is defined by regulation or by direction of the Secretary of State to enable expenditure to be funded from capital resources (e.g. grants to outside bodies, redundancy costs).

The expenditure is initially charged to the revenue cost of services within the Comprehensive Income and Expenditure Statement and is subsequently funded from capital resources via the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account, therefore having a neutral impact on the amount required through local taxation.

22. **NON-CURRENT ASSETS HELD FOR SALE**

A non-current asset is classified as held for sale if the asset's carrying amount will be recovered principally through a sale transaction rather than through continued use and meets the following criteria:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated;
- The asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value;
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A non-current asset classified as held for sale is measured at the lower of its carrying value and fair value less costs to sell at initial reclassification and at the end of each reporting period.

23. **CAPITAL RECEIPTS**

Capital receipts from the disposal of assets are invested temporarily until such time as they are used to finance capital expenditure or to repay debt. Interest on capital receipts is credited to the General Fund.

24. **INVENTORIES**

Inventories are measured at the lower of cost and net realisable value and held on the Balance Sheet subject to a de minimis level of £1,000.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

25. **CASH AND CASH EQUIVALENTS**

Cash is cash in hand and deposits with any financial institution repayable without penalty on notice of not more than twenty-four hours.

Cash and cash equivalents comprise cash in hand and 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. Bank overdrafts which are repayable on demand and which form an integral part of the Council's cash management are also included as a component of cash and cash equivalents.

26. **PROVISIONS**

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. A provision is recognised when:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

27. **FINANCIAL INSTRUMENTS**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities.

Typical financial assets include bank deposits, trade receivables, loans receivables, other receivable and advances, and investments. Typical financial liabilities include trade payables and other payables, borrowings and financial guarantees.

Recognition

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of the instrument.

In the case of a financial asset, the Council becomes a party to the contractual provisions when it becomes committed to the purchase (i.e. the contract date) and is usually referred to as the '*trade date*'. The sale of a financial asset is also recognised on the trade date. Trade receivables are an exception. The receivable is not recognised when the Council becomes committed to supply the goods or services but when the ordered goods or services have been delivered or rendered.

In the case of a financial liability, the Council becomes a party to the contractual provisions when one of the parties has performed their obligation under the financial instrument. For example a loan debt contract is recognised when the cash is received rather than when the Council becomes committed to the loan agreement. A trade payable is recognised when the ordered goods or services have been received.

Measurement

Financial assets and financial liabilities are measured initially at fair value less, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include internal administrative costs.

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Usually the best evidence of fair value is the transaction price (i.e. the consideration), and unless the transaction was not at arm's-length, this is the value used. If the transaction is not based on market terms, a valuation technique is used.

Classification

The accounting treatment of a financial instrument subsequent to initial recognition depends on its classification on initial recognition.

Financial assets are classified into one of the following categories:

- Fair value through profit or loss (assets that are held for trading, such as external investment funds);
- Loans and receivables which have fixed or determinable payments and are not quoted in an active market (operational debtors and bank deposits); and
- available for sale (the residual category for financial assets that are not required to be classified as fair value through profit or loss or as loans and receivables).

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss (liabilities held for trading); and
- Amortised cost (liabilities not held for trading such as operational creditors and borrowings).

Loans and receivables

After initial recognition, the carrying amount of loans and receivables and the interest income receivable are measured at amortised cost using the effective interest rate method. Short-duration receivables with no stated interest rate are measured at original invoice amount. There is no revaluation to fair value at any point in the instrument's life once it has been measured initially.

Available-for-sale financial assets

After initial recognition the carrying amount of an available-for-sale financial asset is measured at its fair value, without any deduction for transaction costs that would be incurred on sale or other disposal.

Amortised cost using the effective interest rate method

Amortised cost using the effective interest method can apply to both financial assets (e.g. loans and receivables) and financial liabilities.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

Impairment

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the asset. An expected loss as a result of future events, no matter how likely, is not recognised.

At the end of each reporting period an assessment is made of whether there is objective evidence that any financial asset may be impaired. An assessment is first made of whether evidence of impairment exists individually for financial assets that are individually significant. Then an assessment of impairment is made individually or collectively for financial assets that are not individually significant.

Derecognition

Derecognition is the term used for the removal of an asset or liability from the Balance Sheet.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset have expired or have been transferred. A financial liability is derecognised when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

28. **CONTINGENT ASSETS & LIABILITIES**

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.

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 assets and liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

29. **JOINT VENTURES**

Jointly Controlled Operations (JCO)

JCOs are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly Controlled Assets (JCA)

JCAs are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT – 2012/13

2011/12			2012/13	
£000	£000		£000	£000
(53,089)		<u>INCOME</u>		
		Income from Council Tax Payers	(55,772)	
(14,894)		Transfer from General Fund		
-		- Council Tax Benefits	(15,380)	
(40,947)		- Transitional Relief	-	
		Income collectable from Business Rates Payers	(46,600)	
	(108,930)	<u>EXPENDITURE</u>		(117,752)
		Precepts & Demands:		
8,213		Cleveland Police	8,501	
2,796		Cleveland Fire	2,907	
56,996		Redcar & Cleveland BC	58,974	
	68,005	<u>Business Rates</u>		70,382
40,775		Payments to national pool	46,427	
172		Cost of Collection	173	
	40,947	<u>Bad and Doubtful Debts</u>		46,600
		Increase/(Decrease) in provision for Bad Debts		
103		- Council Tax	419	
		Bad Debts (Written Off)/Written On		
(438)		- Council Tax	(29)	
	(335)	<u>Contributions</u>		390
	349	Towards previous years estimated Collection Fund surplus		95
	36	Net Collection Fund (Surplus)/Deficit		(285)
	(39)	Brought Forward Balance at 1 April		(3)
	(3)	Carried Forward Balance at 31 March		(288)

NOTES TO THE COLLECTION FUND – 2012/13

NOTE 1 – COUNCIL TAX LEVELS AND TAX BASE

Council Tax income comes from a charge made on residential properties. The income is used to support the Council's General Fund revenue expenditure, as detailed in the Income and Expenditure Account. It is also used to finance the Council's share of the Police and Fire Authorities expenditure, through precepts made on the Council's Collection Fund.

The level of Council Tax in any year is determined by estimating the income required by the Council and the Police and Fire Authorities and by dividing this by the Council Tax base, which comprises residential properties banded by value and charged accordingly.

To allow for comparison between years and authorities the tax base is expressed as the number of Band D properties in the borough, which is calculated by multiplying the number of properties in a band by an appropriate weighting, ranging from 5/9 to 18/9.

Set out in the table are the Band D weighting, property numbers and income from each band level, as per the Council Tax Base, which was set by the Council on 5 March 2012.

Band	Property Value	Weighting to Band D	Number of chargeable dwellings	Band D Equivalent	Redcar & Cleveland Demand Excluding Parishes	Police Authority Demand Per Property	Fire Authority Demand Per Property	Total Demand Per Property	Total Income Per Band
			No.	No.	£	£	£	£	£000
A		5/9	65.00	36.11	891.12	129.58	44.33	1,065.03	69
A	Up to £40,000	6/9	22,473.75	14,982.50	891.12	129.58	44.33	1,065.03	23,935
B	£40,001 - £52,000	7/9	11,086.70	8,622.99	1,039.64	151.18	51.72	1,242.54	13,776
C	£52,001 - £68,000	8/9	12,316.60	10,948.09	1,188.16	172.77	59.11	1,420.04	17,490
D	£68,001 - £88,000	9/9	4,711.05	4,711.05	1,336.68	194.37	66.50	1,597.55	7,526
E	£88,001 - £120,000	11/9	2,734.65	3,342.35	1,633.72	237.56	81.28	1,952.56	5,340
F	£120,001 - £160,000	13/9	793.60	1,146.31	1,930.76	280.76	96.06	2,307.58	1,831
G	£160,001 - £320,000	15/9	347.10	578.50	2,227.80	323.95	110.83	2,662.58	924
H	Over £320,000	18/9	11.45	22.90	2,673.36	388.74	133.00	3,195.10	37
			54,539.90	44,390.80					70,928
Less non collection 1.5%				665.86					
Council Tax Base				43,724.94					

The Band D Equivalent council tax base in 2011/12 was 44,382.24.

NOTE 2 – COUNCIL TAX INCOME

The calculation of the council tax base takes into account an assumed number of exempt dwellings, disabled reductions and discounts. However, the opening liability shown in the table below does not take account of these assumptions. All exemptions, disabled reductions and discounts during the year are shown within the table to show the actual income collectable from council tax payers.

The income is determined from the following sources:

2011/12 £000		2012/13 £000
78,002	Opening Liability	81,061
(94)	Adjustment to Opening Liability	88
(108)	Disabled Reduction	(113)
(7,065)	Discount	(7,266)
(2,314)	Exemptions	(2,483)
(438)	Write Off	(30)
67,983	Income collectable from Council Tax Payers	71,257

NOTE 3 – NATIONAL NON DOMESTIC RATE MULTIPLIER

National Non Domestic Rates (NNDR) is organised on a national basis. The Government specifies an amount, termed the Uniform Business Rate, which is shown in the table below and subject to the effects of transitional arrangements; local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the business ratepayers in the borough and pays the proceeds into an NNDR pool administered by the Government.

2011/12 Pence		2012/13 Pence
43.3	NNDR multiplier	45.8

NOTE 4 – NATIONAL NON DOMESTIC RATEABLE VALUE

The total non-domestic rateable value at the year end is shown in the following table:

2011/12 £000		2012/13 £000
127,783	Total NNDR rateable value	128,938

NOTE 5 – INCOME FROM NON DOMESTIC RATES

The NNDR income collectable from Ratepayers and the amount payable to the NNDR Pool is shown in the following table:

2011/12			2012/13	
£000	£000		£000	£000
127,783		Estimated Income	128,938	
43.3p		Gross Rateable Value	45.8p	
		Multiplier (pence in the £)		
	55,330	Estimated Opening Debit		59,054
54,762		Actual Income	58,882	
-		Actual Opening Debit	(1,602)	
	54,762	Additional Adjustments		57,280
(2,840)		Reduced Assessments	(4,314)	
(3,160)		Transitional Relief	(1,719)	
(2,066)		Mandatory Relief	(2,286)	
(5,459)		Discretionary Relief	(2,599)	
(6)		Section 49	(2)	
(33)		Interest Due	(6)	
		Deferred Payments	(27)	
(251)	(13,815)	(Increase)/Decrease in Provision for Bad Debts	273	(10,680)
	40,947	Actual Income Collectable		46,600

NOTE 6 – MAJOR PRECEPTS AND COLLECTION FUND SURPLUS/DEFICIT

Details of the major precepts on the Collection Fund are shown in the following table:

2011/12		2012/13
£000		£000
8,213	Cleveland Police Authority	8,501
2,797	Cleveland Fire & Rescue Authority	2,908
56,996	Redcar & Cleveland Borough Council	58,974
68,006		70,383

The share of the Collection Fund surplus or deficit is as follows.

2011/12		2012/13
£000		£000
(0.40)	Cleveland Police Authority	(35)
(0.14)	Cleveland Fire & Rescue Authority	(12)
(2.76)	Redcar & Cleveland Borough Council	(241)
(3.30)	Total (Surplus)/Deficit	(288)

These amounts are not held within the Council's revenue balances but the individual authority shares are now part of the Collection Fund Adjustment Account.

NOTE 7 – COLLECTION FUND GLOSSARY OF TERMS

A number of technical terms are used in compiling the Collection Fund and supporting notes. These are explained below:

Disabled Reduction – Reduction in charge by one council tax band due to a resident meeting certain criteria due to their disability.

Discount – 10% locally prescribed reduction in charge for property empty more than six months. 25% reduction for single person occupancy as prescribed by the Local Government Finance Act 1992. Certain classes of person e.g. armed forces are not counted as prescribed by the Local Government Finance Act 1992 - 50% reduction in these cases.

Exemptions – Certain classes of property are exempt as laid down in the Local Government Finance Act 1992, i.e. properties empty less than six months, properties undergoing structural alteration (maximum one year), solely occupied by students etc.

Reduced Assessments – Reductions in liability due to changes in rateable value as directed by the valuation office.

Transitional Relief – Mandatory government scheme to phase in the effects to liability over a number of years caused by the issue of a new valuation list.

Mandatory Relief – Relief where the ratepayer has a mandatory entitlement. Under the Local Government Finance Act 1988, offset is in full against the Council's contribution to the pool.

Discretionary Relief – Relief where the Council has discretionary power to grant under the Local Government Finance Act 1988. The cost to the Council is generally 25% of the relief granted unless it is used to top up mandatory charity relief where the cost to the Council is 75%.

Section 49 – Hardship relief. Relief granted to businesses on the grounds of financial circumstances. Discretionary power of the Council with 25% costs.

Interest Due – Interest payable on overpayments due to reduced assessments. Interest rate notified to the Council annually (1% below bank rate in September the previous year). Due to the interest rate falling to 0.5% the Council has been notified that the interest rate for 2012/13 will be 0%.

Summons Costs – Costs raised at a time a summons is issued for unpaid rates, to cover administration costs.

GROUP ACCOUNTS

Introduction

1. The Code of Practice on Local Authority Accounting recognises the wide diversity of service delivery vehicles used nationally by Local Authorities. These requirements are based on the provisions of IAS 27 "Consolidated and Separate Financial Statements", IAS 28 "Investments in Associates", IAS 31 "Interests in Joint Ventures", IFRS 3 "Business Combinations", SIC 12 "Consolidation – Special Purpose Entities" and SIC 13 "Jointly Controlled Entities".
2. It has been a requirement of all local authorities to ascertain whether they needed to produce comprehensive group accounts since 2004/05. These authorities would identify interests in entities meeting the definition of subsidiaries, associates and joint ventures.

Group Accounts Requirements

3. The Council has to determine whether it has interests in any subsidiaries, associates or joint ventures using the definitions and guidance within the Code of Practice 2012/13 and the CIPFA "Group Accounts in Local Authorities Practitioners Workbook".
4. The Council has undertaken significant research to identify and document its relationships with all partners, companies, joint ventures and voluntary organisations. Consideration of issues such as the type of interest, ownership of share capital, membership of appropriate committees, the degree of operational and financial control, access to benefits and exposure to risks have been key elements in this analysis.
5. In the majority of cases the arrangements for accounting relationships with these organisations are fully covered within the Council's Comprehensive Income and Expenditure Statement. Similarly any assets and liabilities generated are accounted for within the Council's Balance Sheet. As a result there is no 'group relationship' for any of these arrangements.

Redcar & Cleveland Borough Council's Position re Group Accounts 2012/13

6. In considering whether to produce Group Accounts the Council has undertaken an analysis of all companies or partnerships in which it has a financial control or interest. The analysis uses a matrix containing preset criteria as regards influence, control and materiality to identify the nature of the Council's interest. The bodies identified in previous years have been reviewed, any new relationships have been identified and analysed and the Council has concluded that none fall within its group boundary. As a result the preparation of group financial statements is not necessary.

Other Related Companies

The Council has a number of shareholdings in various companies and/or the ability to appoint one or more Directors. In all cases, except for that of SITA Tees Valley Limited, the extent of control, or the size of operations, is not significant.

Interests in companies fall into one of six categories:

- A) Controlled Companies
- B) Arm's Length Controlled Companies
- C) Regulated Companies
- D) Unregulated Companies

- E) Minority interest Companies
These go from full/majority control through lessening degrees of influence.
- F) Exempt from regulations

Companies in which the Council had interests during 2012/13 are listed below:

1. Tees Valley Unlimited Category E. This company was formed by the five Tees Valley Local Authorities and ONE North East. Purpose – urban regeneration.
2. District Surveyors Association Ltd (5531889). Category E. This company is limited by guarantee. Its principal activities are concerned with effective promotion and marketing of local authority building control, providing a strong central supporting and coordinating role.
3. Durham Tees Valley Airport Ltd (2020423). Category F. Operates Durham Tees Valley Airport.
4. SITA Tees Valley Ltd (02669578) Category E. Waste Disposal in Cleveland area.
5. Northern Grid for Learning (04824016) Category E. This company is limited by guarantee. It was set up to work with 7 Local Authorities in the North East, delivering broadband and ICT services to learning and public services.

The classification of the various companies is given as per the available information currently held by the Tees Valley Unitary Authorities.

SITA TEES VALLEY LTD

The Company was previously known as Cleveland Waste Management Limited and changed its name on 13 November 2002.

Redcar and Cleveland own 26.2% of the Preference Shares (capital) that were originally owned by the County of Cleveland (£0.313m of £1.193m). Cleveland County owned 20% of the overall share capital of £5.965m. The latest published accounts are for the financial year to 31 December 2011. Issues of note include a loss on the Profit and Loss Account of £2.052m (previous year loss of £0.382m) and a Net Asset position of £31.938m, (previous year £33.990m).

Control of the Company is exercised by the “external” shareholders who own all of the Ordinary Shares and who are entitled to all of the retained earnings.

The Company has advised that Accounts for the year ended 31 December 2012 can only be expected at or after the end of October following the year-end so the Council can only report on Accounts over a year old.

Copies of Accounts for SITA may be obtained via their Company Secretary/ Registered Office SITA House, Grenfell Road, Maidenhead, Berkshire SL6 1ES.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REDCAR AND CLEVELAND BOROUGH COUNCIL

Opinion on the Council financial statements

We have audited the financial statements of Redcar and Cleveland Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Assistant Director - Financial Services and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Redcar and Cleveland Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Council and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 1 November 2012, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in February 2013, we are satisfied that, in all significant respects, Redcar and Cleveland Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certification of audit completion

In our auditor's report dated 26 September, we reported delaying the formal conclusion of the audit and issuing an audit certificate arising from not completing the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We have now completed this work and can certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Mark Kirkham
For and on behalf of Mazars LLP, Appointed Auditors
The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS
26th September 2013

GLOSSARY OF TERMS

ACCOUNTING PERIOD

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April and ending as at the balance sheet date of 31 March.

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through

- (i) recognising
- (ii) selecting measurement bases for, and
- (iii) presenting

assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the income and expenditure account or balance sheet it is to be presented.

ACCRUAL

A sum included in the final accounts attributable to that accounting period but for which payment has yet to be made or income received. Accruals are made for revenue and capital expenditure and income.

ACTUARIAL GAINS & LOSSES

For a defined benefit pension scheme the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- (b) the actuarial assumptions have changed.

AMORTISED COST

A measure of the real cost that the Council bears by entering into a financial liability. This is not necessarily based on the contractual term but on the effective rate of interest within the contract.

AGENCY

The provision of services by one body (the Agent) on behalf of, and generally reimbursed by, the responsible body.

ASSET

An item having value in monetary terms. Assets are defined as current or fixed.

- a current asset will be consumed or cease to have value within the next financial year e.g. stock and debtors.
- a non-current asset provides benefits to the Council and to the services it provides for a period of more than one year.
- an asset held for sale is an asset that is currently in the process of being sold. They must be actively marketed, with the sale expected within 12 months.

AUDIT

An independent examination of the Council's activities, either by Internal Audit or the Council's External Auditor, Mazars.

BALANCE SHEET

A Statement of the recorded assets, liabilities and other balances at a specified date usually at the end of an accounting period.

BALANCES

The capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the general fund or any other fund.

BUDGET

The forecast of revenue and capital expenditure over the accounting period.

CAPITAL CHARGES

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a non-current asset or expenditure which increases the benefit in service to the Council and not merely maintains the non-current asset.

CAPITAL FINANCING

The raising of money to pay for capital expenditure. This includes borrowing, leasing, direct revenue financing (DRF), usable capital receipts, capital grants, capital contributions and revenue reserves.

CAPITAL FINANCING REQUIREMENT (CFR)

A calculation to show the Council's underlying need to borrow to fund capital resources.

CAPITAL GRANT

Grant used to finance specific schemes in the capital programme. Where capital grants are receivable, and all conditions are met and expenditure incurred, they are released to the Comprehensive Income & Expenditure Statement. Where conditions to the funder exist, or the Council may be required to repay the grant, it is held as a creditor. Where there are no conditions but the funding is not spent, it is carried forward as a usable reserve.

CAPITAL PROGRAMME

The capital schemes the Council intends to carry out over a specific time period.

CAPITAL RECEIPT

The proceeds from the disposal of land or other assets, part of which must be set aside to repay debt. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government, but they cannot be used for revenue purposes.

CARBON REDUCTION COMMITMENT (CRC) ENERGY EFFICIENCY SCHEME

A new government initiative that encourages large businesses to become more energy efficient by reducing their CO₂ emissions. It is designed to drive emission reductions by incentivising the uptake of cost effective energy efficiency opportunities through the application of financial and reputational drivers. The scheme will help the UK achieve its target of reducing greenhouse gas emissions by at least 80% by 2050, compared to 1990 levels.

CASH AND CASH EQUIVALENTS

Cash held by the Council, along with short term investments held for periods of less than 90 days.

CASH FLOW STATEMENT

A statement summarising the inflows and outflows of cash arising from transactions between the Council and third parties for revenue and capital purposes.

CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code sets out the accounting concepts and accounting principles which underpin the statement of accounts.

COLLECTION FUND

A fund administered by the Council, which records all the income received in relation to local taxation and non-domestic rates. It also shows how the income has been distributed to the preceptors and the general fund.

COMMUNITY ASSETS

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples are parks and historic buildings.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement brings together the income and expenditure relating to all of the Council's functions and also identifies how this is financed from local taxation and government grants.

CONSISTENCY

The principle that the accounting treatment of like items within an accounting period and from one period to another are the same.

CONTINGENCY

The sum of money set a-side to meet unforeseen expenditure or liability.

CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITY

A contingent liability is either:

- (a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or
- (b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

COST OF CARRY

This is the difference between the interest received from investments against the interest paid for borrowing.

COUNCIL TAX

The form of local taxation in use since April 1993, based on property values.

CREDITORS

Amounts owed by the Council for work done, goods received or services rendered within the accounting period but for which payment was not made at the balance sheet date.

CURRENT ASSETS

Assets which can be expected to be consumed or realised during the next accounting period, e.g. debtors and stocks.

CURRENT LIABILITIES

Amounts which will become payable or could be called in within the next accounting period e.g. creditors, cash overdrawn.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- (a) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and
- (b) termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEBT OUTSTANDING

Amounts borrowed to finance capital expenditure which are still to be repaid.

DEBTORS

Amounts due to the Council for works done, goods received or services rendered before the end of the accounting period, but for which payments have not been received by the end of that accounting period.

DEFERRED CAPITAL RECEIPTS

Amounts due to the Council from the sale of fixed assets which are not receivable immediately on sale. The amounts will usually be received in instalments over an agreed period of time.

DEFERRED LIABILITIES

Liabilities which, by arrangement, are payable beyond the next year, at some point in the future or paid off by an annual sum over a period of time.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEFINED CONTRIBUTION SCHEME

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DEDICATED SCHOOLS GRANT (DSG)

A ring fenced central government grant paid direct to the education service as fundamental support for its revenue expenditure.

DE MINIMIS

A de minimis level is adopted to only reflect material transactions in the capital accounts. The Council's policy on de minimis levels are outlined in the statement of accounting policies.

DEPRECIATION

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passing of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

DERECOGNISED

The process of removing a financial asset or financial liability from the balance sheet once performance under the contract is complete or the contract is terminated.

DIRECT REVENUE FINANCING

Resources provided from the Council's revenue budget to finance the cost of capital projects.

DISCRETIONARY BENEFITS

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

EARMARKED RESERVES

These reserves represent monies set aside that can only be used for a specific purpose.

EFFECTIVE RATE OF INTEREST

The rate of interest that will discount all the cash flows that take place throughout the expected life of a financial instrument down to the fair value of the asset calculated at initial measurement.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that fall within the ordinary activities of the Council but which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

EXPECTED RATE OF RETURN ON PENSION ASSETS

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

EXTRAORDINARY ITEMS

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to

recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCIAL INSTRUMENT

Any contract that gives rise to a financial asset of one entity and a financial liability of another.

FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. Such a transfer of risks and reward 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.
- The Council will hold the asset for substantially all of its useful life
- There will be little residual value in the asset at the end of the lease term.

GENERAL FUND

The main revenue account of the Council, which summarises the cost of all services provided by the Council which are paid for from government grants, non-domestic (business) rates contributions, council tax and other income.

GOVERNMENT GRANTS

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

HERITAGE ASSET

An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets include civic regalia, museum and gallery collections and works of art.

IMPAIRMENT

A reduction in the value of an asset below its carrying amount on the statement caused by a specific event or reason.

INCOME

Amounts which the Council receives or expects to receive from any source, including fees, charges, sales and grants.

INTANGIBLE ASSETS

Expenditure which may properly be capitalised, but which does not result in an asset with substance. Examples of this type of expenditure are software and other licences, patents and trademarks and artistic originals.

INFRASTRUCTURE ASSETS

Non-current assets that are non-transferable, expenditure on which is only recoverable by continued use of the asset created. Examples are highways and footpaths.

INTERNATIONAL ACCOUNTING STANDARDS (IAS)

These standards are developed by the International Accounting Standards Board and regulate the preparation and presentation of financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

These standards are developed by the International Accounting Standards Board and regulate the preparation and presentation of financial statements. The Companies Act 1985 requires compliance to these Standards or disclosures in the notes if there are any material departures from those Standards.

INVENTORIES

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Inventories comprise the following categories:

- (a) goods or other assets purchased for resale;
- (b) consumable stores;
- (c) raw materials and components purchased for incorporation into products for sale;
- (d) products and services in intermediate stages of completion;
- (e) long-term contract balances, and
- (f) finished goods.

INVESTMENT PROPERTIES

Properties that are held by the Council for the purpose of generating income, whether through:

- Rental income

- Capital appreciation, or where an asset is declared surplus but is not yet marketed for sale.

INVESTMENTS

A long term investment is one that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the Investment. Investments which do not meet the above criteria should be classified as current assets.

INVESTMENTS (PENSION FUND)

The investments of the pension fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

LANDFILL ALLOWANCE TRADING SCHEME (LATS)

A scheme operated by the Department for Environment, Food and Rural Affairs to encourage local authorities to increase recycling levels. Local Authorities are allocated allowances to cover their landfill requirements. Councils who exceed their amount of allowances allocated have to pay a fine or trade with other councils who have surplus allowances.

LEASING

A method of financing capital expenditure where a rental charge is paid for the asset over a specified period of time.

LIABILITY

A liability is where the Council owes payment to an individual or another organisation. Liabilities are usually classed as contingent or current.

- A **contingent liability** is a potential liability at the Balance Sheet date which arises as the result of a condition which exists where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events. The financial liability is included in the Balance Sheet where it can be reasonably estimated. Where the contingency is material but a financial estimate cannot be made, the existence of the liability is disclosed as a note to the accounts.
- A **current liability** is an amount which will become payable or could be called in within the next accounting period e.g. creditors or cash overdrawn.

LIQUID RESOURCES

Current asset investments that are readily disposable by the Council without disrupting its business and are either:

- readily convertible to known amounts of cash at or close to the carrying amount; or
- traded in an active market.

LOANS OUTSTANDING

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the Balance Sheet date.

LONG TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

MATERIALITY

The concept that the Statement of Accounts should include all amounts which, if omitted, or misstated, could be expected to lead to a distortion of the financial statements.

MEDIUM TERM FINANCIAL PLAN

A five year forward assessment of the Council's expenditure plan for both revenue and capital expenditure. This is produced as part of the Council's annual budget process.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

MODIFIED

When contractual terms relating to a financial instrument have been changed but not to the degree required to extinguish the asset or liability involved.

MOVEMENT IN RESERVES STATEMENT

This statement shows movement in the year on the different reserves held by the Council analysed into 'usable reserves' and 'unusable reserves'.

NATIONAL NON-DOMESTIC RATES (NNDR)

The business rate in the pound is the same for all non-domestic ratepayers and is set annually by Central Government on the assessed value of properties used for business purposes. Income from business rates goes into a central government pool that is then distributed to councils according to resident population.

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET DEBT

The Council's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be made to net funds rather than net debt.

NET REALISABLE VALUE

The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON-CURRENT ASSET

Assets that yield benefits to the Council, and the services it provides, for a period of more than one year.

NON-DISTRIBUTED COSTS

These are overheads for which no user of the Council benefits and should not be apportioned to services.

OPERATING LEASE

A lease other than a finance lease.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

PENSIONS INTEREST COST

For a defined benefit scheme the expected increase during the period in the present value of the scheme liabilities because the benefits are one year closer to settlement.

PRECEPT

The levy made on billing authorities by other bodies requiring them to collect income from Council taxpayers on their behalf, e.g. Parish Councils, Police and Fire Authorities.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PRIVATE FINANCE INITIATIVE

A partnership arrangement whereby a private sector provider provides purpose built buildings/equipment etc. for long term rental by public sector users.

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- (a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- (b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

PROVISION

Funds set aside to cover potential liabilities or losses which are likely or certain to be incurred at a future date but where the exact amount and timing of the liability or loss is currently not known.

PRUDENCE

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

PUBLIC WORKS LOAN BOARD (PWLB)

A government agency which lends money to public bodies for capital purposes.

RATEABLE VALUE

The annual assumed rental of a hereditament (property) which is used for NDR purposes.

RELATED PARTIES

Two or more parties are related parties when one party has the ability to control the other party or exercise significant influence in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include:

- (i) entities that the authority directly, or indirectly through one or more intermediaries, controls, has an interest in that gives it significant influence over the entity or has joint control over
- (ii) associates
- (iii) joint ventures in which the authority is a venturer
- (iv) an entity that has an interest in the authority that gives it significant influence over the authority
- (v) key management personnel, and close members of the family of key management personnel
- (vi) entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, key management personnel, and close members of the family of key management personnel
- (vii) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority

RELATED PARTY TRANSACTIONS

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- (i) the purchase, sale, lease, rental or hire of assets between related parties;
- (ii) the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the Pension Fund;
- (iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- (iv) the provision of services to a related party, including the provision of Pension Fund administration services;
- (v) transactions with individuals who are related parties of a Council or a Pension Fund, except those applicable to other members of the community or the Pension Fund, such as council tax, rents and payments of benefits.

The above examples are not intended to be comprehensive. The materiality of related party transactions should be judged not only in terms of their significance to the Council, but also in relation to its related party.

RESERVES

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council.

Some capital reserves such as the Revaluation Reserve cannot be used to meet current expenditure.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- (a) an employer's decision to terminate an employee's employment before the normal retirement date, or
- (b) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

REVALUATION RESERVE

The revaluation reserve was introduced as part of the changes included within the 2006 SORP. The purpose of the reserve is to record the gains on revaluation of fixed assets that have not been realised through the disposal of the asset. The balance on the reserve represents the revaluation gains accumulated since 1 April 2007.

REVENUE EXPENDITURE

The day-to-day expenses of providing services. This comprises staff costs, other operating costs and capital charges.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Revenue expenditure funded by capital under statute. This is expenditure that can be properly capitalised, but which does not result in an asset for the Council. Expenditure is therefore written off to revenue.

REVENUE SUPPORT GRANT (RSG)

A general Central Government grant paid to the Income and Expenditure Account in support of the Council's revenue expenditure.

SCHEME LIABILITIES

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

SERVICE REPORTING CODE OF PRACTICE

A Chartered Institute of Public Finance and Accountancy (CIPFA) guide to accounting for local government services which provides a consistent and comparable calculation of the total costs of services.

SETTLEMENT

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- (a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- (b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits and
- (c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

SPECIFIC GRANTS

Government grants given to local authorities and earmarked for specific services, e.g. Standards Fund Grant paid to Education Services.

SUPPORT SERVICES

The costs of directorates which provide professional and administrative assistance to services.

TRUST FUNDS

Funds administered by the Council for such purposes as prizes, charities, specific projects, and on behalf of minors.

USEFUL LIFE

The period over which the Council will derive benefits from the use of a fixed asset.

WORK IN PROGRESS

The value of work done on an uncompleted project which has not been recharged to the appropriate account at the Balance Sheet date.